

# **POST GRANT PATENT CHALLENGE PROCEDURES UNDER FIRE**

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## OVERVIEW

In the more than thirty-five years since a 1980 law the United States has had the possibility of patent validity challenges at the Patent Office through administrative patent revocation procedures which are now under fire in three pending cases, the *Restasis* case, *Allergan, Inc. v. Teva Pharmaceuticals USA, Inc.*, (E.D. Texas); *Oil States Energy Services v. Greene's Energy Group* (U.S. Supreme Court); and *SAS Institute v. Matal* (U.S. Supreme Court).

## ONE DECISION FOR EVERY 600 PATENTS PER YEAR

What is not widely understood outside the patent community is that the Patent Office has scientific and patent legal experts who determine whether to sustain a patent in post grant proceedings; in contrast, the same task in a District Court normally falls to a jury of peers. Thus, a patent challenger at the Patent Office who risks a post grant patent validity challenge on anything but a “sure” thing is essentially signing a death warrant for any chance to succeed in a District Court defense based on patent validity: Any patent challenge that has survived a proceeding at the Patent Office makes it extremely difficult to reach the opposite conclusion in a subsequent District Court action. Therefore, patent challenges are rare in post grant proceedings unless the patent challenger has an extremely solid position – or is otherwise desperate, without, for example, sufficient funding to undergo a full blown patent litigation.

The small number of post grant Patent Office challenges is manifested by the fact that there are only roughly 500 written decisions for *all* the post grant proceedings per year (out of an also small average of 1000 total post grant procedures that have commenced but are settled), including inter partes review, covered business method review, and post-grant review.<sup>1</sup>

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<sup>1</sup> Jason D. Eisenberg and Robert Greene Sterne, eds., 1 Patent Office Litigation § 15:26, Statistics (Jan. 2017 Update)(“Based on statistics … updated in August of 2016, the number of petitions filed seeking inter partes review, covered business method review, and post-grant review currently averages 1,000 annually. Of those 1,000 petitions, roughly 50% proceed to a final written decision on the merits. While the appeal rate varies substantially from period to period, one or both parties appeal a final written decision between 50-60% of the time. This accounts for roughly 250 appeals per year that never existed before the AIA. Of those, the vast majority are appeals pursued by patent owners, approximately 80%. Only about 10% are appeals taken by petitioners alone, and another 10% are cross-appeals. Like the underlying composition of the Board’s docket, roughly 72% of the appeals involve electrical, communications, computer, and software technology, 16% involve chemical or biotechnology, and 12% involve mechanical or design technology.”).

“Post-grant proceedings on appeal are faring roughly as one would expect, based on the historically high affirmance rate of Office decisions. For example, based on all appeals from reexaminations decided between 2011 and 2016, 70% of inter partes reexamination decisions were affirmed by the Federal Circuit (with 53% of those being Rule 36 affirmances) and 94% of ex parte reexamination appeals were affirmed by the Federal Circuit (with 68% of those being Rule 36 affirmances). As of August 15, 2016, the Federal Circuit had decided 134 appeals from AIA post-grant proceedings, affirming 84% of them (with 63% of those being Rule 36 affirmances). The reversal rate was at 8%, as was the remand rate. The Federal Circuit had also decided 13 petitions for writ of mandamus taken from post-grant proceedings and denied all of them.”).

To put this number in perspective a total of nearly 300,000 patents were granted in 2015, slightly more than half of which were of foreign origin.<sup>2</sup>

Thus, there are roughly 500 decisions per year in post grant procedures compared to a base issuance of roughly 300,000 patents per year, or 1 decision in a post grant proceeding per every 600 patents granted. (If one used as the base the patents open to one form or another of post grant challenge, the number would be closer to about 1 per 6,000 patents in force, counting the seventeen years that some post grant challenges can be instituted.)

One of the leading patent academics in the country, Professor Rochelle Cooper Dreyfuss of New York University Law School, helps put the statistics in perspective:

While ... statistics speak loudly about the public's eagerness and ability to use these [PTO] procedures to "weed out" bad patents, it is more difficult to interpret what the numbers mean from a normative standpoint. To some, they suggest that the Board is out of control. As Randall Rader, once chief judge of the Federal Circuit, put it, the judges of the PTAB are "acting as death squads, killing property rights."<sup>[109]</sup> Or in the words of two bloggers, the PTAB is "where patent claims go to die."<sup>[110]</sup> More temperately, after comparing cancellation rates in IPRs to

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<sup>2</sup> The total is 298,407, of which 52.8 % were of foreign origin. See United States Patent and Trademark Office, *U.S. Patent Statistics Chart, Calendar Years 1963 – 2015*, [https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm), last visited October 21, 2017.

<sup>[109]</sup> Tony Dutra, *Rader Regrets CLS Bank Impasse, Comments on Latest Patent Reform Bill*, BNA Pat. Trademark & Copyright L. Daily, Oct. 29, 2013.

<sup>[110]</sup> Michelle Carniaux & Michael E. Sander, *Claims Can Survive Inter Partes and Covered Business Method Review (But Few Do)*, IPR Blog (Apr. 7, 2014),

invalidation rates in court and considering the number of claims cancelled in IPRs that had previously survived ex parte reexamination,<sup>[111]</sup> Gregory Dolin concluded that it is “too easy to invalidate a duly issued patent” in an IPR. He called the CBM statistics “even more staggering.”<sup>[112]</sup>

But the numbers can be understood in a very different way. Before the PTAB can issue a final written decision cancelling claims, it must decide whether to institute a proceeding. The standard for determining whether to institute, although slightly different for the three procedures, is essentially whether it is more probable than not that at least one challenged claim is unpatentable. Since the preponderance of the evidence standard for determining whether a claim *should* be cancelled is also, essentially, whether it is more probable than not invalid, the high invalidation rate is basically a reflection of the PTAB's ability to forecast correctly how it will decide on at least one claim. Because the panel that decides whether to institute also decides the case on the merits, a strong correlation is to be expected.<sup>[113]</sup> This is especially so because the institution decisions are far from pro forma: they are often as long as the merits decision, cover the same issues (claim construction is often central), and are as thoughtful and probing of the arguments as the decisions

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<http://interpartesreviewblog.com/claims-can-survive-inter-partes-covered-business-method-review/>.

<sup>[111]</sup> See Gregory Dolin, *Dubious Patent Reform*, 56 B.C. L. Rev. 881, 926-27 (2015) (citing John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205-06 (1998)); Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & Tech. 1, 6-7 (2013).

<sup>[112]</sup> Dolin, *supra* note 111, at 926, 930.

<sup>[113]</sup> The PTO is considering a pilot program in which institution decisions would be made by only one judge; if that judge decides to institute, two new judges would be added to decide the case. See Lee, *supra* note 37. [Note 37: 37 C.F.R. § 42.108(a) (2014); *id.* § 42.208 (permitting the Board to institute on only some claims and to refuse to consider all asserted grounds for invalidation); *id.* § 42.300; see also *Bank of Am., N.A. v. Intellectual Ventures II LLC*, No. CBM2014-00031 (P.T.A.B. Aug. 18, 2014) (institution decision) (instituting on nine of eighteen claims challenged). The PTAB then granted the patent holder's motion for adverse judgment on all challenged claims.]

on the merits.<sup>[114]</sup> Admittedly, once the PTAB decides one claim may be invalid, it can entertain challenges to other claims as well. But it need not hear *every* claim the petitioner seeks to cancel. Partial institutions are possible, and in practice, the PTAB screens out claims that appear to be valid at the institution stage. That is, in deciding whether to institute, the PTAB often considers every claim and every ground to determine whether each claim is more likely than not unpatentable on each alleged ground.<sup>[115]<sup>3</sup></sup>

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<sup>[114]</sup> To take two examples, arbitrarily chosen, the institution decision in *SAP America, Inc. v. Versata Development Group, Inc.* was forty-four pages long. No. CBM2012-00001 (P.T.A.B. Jan. 9, 2013) (institution decision). In the same case, the final written decision was thirty-five pages. *Id.* (P.T.A.B. June 11, 2013). The institution decision in *U.S. Bancorp v. Retirement Capital Access Mgmt. Co.* was fifteen pages. No. CBM2013-00014 (P.T.A.B. Sept. 20, 2013) (institution decision). There, the final written decision was twenty-one pages. *Id.* (P.T.A.B. Aug. 22, 2014).

<sup>[115]</sup> 37 C.F.R. § 42.108(a) (2014); *id.* § 42.208 (permitting the Board to institute on only some claims and to refuse to consider all asserted grounds for invalidation); *id.* § 42.300; *see also* Bank of Am., N.A. v. Intellectual Ventures II LLC, No. CBM2014-00031 (P.T.A.B. Aug. 18, 2014) (institution decision) (instituting on nine of eighteen claims challenged). The PTAB then granted the patent holder's motion for adverse judgment on all challenged claims.

<sup>3</sup> Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for its Money: Challenging Patents in the PTAB*, 91 Notre Dame L. Rev. 235, 251-52 (2015)(original footnotes included in brackets)(original emphasis).

Professor La Belle summarizes the Rader-inspired “death squad” hysteria:

Early studies indicate that patent challengers are enjoying high rates of success with the new [PTO patent challenge] proceedings.<sup>[170]</sup> In IPRs, petitioners have won complete victories almost two-thirds of the time when pursuing their petitions to a final decision.<sup>[171]</sup> And even when not securing a total win, petitioners have managed to persuade the PTAB to institute IPR on at least one challenged claim in eighty-four percent of proceedings.<sup>[172]</sup>

Based on these high rates of invalidation, critics have referred to the PTAB alternatively as a ‘death squad’<sup>[173]</sup> and a ‘killing field.’<sup>[174]</sup> Former Chief Judge Rader stated at an intellectual property conference that the PTO ‘was in tension with itself, with thousand[s] of examiners ‘giving birth’ to patents and hundreds of judges on the PTAB ‘acting as death squads, kind of killing property rights.’’<sup>[175]</sup>

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<sup>[170]</sup> See Brian J. Love & Shawn Ambwani, *Inter Partes Review: An Early Look at the Numbers*, 81 U. Chi. L. Rev. Dialogue 93, 101 (2014) (finding that the PTAB invalidated all instituted IPR claims almost 78% of the time).

<sup>[171]</sup> *Id.*

<sup>[172]</sup> *Id.* at 100. A more recent study finds that the rate at which the PTAB is instituting IPRs has been slowly and consistently declining since 2012. See Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 Berkeley Tech. L.J. 45, 78, 107 (2016).

<sup>[173]</sup> Rob Sterne & Gene Quinn, *PTAB Death Squads: Are All Commercially Viable Patents Invalid?*, IPWatchdog.com (Mar. 24, 2014), <http://www.ipwatchdog.com/2014/03/24/ptabdeathsquads-are-all-commercially-viable-patents-invalid/id=48642/> (quoting former Fed. Cir. Chief Judge Randall Rader, Comments at the 2013 American Intellectual Property Law Association Annual Meeting (Oct. 25, 2013)).

<sup>[174]</sup> Erich Spangenberg, *Patent Predictions for 2015*, IPNav: Blog (Dec. 31, 2014), <http://www.ipnav.com/blog/erich-spangenbergs-patent-predictions-for-2015/> [<https://perma.cc/XsN4-XQRG>].

<sup>[175]</sup> Ryan Davis, *PTAB’s “Death Squad” Label Not Totally Off-Base, Chief Says*, Law360 (Aug. 14, 2014, 5:47 PM), <http://www.law360.com/articles/567550/ptab-s-death-squadlabelnot-totally-off-base-chief-says> [<https://perma.cc/7FXK-DCJ6>].

A former high-level PTO official similarly criticized the agency for ‘creating’ and then ‘destroying’ patents, wondered how long such a ‘business model’ can last, and warned that ‘if the PTAB continues on this path, the raison d’être of the Patent Office and the entire patent system will be called into question.’<sup>[176] 4</sup>

That the need for greater validity “police” remains despite the Rader “death squad” hysteria is manifested by Professor La Belle’s conclusion that “[i]nvalid patents, even if unenforced, are problematic. They dampen innovation, hamper competition, and harm consumers. Yet no public agency polices patents after they are issued. We rely instead on private parties, despite the fact that incentives for private validity challenges are seriously lacking. Even with the passage of the AIA and the creation of new and improved administrative proceedings, it is not clear that substantially more patents--or the right type of patents--are being challenged.”<sup>5</sup>

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<sup>[176]</sup> Sterne & Quinn, *supra* note 173. While Rob Sterne and Gene Quinn do not identify the “former top USPTO official,” I heard John Whealan (former Deputy General Counsel for Intellectual Property Law and Solicitor at the PTO) make these same observations at the Center for American and International Law’s 52nd Annual Conference on Intellectual Property Law on November 10, 2014 in Plano, Texas.

<sup>4</sup> Megan M. La Belle, *Public Enforcement Of Patent Law*, 96 B.U. L. Rev. 1865, 1891-92 (2016)(original footnotes integrated into text in brackets).

<sup>5</sup> La Belle, *supra*, 96 B.U. L. Rev. at 1928.

## THE RESTASIS CASE

Under the *Leahy Smith America Invents Act* of 2011, the procedures have been tightened up to make it easier for patent challengers to establish the invalidity of patents under Post Grant Review (PGR) and Inter Partes Review (IPR). Literally billions of dollars have been saved by consumers through the effective use of the PGR and IPR review proceedings. Indeed, a former member of the Federal Circuit before his resignation from the bench had dubbed these post grant proceedings as “death squads” for patents.

As an added feature to the *Restasis* case, the patentee has employed a clever (but unsuccessful) trick to block a Patent Office challenge to validity by transferring patent title to the Saint Regis Mohawk Tribe (which then granted Allergan an exclusive license under the patents).

In the *Oil States Energy Services* case, *certiorari* has been granted to the patent challenger, so the case is now before the Supreme Court on the merits. The petitioner argues that a patent validity challenge through an administrative proceeding is unconstitutional.

In *SAS Institute Inc. v. Matal*, in an Inter Partes Review proceeding, the PTO examined only *some* of the claims; here, petitioner questions whether “th[e] Board [must] issue a final written decision as to every claim challenged by the petitioner, or does [the statute] allow that Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner, as the Federal Circuit held?”

Both *Oil States Energy Services* and *SAS Institute Inc. v. Matal* will be argued before the Supreme Court on Monday November 27, 2017. Merits decisions in both cases are expected before the Court completes its present Term at the end of June 2018.

### **OIL STATES: CHALLENGE TO PTO VALIDITY PROCEDURES**

Of the three cases, by far the most important one is *Oil States Energy Services*. If petitioner is successful, it is possible that all post-grant review procedures at the Patent Office could be declared unconstitutional.

At present, a decision by the Supreme Court is remote as prior to any Supreme Court petition, the case must first go to the Federal Circuit for a merits review. Only after this happens – presumably at some point in 2018 – *then* the door would be open to a petition for Supreme Court review which, *if certiorari is granted*, may result in a merits decision at some point in the period 2018-2019.

If the Supreme Court gives a continued green light to post grant patent challenges by denying the challenge this could result in savings to consumers and the taxpayers measured in the *billions* of dollars in terms of invalidity rulings on pharmaceutical patents.

## ISSUES IN THE THREE CASES

**Allergan, Inc. v. Teva Pharmaceuticals USA, Inc., (E.D. Texas)**: This is the *Restasis* case where the patentee Allergan sought to avoid a PTO patent validity attack by transferring formal title to the patent to the Saint Regis Mohawk Tribe (which then granted Allergan an exclusive license to the patents). The trial court determined that the clever scheme to transfer technical patent ownership to an Indian Tribe (with sovereign immunity) was *not* a successful avoidance of PTO jurisdiction to determine validity, and *also* ruled that the relevant claims of the Restasis patents are invalid on the basis of obviousness.

**Oil States Energy Services v. Greene's Energy Group, S. Ct. No. 16-712**: The *Question Presented* asks “[w]hether *inter partes* review – an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents – violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.”

**SAS Institute Inc. v. Matal, Supreme Court No. 16-969**: The *Question Presented* asks: “Does 35 U.S.C. § 318(a), which provides that the Patent Trial and Appeal Board in an *inter partes* review ‘shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner,’ require that Board to issue a final written decision as to every claim challenged by the petitioner, or does it allow that Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner, as the Federal Circuit held?”

**OIL STATES ENERGY SERVICES, LLC, Petitioner,**  
**v.**  
**GREENE'S ENERGY GROUP, LLC, et al., Respondents.**  
Supreme Court No. 16-712.  
On Writ of Certiorari to the United States  
Court of Appeals for the Federal Circuit  
and  
**The Ghost of Randall R. Rader Looms Large**

**Question Presented:** Whether *inter partes* review – an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents – violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

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## ***Oil States Energy Services, LLC v. Greene's Energy Group***

### ***The Ghost of Randall R. Rader Looms Large***

## **Introduction**

Although Chief Judge Randall R. Rader of the Federal Circuit is long gone, his presence still looms large over the patent system, including his description of the Patent Trial and Appeal Board administration of Inter Partes Review (IPR) and Post Grant Review (PGR) as patent “death squads”.<sup>1</sup> Continued viability of IPR and PGR proceedings under the *Leahy Smith America Invents Act* of 2011 are now in doubt, perhaps fueled by the publicity generated by the firmer Chief Judge: In *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712, the Supreme Court has granted *certiorari* to decide whether IPR proceedings are Constitutional. Petitioner boldly asks whether “[IPR] \*\*\* violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury[?]”<sup>2</sup> An affirmative answer, here, could lead to an end to both IPR and PGR patent challenges under the *Leahy Smith America Invents Act* of 2011. Briefing in *Oil States* will be completed by about Thanksgiving; an argument is expected in early 2018, with a merits decision before the end of June 2018.

Excerpts from select merits briefs are included in this paper to permit the reader to judge for himself as to the way the case will be decided.

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<sup>1</sup> Professor John M. Golden, *Working Without Chevron: The PTO as Prime Mover*, 65 Duke L.J. 1657, 1668 (2016)(citing Rob Sterne & Gene Quinn, *PTAB Death Squads: Are All Commercially Viable Patents Invalid?*, IP Watchdog (Mar. 24, 2014)) (“Former Chief Judge Rader of the Federal Circuit described the PTAB panels as ‘death squads killing property rights’ at an annual meeting of the American Intellectual Property Law Association.””).

<sup>2</sup> *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712. Question Presented: Whether inter partes review, an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents, violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.” Status: Respondents’ briefs due October 23, 2017; Reply brief due November 20, 2017.

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### *The Ghost of Randall R. Rader Looms Large*

*SAS Institute v. Matal* asks whether in an IPR the “Board [may] issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner.”<sup>3</sup> Several further pending petitions for review follow *Oil States Energy Services* that apparently will be deferred for a *certiorari* vote after a merits decision in *Oil States Energy Services*.

### **Interest of the Author**

The author’s interest in this case is *pro bono*.

It is acknowledged that Respondent Greene's Energy Group, LLC is represented by Foley & Lardner LLP through its attorneys Christopher M. Kise and George E. Quillin. The author acknowledges that he is a retired partner in that firm, but has no other connection to the firm nor to this case. He retired from the firm more than two years ago.

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<sup>3</sup> *SAS Institute Inc. v. Matal*, No. 16-969. Question Presented: “Whether 35 U.S.C. § 318(a), which provides that the Patent Trial and Appeal Board in an inter partes review “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner,” requires that Board to issue a final written decision as to every claim challenged by the petitioner, or whether it allows that Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner, as the U.S. Court of Appeals for the Federal Circuit held.” Status: Ready to be set for Argument.

**Brief For Petitioner\***

**SUMMARY OF ARGUMENT**

Congress may not remove cases from the federal courts because it does not like their judgments. As this Court has long held, “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.’ ” Stern v. Marshall, 564 U.S. 462, 484 (2011) (quoting Murray’s Lessee v. Hoboken Land & Improvement Co., 18 How. 272, 284 (1855)). That is just what Congress has done with inter partes review, which wrests patent-validity cases from federal courts and entrusts them to administrative-agency employees, who decide questions of law that Article III reserves to judges and questions of fact that the Seventh Amendment reserves to juries. Neither Article III nor the Seventh Amendment tolerates this circumvention. I. Article III, Section 1 - which vests “[t]he judicial Power of the United States” in “one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish” - protects both the separation of powers and the rights of litigants. *Wellness Int’l Network v. Sharif*, 135 S. Ct. 1932, 1938 (2015) (quoting U.S. Const. art. III, § 1). Article III serves these dual aims “by specifying the defining characteristics of Article III judges.” Stern, 564 U.S. at 483. These characteristics - life tenure and salary protection - “ensure that each judicial decision [is] rendered, not with an eye toward currying favor with \*\*\* the Executive,” but instead with the “[c]lear heads \*\*\* and honest hearts” that are “essential to good judges.” Id. at 484 (quoting 1 Works of James Wilson 363 (J. Andrews ed. 1896)).

But “Article III could neither serve its purpose in the system of checks and balances nor preserve the integrity of judicial decisionmaking if the other branches of the Federal Government could confer the Government’s ‘judicial Power’ on entities outside Article III.” Ibid. That is why “[w]hen a suit is made of ‘the stuff of the traditional actions at common law tried by the courts at Westminster in 1789,’ \*\*\* the responsibility for deciding that suit rests with Article III judges in Article III courts.” Ibid. (quoting *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 90 (1982) (Rehnquist, J., concurring in the judgment)). Inter partes review impermissibly transfers the responsibility for deciding common-law suits from Article III judges to administrative agency employees who

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\* Footnotes have been deleted from the briefs and the briefs have been shortened.

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are beholden to Executive Branch officials - precisely the evil the Framers sought to avoid. See id. at 483 (“In establishing the system of divided power in the Constitution, the Framers considered it essential that ‘the judiciary remain[] truly distinct from both the legislature and the executive.’ ” (quoting *The Federalist No. 78*, p. 466 (Alexander Hamilton) (C. Rossiter ed., 1961))).

First, patent-validity cases were traditionally tried in English courts, as all parties agree. Fed. BIO at 15; Greene's BIO at 6. Patent-validity questions usually arose in response to an infringement action, which was brought in the courts of law or the Court of Chancery. Either way, the matter was “the subject of a suit at the common law, or in equity, or admiralty,” and thus its adjudication cannot be transferred from Article III courts to the Board. Stern, 564 U.S. at 484 (quoting Murray's Lessee, 18 How. at 284).

Second, the Board unquestionably exercises “the judicial power of the United States” in conducting inter partes review. The proceeding, which the Board calls a “case,” e.g., Office Patent Trial Practice Guide, 77 Fed. Reg. at 48,756, 48,759, 48,762, begins when a patent challenger seeks a judgment of invalidity from the Board. The parties resolve preliminary issues through motions practice, take discovery, examine witnesses, and proceed to a “trial,” resolved by “judges,” culminating in a final, self-executing “judgment.” This is the exercise of the “judicial Power of the United States.”

The Board exercises the judicial power to adjudicate disputes between private parties over private-property rights. A patent is emphatically a private property right, “taken from the people, from the public, \*17 and made the private property of the patentee,” *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 370 (1888), and no “public right” exception excuses this failure to comply with Article III. Patent-validity claims subject to inter partes review are not asserted by or against the government; inter partes reviews occur between private parties. They have not been exclusively resolved by another branch; courts have adjudicated these cases for centuries. Nor are they new statutory obligations integrally related to a particular governmental enforcement action: patent rights predate the Constitution by centuries, and the federal government enforces no other governmental action through inter partes review. If a patent-validity case - a dispute over a private property right - may be swept out of the federal courts under the cloak of “public rights,” then anything can be, and Article III's guarantee is mere “wishful thinking.” Stern, 564 U.S. at 495.

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Nor can the Board be justified as a mere “adjunct” of Article III courts, see *id.* at 487-88, as it operates without meaningful Article III supervision and without the litigants’ consent. The Board is not supervised by Article III courts in any way. Its decisions are final “judgments” appealable as of right directly to the Federal Circuit. Likewise Oil States, like most patent owners, emphatically did not consent to its property rights being adjudicated in a proceeding that bears all of the hallmarks of litigation but enjoys none of the protections of Article III. Article III does not permit Congress to bestow upon the Board the judicial power to adjudicate cases historically heard by courts at<sup>\*</sup> common law. That power remains for the federal courts and their life-tenured, salary-protected judges alone. II. *Inter partes* review impermissibly supplants juries as well as judges. The Seventh Amendment guarantees a jury trial “[i]n suits at common law,” including those to vindicate “statutory rights that are analogous to common-law causes of action ordinarily decided in English law courts in the late 18th century.” *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 40-41, 42 (1989) (citation omitted). English history is clear that patent-validity questions were. In 1791, “[a]n action for patent infringement [was] one that would have been heard in the law courts of old England.” *Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 992 (Fed. Cir. 1995). It had been that way for 200 years before that. See, e.g., *Darcy v. Allen*, 77 Eng. Rep. 1260 (K.B. 1603).

Even when a patent owner initiated an infringement action in the Court of Chancery, if the alleged infringer at issue, the Court of Chancery was required to send the matter to a court of law for a jury trial. *Bottomley*, *supra*, at 36-37, 41-43; see also *Gómez-Arostegui*, *supra*, at 210-12. Juries inevitably decided disputed questions of fact regarding patent validity. *Ibid.* So too today. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996) (patent “infringement cases today must be tried to a jury” (emphasis added)).

*Inter partes* review, however, conditions patent owners’ jury-trial rights on their opponents’ choice of forum. The Seventh Amendment does not tolerate such a veto. As they have for centuries, patent owners have the right to try patent-infringement and patent-validity questions to juries - not to the Board.

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## ARGUMENT

### I. Inter Partes Review Violates Article III.

Only an “Article III judge[] in [an] Article III court[]” may exercise the judicial power to decide a case that is the “subject of a suit at the common law, or in equity, or admiralty,” Stern, 564 U.S. at 484 (quoting Murray’s Lessee, 18 How. at 284), unless (1) the case resolves a claim on public rights, id. at 485, or (2) the litigants consent to a non-Article III forum under meaningful supervision by an Article III court. Wellness Int’l, 135 S. Ct. at 1944. In conducting inter partes review, the Board unabashedly wields the judicial power without any semblance of Article III’s protections – and without any justification this Court has recognized for doing so.

The Board’s adjudications resolve disputes over private rights heard for centuries in courts at common law. Administrative agents beholden to politically appointed Executive officers issue final judgments without the patent owner’s consent, much less meaningful Article III supervision. Article III does not permit the Board to exercise this judicial power.

#### **A. Inter Partes Review Impermissibly Adjudicates Matters That Were The Subject Of Suits At Common Law.**

Through inter partes review, the Board (i) adjudicates patent-validity challenges, which (ii) were the subject of suits at common law. Inter partes review therefore violates Article III.

##### **1. Inter Partes Review Is An Exercise Of The Judicial Power.**

The judicial power is the power to “hear and determine a cause,” United States v. O’Grady, 22 Wall. 641, 647 (1874), “subject to review only by superior courts in the Article III hierarchy.” Plaut v. Spendthrift Farm, Inc., 514 U.S. 211, 219 (1995). Private litigants and coordinate branches of government alike understand that the hallmark of the judicial power is the authority to “conclusively resolve [ a] case,” because the “judicial Power is one to render dispositive judgments.” Ibid. (internal quotation marks omitted) (quoting Frank H. Easterbrook, Presidential Review, 40 Case W. Res. L. Rev. 905, 926 (1989)). The Board unquestionably

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resolves cases, exercising through inter partes review an Article III tribunal's powers in both form and substance.

Inter partes review bears every salient characteristic associated with the exercise of the judicial power. Inter partes review begins when a patent challenger files a petition with the Board seeking a declaration that a given patent's claims are invalid. 35 U.S.C. § 311(a). The challenger and patent owner:

- Conduct motion practice before the Board, Office Patent Trial Practice Guide, 77 Fed. Reg. at 48,758;
- Take discovery for a subsequent trial, id. at 48,761-48,762;
- Depose and cross-examine witnesses, introduce evidence, and object to evidence based on the Federal Rules of Evidence, *ibid.*;
- Participate in an adversarial trial (called a “trial”) during which they brief issues and argue before the Board’s judges (called “judges”), *id.* at 48,758;
- May settle their case any time before judgment, 35 U.S.C. § 317(a), as amended, and 35 U.S.C. § 327;
- Receive a final, binding judgment (referred to as a “judgment” in the Board’s regulations, e.g., Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,761, 48,766-48,767), as to the patent’s validity, 35 U.S.C. § 318(a); and
- Can appeal that judgment as of right only directly to the U.S. Court of Appeals for the Federal Circuit. 35 U.S.C. §§ 141, 319.

Even the PTO describes inter partes review proceedings as adjudications, advertising that the Board “adjudicates \*\*\* case[s].” Erin Coe, USPTO Director Wants To Oversee A PTAB Case, Law360 (May 3, \*22 2016),

<https://www.law360.com/articles/791561/exclusive-uspto-director-wants-to-oversee-a-ptab-case>. Judges in these proceedings “develop[] patent case law through their decisions,” and thereby “shape and grow the patent case law.”

USPTO, Benefits of being an Administrative Patent Judge at the Patent Trial and Appeal Board (PTAB), YouTube (Feb. 13, 2015),

[https://www.youtube.com/watch?v=y\\_vTvPuUUBY&feature=youtu.be](https://www.youtube.com/watch?v=y_vTvPuUUBY&feature=youtu.be). This accurate description of the Board’s role maps onto the Founders’ understanding of the judicial power: “The judicial authority consists in applying, according to the principles of right and justice, the constitution and laws to facts and transactions in cases, in which the manner or principles of this application are disputed by the parties interested in them.” James Wilson, Government, Lectures on Law, 1:296-297 (1791), reprinted in The Founders Constitution, Article 3, Section 1, U. Chi. (2000), [http://press-pubs.uchicago.edu/founders/documents/a3\\_1s15.html](http://press-pubs.uchicago.edu/founders/documents/a3_1s15.html).

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Inter partes review, then, involves the exercise of the “judicial Power of the United States” by an administrative tribunal that is unquestionably not an Article III court. And, as demonstrated next, the tribunal exercises the judicial power to adjudicate matters that were the subject of suits at common law, and thus must remain in Article III courts.

**2. Patent Validity Was The Subject Of Suits At Common Law.**

Again, “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.’ ” Stern, 564 U.S. at 484 (emphasis added) (quoting Murray's Lessee, 18 How. at 284). Thus inter partes review cannot survive constitutional scrutiny if patent-validity claims were the subject of suits at common law or in equity. The parties in this case all agree that patent-validity claims were the subject of suits at common law or in equity - the only meaningful dispute is whether they were the subject of suits at common law or in equity for Seventh Amendment purposes. Where Article III is concerned, however, the dispute is entirely academic because, as both Greene's and the government acknowledge, courts (whether at law or in equity) have adjudicated patent-validity challenges for centuries. Greene's BIO at 6 (“Claims for annulment or cancellation of a patent \*\*\* were traditionally brought before courts of equity[.]”); Fed. BIO at 15 (same).

English courts heard patent-infringement cases throughout the 18th century. See Markman, 52 F.3d at 992 (“An action for patent infringement is one that would have been heard in the law courts of old England.”); see also, e.g., Boulton v. Bull, 126 Eng. Rep. 651, 656, 660 (C.P. 1795); Morris v. Bramsom, 1 Carp. P.C. 30, 31 (K.B. 1776); Turner v. Winter, 99 Eng. Rep. 1274, 1275 (K.B. 1787); 2 Joseph Story, *Commentaries on Equity Jurisprudence* 236-39, §§ 930-34 (Melville M. Bigelow ed., Little, Brown, & Co., 13th ed. 1886).

A patent-invalidity case began in one of several ways. First, it could have been filed as an infringement action in the Courts of King's Bench, Common Pleas, or the Exchequer of Pleas, where a defendant might assert the relevant patent's invalidity as a defense. Bottomley, *supra*, at 36-37, 41-43; see also Gómez-Arostegui, *supra*, at 210-12; Br. for H. T. Gómez-Arostegui and S. Bottomley as Amici Curiae (“Legal Historians”) at 5-6. Second, it could have begun as an infringement suit in the Court of Chancery - although if the defendant placed the patent's validity at issue, the matter was sent to a court of law for a jury trial.

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Morris, 1 Carp. P.C. at 31; Turner, 99 Eng. Rep. at 1275; Horton v. Harvey (K.B. 1781), reprinted in 1 James Oldham, *The Mansfield Manuscripts* 762 (1992); Br. of Legal Historians at 6.

Judicial adjudication of patent validity as a defense to infringement has a long pedigree. Darcy, 77 Eng. Rep. at 1262; see also Jacob Corré, *The Argument, Decision, and Reports of Darcy v. Allen*, 45 Emory L.J. 1261, 1297 (1996). These validity defenses included assertions that a patent's claims were not novel, Newsham v. Grey, C33/376, f. 336r-v (Ch. 1740), 2 Atk. 286, 286 (Ch. 1742); Morris, 1 Carp. P.C. at 32; Martin v. Calfson (K.B. 1781), reprinted in 1 James Oldham, *The Mansfield Manuscripts* 760-61 - the same matter that the Board now adjudicates in inter partes review. 35 U.S.C. § 311(b).

Infringement suits aside, the Court of Chancery also reviewed the validity of a patent in actions commenced by a writ of scire facias - essentially a show-cause order to explain why the patent should not be revoked. Am. Bell Tel. Co., 128 U.S. at 360; see also 3 William Blackstone, *Commentaries on the Laws of England* 260-61 (1768) ("Where the crown hath unadvisedly granted any thing by letters patent, which ought not to be granted, \*\*\* the remedy to repeal the patent is by writ of scire facias in chancery.").

To be sure, the King occasionally also acted to cancel patents. On rare occasions, the Privy Council would withdraw patents on behalf of the King - a practice that appears to have arisen out of the initial concept of patents as a royal prerogative, to kkbe granted or withdrawn at the sovereign's discretion, and which has no analogue in American patent law. See Oren Bracha, *Owning Ideas: A History of Anglo-American Intellectual Property* 9 (June 2005) (unpublished Ph.D. thesis, Harvard Law School),

<https://law.utexas.edu/faculty/obracha/dissertation/pdf/chapter1.pdf> ("The essence of sixteenth and seventeenth century English patents was being an instrument for the exercise of royal prerogative power."). But these patent withdrawals were rare indeed, having ceased entirely by 1779. Br. of Legal Historians at 34-37. Even a treatise writer in 1846, who urged others to revive use of the Privy Council for patent revocation, admitted that the "ordinary" remedy for the Crown or the public for dealing with a bad patent was "only available by pleading and proving the cause of invalidity in a Court of justice," by which he meant scire facias. W.M. Hindmarch, *A Treatise on the Law Relating to Patent Privileges* 431 (1846). These

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proceedings bear little on the scope of judicial authority in England at common law.

In any event, as this Court has noted before, tracing the roots of a historical practice does not depend on how a matter was occasionally resolved, but on how it was typically resolved. See, e.g., *Granfinanciera*, 492 U.S. at 43 (“Respondent does not \*\*\* contend that actions to recover fraudulent conveyances or preferential transfers were more than occasionally tried in courts of equity \*\*\*\* While respondent’s assertion that courts of equity sometimes provided relief \*\*\* is true, however, it hardly suffices to undermine petitioners’ submission that the present action \*\*\* would not have sounded in equity 200 years ago in England.”).

Modern practice overwhelmingly reflects historical practice. The federal district courts routinely decide patent validity, which accused infringers assert as a defense or counterclaim. The “defenses in any action involving \*\*\* infringement of a patent” include “[i]nvalidity of the patent.” 35 U.S.C. § 282; see also, e.g., *Sandoz Inc. v. Amgen Inc.*, 137 S. Ct. 1664, 1673 (2017) (“Sandoz counterclaimed for declaratory judgments that the asserted patent was invalid[.]”); *J.E.M. Ag Supply, Inc. v. Pioneer Hi-Bred Int'l Inc.*, 534 U.S. 124, 129 (2001) (“Farm Advantage answered with a general denial of patent infringement and entered a counterclaim of patent invalidity [.]”).

In sum, for centuries before the Founding - and, until very recently, for centuries after - courts determined whether a patent was valid. Because a patent’s validity “is the subject of a suit at the common law, or in equity, or admiralty,” Congress may not “withdraw from judicial cognizance” cases adjudicating that matter. *Stern*, 564 U.S. at 484 (quoting *Murray’s Lessee*, 18 How. at 284). Inter partes review does just that - and, as demonstrated next, it does so without any justification that this Court has recognized.

**B. Inter Partes Review Cannot Be Justified By The Public-Rights Doctrine.**

This Court has, to be sure, permitted tribunals other than Article III courts to exercise the judicial power over public rights - but that doctrine cannot justify inter partes review. Public rights encompass only claims (i) by or against the government, (ii) which have been historically resolved outside the Judicial Branch, or (iii) the resolution of which is “essential to a limited regulatory objective \*\*\* integrally related to particular federal government action.” *Stern*, 564 U.S. at 490-91. Patent-validity claims are none of these. Patents “have \*\*\* the attributes of

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personal property,” 35 U.S.C. § 261, and thus patent-validity claims involve disputes over quintessential private property rights that must be adjudicated by courts. Adam Mossoff, Patents As Constitutional Private Property: The Historical Protections Of Patents Under The Takings Clause, 87 B.U. L. Rev. 689, 701 (2007) (discussing the American judicial tradition of patents’ protection under Takings Clause as property rights).

If a question about a patent’s validity may instead be shunted from the federal courts to an administrative agency “simply by deeming it part of some amorphous ‘public right,’ ” then Article III’s protections have devolved into mere “wishful thinking.” Stern, 564 U.S. at 495. After all, public-rights cases are the exception.

\*28 Most disputes involve only private rights - including “private tort, contract, and property cases, as well as a vast range of other cases.” *Atlas Roofing Co. v. Occupational Safety & Health Review Comm’n*, 430 U.S. 442, 458 (1977). “Private rights \*\*\* traditionally include [] \*\*\* property rights,” *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1551 (2016) (Thomas, J., concurring) (quoting 3 William Blackstone, *Commentaries* 130-39), and these cases adjudicate “the liability of one individual to another under the law as defined.” Stern, 564 U.S. at 489 (quoting *Cowell v. Benson*, 285 U.S. 22, 51 (1932)). These private rights - the broad swath of matters fit for judicial resolution - may only be adjudicated by Article III courts.

### 1. Patent-Validity Cases Are Private-Right Disputes Historically Resolved By Courts.

This Court has always regarded patents as property rights that may only be adjudicated as private rights - i.e., by Article III courts. Patents and the rights they confer have been referred to as “property” as early as the 1793 Patent Act. 1 Stat. 318, 320 (1793) (entitling inventors to “present a petition to the Secretary of State, signifying a desire of obtaining an exclusive property” in that invention); see also 35 U.S.C. § 261. Hence this Court’s observation over a century ago that a patent takes its subject “from the people, from the public, and ma[kes] it] the private property of the patentee.” *Am. Bell Tel. Co.*, 128 U.S. at 370. The resulting patent rights are unquestionably the patent owner’s “private property.” *Brown v. Duchesne*, 60 U.S. 183, 197 (1856). Only one “authority [is] competent to set” a private property right such as “a patent aside, or to annul it, or to correct it for any reason whatever.” *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 609 (1898). It is the same authority that can do so for all private rights: “the courts of the United States.” *Ibid.*

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Patents remain private property, and thus private rights, to the present day. Like a parcel of land, a patent entitles its owner to exclude others. See General Information Concerning Patents, USPTO (Oct. 2015), <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents> (“A patent for an invention is the grant of a property right to the inventor \*\*\* the right to exclude others[.]”). The owner not only may, but must, enforce the boundaries of his property; the government asserts no ownership rights in the patent and does not assist the owner in protecting his rights. Ibid. (“Once a patent is issued, the patentee must enforce the patent without aid of the USPTO.”). He must therefore seek judicial recourse against trespassers - infringers, in the patent context - to vindicate the boundaries of his property. Akamai Techs., Inc. v. Limelight Networks, Inc., 786 F.3d 899, 924-25 (Fed. Cir. 2015). In this, a patent owner is like any other private party pressing a “private tort, contract,” or - especially - “property case [.]” Atlas Roofing, 430 U.S. at 458. This “vast range of \*\*\* cases” is “not at all implicated” by the public-rights doctrine. Ibid. Neither is this case.

## **2. Patent-Validity Cases Are Not Brought By Or Against The Government.**

The first, most straightforward line demarcating public-rights cases is whether the case is brought against the government. If so, the government could condition its consent to hear the claim at all on its being heard in its choice of forum. Stern, 564 U.S. at 489. This Court first recognized the notion of public rights in exactly that context in Murray's Lessee. There, the Treasury Department determined that a customs collector failed to transfer payments to the federal government and, as a consequence, sold a parcel of land belonging to the collector. 18 How. at 274-75. Multiple claimants asserted title to the land, with one challenging the Treasury Department's original determination and sale as an adjudication outside Article III courts. Ibid. After cautioning that Congress could not withdraw Article III matters from the federal courts, this Court coined the term “public right” to describe actions such as the sale. Id. at 284.

As this Court has since explained, because a case regarding the sale could commence only through a waiver of sovereign immunity, “[t]he point of Murray's Lessee [is] simply that Congress may set the terms of adjudicating a suit when the suit could not otherwise proceed at all” because of sovereign immunity. Stern, 564 U.S. at 489. Little explanation is required to understand that this category of

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public-rights cases cannot save inter partes review, which is initiated by \*31 private parties and implicates no waivers of sovereign immunity.<sup>4</sup>

**3. Patent Cases Have Not Historically Been Resolved Wholly Outside The Judicial Branch.**

Murray's Lessee discussed another category of public rights cases - those involving rights that traditionally have been resolved wholly within another branch. 18 How. at 284. Congress could leave the adjudication of a justiciable case about those rights to that branch, this Court observed, or otherwise reassign its adjudication as it pleased. *Ibid.* Sometimes describing these matters as those “that historically could have been determined exclusively by” the Executive or Legislative Branches, *N. Pipeline*, 458 U.S. at 68 (plurality op.), Murray's Lessee provided as an example equitable claims of land ownership to territory that had been formally ceded to the United States. Murray's Lessee, 18 How. at 284. The Executive could unilaterally resolve competing rights disputes over these lands, just as the Recorder of Land Titles had in *Burgess v. Gray*, 16 How. 48, 61 (1853). Murray's Lessee, 18 How. at 284 (citing *Gray*). These cases, therefore, could also be adjudicated outside of Article III courts.

\*32 Aside from adjudicating land claims in territory ceded to the United States, *Gray*, 16 How. at 61, and in the District of Columbia, where Congress has plenary power, *Am. Ins. Co. v. Canter*, 1 Pet. 511, 518 (1828); see also U.S. Const. art. I, § 8, cl. 17, these public-rights cases included adjudications regarding membership in Indian tribes; the appraisal, classification, and collection of customs duties, *Ex Parte Bakelite Corp.*, 279 U.S. 438, 458-59 (1929); and other similar “functions, although mostly quasi judicial, [which] were all susceptible of performance by executive officers, and had been performed by such officers in earlier times.” *Id.* at 458-59.

Disputes about a patent's validity, however, were not only not adjudicated by Executive “officers in earlier times,” but this Court had also declared “the courts of the United States \*\*\* [t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever,” *McCormick*, 169 U.S. at 609, and not “the department which issued the patent,” the Executive. *Ibid.* Both historical practice and *McCormick*, then, foreclose calling a patent a “public right” on this basis.

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**4. Patent Cases Do Not Involve “New Statutory Obligations,” Nor Is Their Adjudication “Essential To A Limited Regulatory Objective.”**

That leaves only the most recent strain of public-rights cases - those involving claims that “derive[] from a federal regulatory scheme, or in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency’s authority.” Stern, 564 U.S. at 490. But these cases cannot justify the Board’s adjudication of private patent rights either. This category includes only claims that meet two criteria. First, the claim must arise from a “new statutory obligation []” created by Congress without a historical analogue to actions adjudicated by courts. *Atlas Roofing*, 430 U.S. at 450 (citation omitted). Second, the claim must be “integrally related to” a regulatory scheme governing parties’ private conduct beyond merely the adjudication of those kinds of claims. Stern, 564 U.S. at 490-91. Patent-validity claims satisfy neither criterion. First, this Court has reaffirmed time and again that this category of public rights arises only from new statutory obligations without historical analogues. Thus in *Atlas Roofing*, this Court emphasized that OSHA had expanded well beyond common-law negligence and wrongful-death liability by “creat[ing] new statutory obligations” that were previously unheard of. 430 U.S. at 450.

Similarly, there was no common-law analogue to the statutory compensation scheme in *Thomas v. Union Carbide Agricultural Products Co.*, 473 U.S. 568 (1985), which entitled federal pesticide registrants to compensation for the costs of trade-secret information disclosed to the federal government. As this Court noted, trade-secret property interests were conventionally extinguished by their disclosure to a party not obligated to keep them secret - so a statute entitling the disclosure of a secret to compensation provided a claim without a common-law counterpart. *Id.* at 584-85.

Likewise, the obligations vindicated by the broker-reparation scheme in *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833 (1986), significantly expanded the common law. This Court later described the Commodity Exchange Act as prohibiting both “fraudulent” and “manipulative conduct” related to commodity futures transactions, *id.* at 836 - a novel statutory expansion on traditional fraud (just as the OSHA obligations in *Atlas Roofing* expanded negligence and wrongful-death actions).<sup>5</sup>

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Compared to these novel administrative regimes, patents are hardly “new statutory obligations.” Far \*35 from being a stranger to the common law, patents have been adjudicated by American and English courts for centuries. The most one could say is that they arise by statute. But this is not enough: the applicability of the constitutional right to jury trial - and thus the right to an Article III court, *Granfinanciera*, 492 U.S. at 53-54 - in actions enforcing “statutory rights” is “a matter too obvious to be doubted.” *Curtis v. Loether*, 415 U.S. 189, 193 (1974). If the mere creation of a right by federal statute sufficed to enable Congress to vest the judicial power to adjudicate disputes regarding that right in a non-Article III tribunal, then Congress could just as easily create an Article I court to adjudicate Sherman Act cases, as American antitrust law significantly expanded on common-law jurisprudence regarding restraints of trade. *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 224 n.59 (1940). Of course, it cannot. *Fleitmann v. Welsbach Street Lighting Co. of Am.*, 240 U.S. 27, 29 (1916). Indeed, the notion that Congress could divest federal courts of the judicial power over rights merely because they arise under the laws of the United States would surely have confused the conventions ratifying Article III, who affirmed that the “judicial power” of the federal courts “shall extend to all cases, in law and equity, arising under \*\*\* the laws of the United States,” U.S. Const. art. III, § 2, even when those laws granted rights.

Second, even if patent rights were somehow “new statutory obligations,” they still would not qualify as \*36 public rights because they fail the second requirement - they are not “integrally related” to a particular federal government action with a limited regulatory objective. *Stern*, 564 U.S. at 490-91. In other words, these integrally related adjudications are closely related in subject matter to an attempt to enforce a governmental obligation on regulated parties. The adjudication itself cannot be the “limited regulatory objective” - otherwise it would be no limit at all. *Atlas Roofing* is the paradigm of this sort of case. There, the federal government cited two companies for violating OSHA after several employees died in workplace incidents. 430 U.S. at 447. The adjudication of these citations in a non-Article III tribunal was permissible, this Court held, because they were integrally related to the government’s enforcement action against the cited business. *Id.* at 460-61. Likewise, in *Thomas*, this Court approved a non-Article III tribunal where the dispute was “integral[ly] related” to a “complex regulatory scheme” involving particular governmental regulatory actions over particular pesticides. 473 U.S. at 589. And the claims adjudicated in *Schor* arose from a private attempt to enforce government regulatory obligations under the Commodities Exchange Act, along

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with a state-law counterclaim that arose out of the same transaction, adjudicated because it was “necessary to make the reparations procedure workable.” 478 U.S. at 856-57. These, too, were integrally related to the Act’s reparations procedure and to the Act’s enforceable public obligations.

In each of these cases, the rights in question derived from a federal regulatory scheme where adjudicating those rights was critical to a specific regulatory obligation enforceable through an action aside from the adjudication itself. But inter partes review does not follow from a governmental enforcement effort, does not regulate private conduct, does not follow from any public obligations borne by patent owners, and therefore is not integrally related to any particular federal governmental action.

It is not, for example, conducted to resolve a citation or sanction by the federal government for noncompliance with a federal regulatory regime, as in *Atlas Roofing*. Nor, as in *Thomas*, is inter partes review pursuant to some common governmental obligation on regulated entities. Nor, as in *Schor*, is it the adjudication of competing claims of right under a federal regulatory regime. Indeed, the PTO disclaims the responsibility to regulate private parties and the infringement of their rights that administrative agencies enforcing public rights take up: the Board does not seek to enforce obligations against private parties on behalf of the government. Instead, it adjudicates “[w]holly private \*\*\* property cases,” the very opposite of “public rights.” See *Atlas Roofing*, 430 U.S. at 458. Thus to justify its conclusion that inter partes review involves a public right, the Federal Circuit was forced to expand this Court’s narrow public-rights doctrine far beyond what this Court has ever recognized. See *MCM Portfolio*, 812 F.3d at 1290-91. Rather than “limit[ing] the exception to cases \*\*\* in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective,” *Stern*, 564 U.S. at 490 (emphasis added), the Federal Circuit vastly expanded it by regarding agency “expertise” as sufficient. And contrary to the Federal Circuit, see *MCM Portfolio*, 812 F.3d at 1290-91, agency expertise alone is no limit at all. Any agency (one hopes) may gain expertise in a given regulatory scheme and accompanying area of law by having the Executive Branch’s authority to enforce that law delegated to it. Indeed, to justify conferring the judicial power under Article III merely on the PTO’s expertise amounts to a buy-one-get-one-free sale for the Constitution’s Vesting Clauses: exercise the executive power, get the judicial power thrown in, too.

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And to justify the PTO's exercise of the judicial power based on its potential errors in applying the patent law (by wrongly issuing certain patents in the first place), see *ibid.*, is risible. There is already a branch with the specific competence and the constitutional mandate to examine whether Executive Branch actors have complied with the laws of the United States: the Judicial Branch. This argument for exercising the judicial power amounts to the belief that combining the various powers in our government into one body improves the chances that each will be exercised well. It suffices to say that this belief is reflected neither in the Founders' conception of the separation of powers nor in this Court's.

If these threadbare reasons suffice to combine separated powers, then the Constitution's powers are separated in name only. Congress may bypass Article III by setting up a specialist Executive body to perform any lawful function and then bootstrap the illegitimate power to adjudicate cases arising from those actions under the guise of expertise and error correction. A public-rights doctrine so capacious cannot be reconciled with Article III or this Court's cases enforcing its limits. Patent-infringement and patent-validity cases are private property disputes, and no conception of public rights that this Court has recognized or should recognize converts such a private dispute into a public one.

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**C. No Other Basis Recognized By This Court Can Excuse Inter Partes Review.**

This Court has also considered whether, as a practical matter, decision-making by a non-Article III tribunal would “usurp the constitutional prerogatives of Article III courts.” *Wellness Int'l*, 135 S. Ct. at 1944-45. This analysis further confirms that inter partes review violates Article III because it intrudes upon the separation of powers and usurps the constitutional prerogatives of the Judicial Branch.

**1. Inter Partes Review Subjects Litigants To A Non-Article III Tribunal Without Their Consent.**

First and foremost, this Court has considered whether the parties have consented to adjudication by a non-Article III tribunal. See *Wellness Int'l*, 135 S. Ct. at 1943. Although “notions of consent and waiver cannot be dispositive because the limitations [of Article III] serve institutional interests that the parties cannot be expected to protect,” Schor, 478 U.S. at 851, where “the decision to invoke th[e] forum is left entirely to the parties,” id. at 855, consent diminishes separation-of-powers concerns “for it seems self-evident that \*\*\* Congress may make available a quasi-judicial mechanism through which willing parties may, at their option, elect to resolve their differences.” *Ibid.*; see also *Peretz v. United States*, 501 U.S. 923, 936 (1991) (holding that Article III permits a litigant to consent to a magistrate judge supervising jury selection); *Wellness Int'l*, 135 S. Ct. at 1944 (explaining that the “entitlement to an Article III adjudicator is a personal right and thus ordinarily subject to waiver” (internal quotation marks omitted)).

Inter partes review, however, can and does - as it did in this case - adjudicate patent validity over the objections of the patent owner. Like the litigants in Stern and Northern Pipeline, Oil States “ ‘did not \*\*\* consent to’ resolution of the claim against it in a non-Article III forum.” 135 S. Ct. at 1946 (quoting Stern, 564 U.S. at 493). To the contrary, Oil States vigorously opposed inter partes review. “[T]he cases in which this Court has found a violation of a litigant’s right to an Article III decisionmaker have involved an objecting defendant forced to litigate involuntarily before a non-Article III court.” *Wellness Int'l*, 135 S. Ct. at 1947. This is precisely such a case.

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**2. Inter Partes Review Is Conducted Without Meaningful Article III Supervision.**

This Court has, at times, approved the exercise of the judicial power by non-Article III tribunals when they are subject to substantial supervision by Article III courts. See Schor, 478 U.S. at 853 (agency orders were “enforceable only by order of the district court”); Northern Pipeline, 458 U.S. at 85-86 (explaining that “the agency in Crowell was required by law to seek enforcement of its compensation orders in the district court”). Inter partes review, however, is conducted without any Article III supervision whatsoever: proceedings begin and run their course to judgment without an Article III court’s involvement at any point.

The Board’s orders - or “judgments” - are wholly self-executing and appealable as of right only directly to the Federal Circuit. Nor can the district court - as in *Wellness International* - withdraw a reference to the Board. See 135 S. Ct. at 1945. Once inter partes proceedings are instituted, litigants have no option other than to try their case before a non-Article III tribunal without having that tribunal subject to any Article III supervision or control.

An Article III court becomes involved with an inter partes review proceeding only if a party appeals to the Federal Circuit. But appellate review is not what this Court has deemed “supervision” or “control.” For example, an Article III court controlled the non-Article III tribunal in *Cowell* in part because the tribunal could not issue a self-executing judgment - only a district court could. 285 U.S. at 44-45, 48. Likewise, only a district court could enforce the Commission’s orders in *Schor*, 478 U.S. at 853. And references to bankruptcy judges can be withdrawn by district courts. *Northern Pipeline*, 458 U.S. at 80 n.31.

This Court has also underscored Article III courts’ control over magistrates, including their selection as an initial matter. *Wellness Int'l*, 135 S. Ct. at 1945. But inter partes review shares none of these characteristics. Board judgments are self-executing; no Article III court may withdraw inter partes proceedings; and the Executive controls the composition of the Board. All that is left to an inter partes litigant is a right to appeal, which this Court has never held or even suggested could be sufficient as “control” or “supervision.”

Moreover, even when an inter partes litigant appeals to the Federal Circuit, the Board receives extraordinary deference. The Federal Circuit reviews inter partes

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review proceedings to determine whether the Board's findings are supported by "substantial evidence," *Homeland Housewares, LLC v. Whirlpool Corp.*, No. 2016-1511, \_\_\_ F.3d \_\_\_, 2017 WL 3318764, at \*2 (Fed. Cir. Aug. 4, 2017), a standard of review that this Court has equated to the standard for overturning a jury's verdict. *N.L.R.B. v. Columbian Enameling & Stamping Co.*, 306 U.S. 292, 300 (1939). Indeed, this standard is far more deferential than the "clearly erroneous" review held insufficient in *Northern Pipeline*, 458 U.S. at 85, and vastly more deferential than the schemes upheld in *Crowell* and *Schor*. See *Schor*, 478 U.S. at 853 ("CFTC orders are also reviewed under the same 'weight of the evidence' standard sustained in *Crowell*, rather than the more deferential [clearly erroneous] standard found lacking in *Northern Pipeline*."); *Dickenson v. Zurko*, 527 U.S. 150, 152-53 (1999).

Thus when conducting inter partes review, the Board does not function merely as a fact-finding "adjunct" of the district court, reserving judicial power for the Judicial Branch. To the contrary, the Board adjudicates cases entirely bereft of the Article III court supervision that this Court has deemed essential. For example, in permitting parties to waive their right to an Article III forum and permit adjudications of particular matters in bankruptcy courts, the Court noted that "[b]ankruptcy judges, like magistrate judges, 'are appointed and subject to removal by Article III judges.'" *Wellness Int'l*, 135 S. Ct. at 1945 (quoting *Peretz*, 501 U.S. at 937). The entire process of adjudication by bankruptcy judges and magistrates thus "takes place under the district court's total control and jurisdiction." *Ibid.* Not so with inter partes review. Board judges are appointed through a process seated entirely in the Executive Branch. The Director of the PTO recommends potential judges to the Commerce Secretary, who in turn makes the final selection. Patent Trial and Appeal Board: Are you interested in becoming an administrative patent judge?, USPTO (Apr. 10, 2014).<sup>6</sup> The Secretary is not required to seek the President's approval, nor is Congress involved in the selection process. *Ibid.*; see also Letter from Richard A. Epstein, Professor, New York University School of Law, and F. Scott Kieff, Professor, George Washington University School of Law, to the House Judiciary Committee 12-13 (Mar. 30, 2011) (noting the sweeping powers of the PTO Director regarding the Board and concluding that the agency has "the power that is denied to the President and the Congress in setting up both Article I and Article III courts").

Once selected, the judges have no tenure-in-office protections beyond those that ordinary civil servants enjoy. Unlike, for example, judges on the Article I Court of

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Claims, they do not serve for a fixed term of years. 28 U.S.C. § 172. And they may be discharged like any other federal employee covered by the civil service laws. See Civil Service Reform Act of 1978, Pub. L. No. 95-454, 92 Stat. 1111 (1978). Board judges depend wholly on their superiors for performance evaluations, promotions, and raises. See, e.g., Organizational Structure and Administration of Patent Trial and Appeal Board, *supra* (describing promotion system). The salary and promotion potential of every judge thus depends on the approval of a politically appointed Executive Branch officer (or the officer's subordinates). Not only are the judges of the Board wholly dependent on politically appointed Executive Branch officers for salary, promotion, and tenure, but the Executive Branch can also directly influence the Board's decision-making. The Director of the PTO, a political appointee, selects how many judges (above the three required by the statute) and which ones will adjudicate cases. See 35 U.S.C. § 6(c). The Director can even designate himself to adjudicate an inter partes review. See 35 U.S.C. § 6(a).

The risk that these powers will be used to influence specific decisions is not hypothetical. It has already happened. Two Federal Circuit judges recently expressed “concern[] about the PTO's practice of expanding panels to decide requests for rehearing.” Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co., No. 16-2321, \_\_\_ F.3d \_\_\_, 2017 WL 3597455, at \*6 (Fed. Cir. Aug. 22, 2017) (Dyk, J., concurring). “Here, after a three-member panel of administrative judges denied” a petitioner's request to join its second, time-barred, petition with its earlier, timely filed and instituted inter partes review, the petitioner requested rehearing. *Id.* at \* 1-2. “The Acting Chief Judge, acting on behalf of the Director” then “expanded the panel from three to five members” in order, in the Director's words, to achieve “uniformity” of the Board's decisions. *Id.* at \*6. That expanded panel reversed the prior panel's decision, leading several Federal Circuit judges to “question whether the practice of expanding panels where the PTO is dissatisfied with a panel's earlier decision is” an “appropriate mechanism” for “achieving the” Director's “desired uniformity.” *Ibid.*

This is not the first time the Director of the PTO has appointed judges to panels to alter decisions in pending cases. After a three-member panel of the Board's predecessor BPAI reversed a patent examiner's rejection of claims in a patent application, the head of the BPAI appointed an expanded panel for rehearing. *In re Alappat*, 33 F.3d 1526, 1531 (Fed. Cir. 1994) (en banc), abrogated on other grounds by *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008). The five new members all

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voted against the decision of the original three-member panel. *Ibid.* A plurality of the Federal Circuit concluded that the “statutory scheme” permitted the head of the Board “to determine the composition of Board panels, and thus he may convene a Board panel which he knows or hopes will render the decision he desires, even upon rehearing, as he appears to have done in this case.” *Id.* at 1535 (plurality op.). The PTO’s Solicitor recently acknowledged that the practice of appointing additional judges to reverse a panel’s judgment continues under the current Board. See *Yissum Research Dev. Co.*, *supra*, Oral Argument at 48:00-06. As the Solicitor put it, the Director has to “be able to make sure that her policy judgments [were] enforced by the Board” in any given case. *Id.* at 43:17-42. Such a system of adjudication - in which a political appointee can hand-pick a panel to render the decision she desires - could not be further removed from the guarantees of judicial independence secured by Article III.

These are the dangers against which Article III supervision is designed to guard: the possibility that Congress could “transfer jurisdiction [to non-Article III tribunals],” thus “aggrandiz[ing] \*\*\* one branch at the expense of the other.” *Wellness Int'l*, 135 S. Ct. at 1944 (quoting *Schor*, 378 U.S. at 850). Congress has done just that, wresting the judicial power from a politically independent judicial tribunal and vesting it in a politically beholden Executive one - aggrandizing to the Executive that which belongs to the Judiciary. Article III’s “structural purpose[s],” *ibid.*, forbid Congress from doing so.

**D. The Concerns That Led Congress To Establish Inter Partes Review Confirm The Article III Violation.**

The “concerns that drove Congress to depart from the requirements of Article III” in establishing inter partes review only confirm that it violates Article III. See *Schor*, 478 U.S. at 851.

Congress created inter partes review primarily out of a concern that the federal district courts provided insufficient protection against the assertion of meritless patents. See H.R. Rep. No. 112-98, at 39 (noting “a growing sense that questionable patents are too easily obtained and are too difficult to challenge”); *id.* at 48 (explaining that the statute seeks to “improve patent quality and restore confidence in the presumption of validity that comes with issued patents”). To the extent the AIA was motivated by concerns about abusive or inefficient consolidation of patent litigation in the Eastern District of Texas, in particular,

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preliminary studies suggest that this Court's recent decision in TC Heartland LLC v. Kraft Food Brands, LLC, 134 S. Ct. 1514 (2017), is expected to reduce filings there by 70 percent. See, e.g., How TC Heartland May Affect District Court Filings: A Quantitative Assessment, Unified Patents (June 1, 2017), <https://www.unifiedpatents.com/news/2017/5/31/a-quantitative-assessment-of-how-tc-heartland-may-affect-district-court-filings>.

Not surprisingly, inter partes review has done just what it was designed to do - invalidating nearly 80 percent of the patents in the cases it adjudicates as of March 2016. PTAB Statistics, USPTO (Mar. 31, 2016),

<https://www.uspto.gov/sites/default/files/documents/2016-3-31%20PTAB.pdf>. As the then-chief administrative judge of the Board put it in 2014, “[i]f we weren't, in part, doing some ‘death squadding,’ we would not be doing what the statute calls on us to do.” Ryan Davis, PTAB's ‘Death Squad’ Label Not Totally Off-Base, Law360 (Aug. 14, 2014), <http://bit.ly/2p2JPDo>.

Congress quite intentionally withdrew a significant number of patent disputes - those involving invalidity defenses and counterclaims - from federal district courts because Congress was dissatisfied with the speed and results of district court decision-making. Congress is free to change the rules of decisions applied by federal courts (within the constraints imposed by other constitutional provisions, of course). But Congress cannot withdraw matters traditionally adjudicated in courts of law from Article III courts so that an administrative agency can adjudicate those matters in “trials” that lack Article III's most fundamental guarantees. Such a purpose is flatly inconsistent with the separation-of-powers principles inherent in Article III.

Indeed, because inter partes review stands virtually alone among non-Article III tribunals in combining both a full-dress exercise of judicial power with a private-right subject matter, invalidating inter partes review would have no spill-over effect into other administrative proceedings.

Unlike the Court of Federal Claims - which adjudicates only claims against the government, and thus necessarily public rights - the Board resolves cases between private parties. See 28 U.S.C. § 1491. Unlike the International Trade Commission, whose “decisions \*\*\* involving patent issues have no preclusive effect in other forums,” see Texas Instruments v. Cypress Semiconductor Corp., 90 F.3d 1558, 1569 (Fed. Cir. 1996), the Board issues final “judgments” that can be overturned only by the Federal Circuit. As observed by one Federal Circuit judge, “a decision

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of the PTO, an administrative agency under a coordinate branch of government, can displace a judgment of an Article III court.” ePlus, Inc. v. Lawson Software, Inc., 789 F.3d 1349, 1370 (Fed. Cir. 2015) (O’Malley, J., dissenting). Unlike interference proceedings, inter partes review provides no recourse to a federal district court for a full Article III trial. And unlike traditional ex parte reexamination - which is an interactive proceeding between the agency and the patent owner - inter partes review is an adversarial proceeding with all the trappings of litigation.

Each of these other tribunals or proceedings stops short of exercising Article III judicial power over private rights. Inter partes review does not. This Court would therefore call no other tribunal or proceeding into question by prohibiting this clear intrusion into Article III.

## **II. Inter Partes Review Violates The Seventh Amendment.**

No less than wrongfully usurping the role guaranteed to federal courts by Article III, inter partes review also usurps the role guaranteed to juries under the Seventh Amendment. Historically, challenges to a patent’s validity were decided in actions at law, with disputed questions of fact resolved by juries. The Seventh Amendment preserves the same jury right for patent owners today.

The Seventh Amendment guarantees federal litigants a jury “[i]n suits at common law,” U.S. Const. amend. VII, “preserv[ing] the right to jury trial as it existed in 1791.” Curtis, 415 U.S. at 193. Thus federal litigants may try to juries questions of fact in actions customarily tried to juries in the late 18th century as well as their modern-day statutory analogues. Granfinanciera, 492 U.S. at 42. Patent-validity actions were tried to juries in England, but the Board adjudicates those same actions (or their modern-day analogues) today. The Seventh Amendment does not permit that arrangement.

As discussed above, *supra* Part I.A.2., patent-validity cases began in several ways in England in 1791: during a patent infringement action at law or suit in equity, or otherwise through an action commenced by a writ of scire facias. A dispute concerning a patent’s validity was treated as an action at law in any event. The Statute of Monopolies, which regulated the granting of patents in England, “declared \*\*\* [t]hat all \*\*\* lettres patentes \*\*\* and the force and validitie of them and every of them ought to be, and shall be for ever hereafter examyned heard

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tryed and determined by and accordinge to the Cōmon Lawes of this Realme & not otherwise.” 21 Jac. 1, c. 3, § 2.

Infringement actions were the typical way that patent-validity questions arose. For the most part in 1791, “[a]n action for patent infringement is one that would have been heard in the law courts of old England.” Markman, 52 F.3d at 992. This was the usual occurrence, and this Court bases its historical analysis on what typically occurred, occasional outliers notwithstanding. See, e.g., *Gran financier a*, 492 U.S. at 43.

An infringement action brought in the law courts would begin with the patent owner filing an action for trespass on the case, *Gomez-Arostegui*, *supra*, at 212-13; Br. of Legal Historians at 9 - the archetypical common-law tort action for damages. See *City of Monterey v. Del Monte Dunes at Monterey, Ltd.*, 526 U.S. 687, 715-16 (1999). “Actions on the case, like other actions at law, were tried before juries,” *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 349 (1998) (Thomas, J.), and a patent-infringement action was no different.<sup>7</sup> In response, when the alleged infringer generally denied infringement through a “not guilty” plea, the case was tried to a jury if the alleged infringer requested it. *Gómez-Arostegui*, *supra*, at 212-13; Br. of Legal Historians at 9.

Juries resolved numerous disputed-fact questions in these actions, including those that would preclude a conclusion of infringement if found in the negative. These questions included whether a patent's invention was novel and whether the patent owner had actually invented the patented invention. E.g., *Llardet v. Johnson* (K.B. 1778), reprinted in 1 James Oldham, *The Mansfield Manuscripts* 753, 756. Jury instructions in these cases would charge jurors with determining, for example, whether a claimed invention was “known and in use before” an alleged infringement as “a matter of fact, the proof of which lies on Defendant.” Ibid. Likewise, another instruction informed the jury that they must decide if the “Patentee \*\*\* [was] really the inventor [and] the Invention \*\*\* is new.” Br. of Legal Historians at 17-18; *Strutt v. James* (C.P. 1783). In other words, not only was the question of patent infringement tried to a jury, but the necessary preconditions for the patent's validity were tried to a jury as well.

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A patent owner could initiate an infringement action in the Court of Chancery as well; after all, the owner had his choice of venue between the courts of law or the courts of equity. Bottomley, *supra*, at 36-37. But the Statute of Monopolies prevented the courts of equity from determining a patent's validity. Indeed, Edward Coke explained that the Statute of Monopolies' restriction on patent-validity questions to courts of law - that all challenges to patents or their validity must "be examined, heard, tried, and determined in the courts of the common law according to the common law" - was designed deliberately to exclude courts of equity and other bodies from resolving patent-validity questions. Edward Coke, Third Part of the Institutes of the Laws of England 182-83 (London, W. Clarke, & Sons, 1809) (1644).

Validity questions could be determined only in courts of law - and thus before juries - and "not at the councell table, star-chamber, chancery, exchequer chamber, or any other court of like nature, but only according to the common laws of this realm." *Ibid.* Coke explained why the Statute of Monopolies required these actions to be heard in the courts of law, and thus before juries: "such boldness the monopolists took" in these other, jury-less venues in "not obeying the commandments and clauses of the said grants of monopolies" that "the preventing of which mischief" through exclusive trial at law was necessary. *Ibid.* Thus only juries could be entrusted to decide whether a patent was valid.

As a result, when a patent owner began an infringement action in the courts of equity, if the alleged infringer challenged the patent's validity as a defense, the court of equity was required to send the case to a court of law for jury trial. As one jurist sitting in equity summarized, "[i]f [a] Question arises whether there is Infringement or Novelty of Invention, they" - the courts of equity - "refer those Questions to Law." *Liardet v. Johnson*, GT Eldon MS, Notes of Cases 1779, at 34, 46 (Ch. 1780); Br. of Legal Historians at 12. As Blackstone explained, once a court of equity "direct[ed] the matter to be tried by jury," 3 William Blackstone, Commentaries 452, "the verdict of the jurors determine[d] the fact" issues so tried "in the court in equity." *Ibid.* Far from "advisory," jury verdicts in these cases were binding. Even when filed in courts of equity, infringement actions and validity questions were tested as actions at law, tried to juries.

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A patent's validity could also be challenged through an action commenced by a writ of scire facias, which would be initiated in the Court of Chancery. But the Court of Chancery still treated these proceedings as actions at law, and sat as a court of law, as Blackstone noted that Chancery always did for actions instituted by writs of scire facias. 3 William Blackstone, *Commentaries* 47. In this dual court - "the one ordinary, being a court of common law; the other extraordinary being a court of equity," *ibid.*, scire facias writs were heard by the former. *Ibid.* "The ordinary legal court [of Chancery] is much more ancient than the court of equity. It's [sic] jurisdiction is to hold plea[s] upon a scire facias to repeal and cancel the king's letters patent, when made against law, or upon untrue suggestions." *Ibid.* Here, too, disputed fact questions on the scire facias writ were tried to juries, although the Court of Chancery had to send the case again to the Court of King's Bench, as the Court of Chancery could not summon a jury. As Blackstone again summarizes: "if any fact be disputed between the parties" on the writ's issuance, "the chancellor cannot try it, having no power to summon a jury." *Id.* at 48. Instead, he "must deliver the record \*\*\* into the court of king's bench, where it shall be tried by the country" - tried by jury - "and judgment shall be there given thereon." *Ibid.* American courts, including this Court, took this practice with them with the writ. See *Ex Parte Wood & Brundage*, 22 U.S. 603, 614-15 (1824) ("[I]t is ORDERED \*\*\* that the said Judge do award a process, in the nature of a scire facias, to the patentees, to show cause why the said patent should not be repealed \*\*\* and that if the issue be an issue of fact, the trial thereof be by a jury").

No matter whether presented in an infringement action in the courts of law, as one in the courts of equity, or in an action commenced by a writ of scire facias in the Court of Chancery, the result was the same: questions as to a patent's validity were tried to juries. *Bottomley, supra*, at 36-37, 41-43; see also *Gómez-Arostegui, supra*, at 210-12; *Br. of Legal Historians* at 14-19. The resolution of disputed facts in these cases is therefore part of the jury-trial right preserved by the Seventh Amendment - and must remain in courts, before juries.

Transferring the adjudication of these fact questions from juries to the Board is not merely incidental to inter partes review - it is the point. A petition for inter partes review may seek only the cancellation of "[one] or more claims of a patent," and only on specific grounds: that a patent's subject-matter is not novel, that it was anticipated by the prior art, or that the patent's invention was obvious. 35 U.S.C. §§ 102(a), 103, 311(b). As demonstrated above, these are the same types of issues that juries traditionally decided in suits at common law.

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Juries likewise resolved numerous disputed questions of fact about patents, such as whether the patentee actually invented the subject matter, whether the invention was useful, whether the patent had explained its method of production enough to enable others to replicate the invention, and so on. E.g., *Hill v. Thompson*, 3 Meriv. 622, 630 (Ch. 1817); *Boulton*, 126 Eng. Rep. at 659; *Liardet v. Johnson* (K.B. 1778), reprinted in 1 James Oldham, *The Mansfield Manuscripts* 753, 756; Br. of Legal Historians at 16-18. For that matter, juries decided these questions as ultimate issues. *Ibid.* Whether modern questions regarding novelty or obviousness are precisely the same questions that English jurors resolved, they are unquestionably close statutory analogues, so the result is the same: they fall within the Seventh Amendment's scope. See generally *Granfinanciera*, 492 U.S. at 42. Patent owners therefore have a right to try disputed-fact questions in these matters to juries. As English historical practice reveals, patent-validity and patent-infringement actions are two sides of the same coin: validity challenges arose in response to infringement actions, and were adjudicated in the same case - the same "Suit[] at common law." Before inter partes review, these questions arose in the same Article III cases as well. Indeed, the first Patent Act, passed a year before the Seventh Amendment was ratified, expressly entitled patent owners to jury trials over infringement actions, guaranteeing "damages as shall be assessed by a jury" for this "action on the case" - meaning an action at law. 1 Stat. 109, 111. Sensibly, "there is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago." *Markman*, 517 U.S. at 377 (citing *Bramah v. Hardcastle*, 1 Carp. P.C. 168 (K.B. 1789)). This guarantee is meaningless if an alleged infringer may nullify it by filing a preemptive or parallel petition for inter partes review.

The distinction is no mere matter of procedure. The jury-trial right was one of the most venerated by both the English and the Founders: as "the glory of the English law," 3 William Blackstone, *Commentaries* 79, "the Constitution would have been justly obnoxious \*\*\* if it had not recognized" the right "in the most solemn terms." 2 Joseph Story, *Commentaries on the Constitution* § 1773 (Boston, Hilliard, Gray, & Co. 1833). For disputed-fact questions concerning the validity of a patent, juries are the ones entitled to decide - and patent owners are entitled to have them do so.  
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Patent-validity challenges were “traditional actions at common law” and therefore “the responsibility for deciding that [type of] suit rests,” at a minimum, “with Article III judges in Article III courts.” Stern, 564 U.S. at 484; see also Am. Bell Tel. Co., 128 U.S. at 365 (“Patents are sometimes issued unadvisedly or by mistake \*\*\*\* In such cases courts of law will pronounce them void \*\*\*\* That is a judicial act, and requires the judgment of a court.”). Thus the “exercise of judicial power” in these cases “may [not] be taken from the Article III Judiciary.” Stern, 564 U.S. at 494, 495. Nor may disputed fact issues in these cases - which were traditionally suits at common law - be taken away from juries. But that is just what Congress has done with inter partes review. For all these reasons, inter partes review violates the Constitution.

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**Brief of Professor Dmitry Karshtedt as Amicus Curiae  
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**SUMMARY OF THE ARGUMENT**

Petitioner Oil States Energy Services sued respondent Greene's Energy Group in a district court on several counts, including patent infringement. Greene's then petitioned the U.S. Patent and Trademark Office (PTO) to challenge the validity of the patent claims asserted in the litigation. The PTO cancelled the claims, and the Court of Appeals for the Federal Circuit summarily affirmed that determination. Had this Court not granted certiorari, the petitioner's patent infringement cause of action would have been extinguished by the PTO's decision.

The error made by the Federal Circuit in the opinions that bound the court in the instant case, and repeated by respondents in certiorari briefing, lies in the attempt to classify patents as either public or private rights in a categorical manner - that is, in isolation from any particular cause of action. This framing is improper because, under this Court's precedents, the question whether a case involves a private right that must be adjudicated by an Article III tribunal relates to a particular legal action or claim, not the underlying privilege or property interest. Under the correct approach, which takes into account the context in which the PTO makes its invalidity decisions, the Inter Partes Review (IPR) statute at issue in this case should be held unconstitutional because it empowers an agency to resolve a claim of private right: an action for patent infringement.

The cause of action for patent infringement is a private right because it has long been recognized as a species of trespass claim by which the plaintiff typically seeks, among other remedies, monetary relief for past harm from another private party. Because of its historic characterization as a trespass, infringement has a close kinship to common-law claims that this Court has recognized as private rights that cannot be adjudicated outside Article III courts.

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Invalidity is one of several, enumerated affirmative defenses that a defendant in a patent case may plead in response to an allegation of patent infringement. The IPR statute effectively removes this affirmative defense to infringement from Article III courts, and empowers the Patent Trial and Appeal Board (PTAB), an arm of the PTO, to decide it. In many cases, including one involving these very litigants, a determination of invalidity by the PTAB has extinguished parallel district court actions for patent infringement. This delegation of judicial power over such causes of action to a body that is not a part of the judiciary, and not an adjunct to an Article III court, is constitutionally forbidden by this Court's precedents.

The IPR statute offends the doctrine of separation of powers for another, closely related reason: It effectively grants to the PTAB the power to direct that pending cases be dismissed. Although Congress can constitutionally abate extant claims by amending applicable law while the litigation is pending, Congress in this case delegated to an agency the power to extinguish a claim by adjudicating an affirmative defense in favor of a defendant. Because the PTAB here fully resolved a claim concurrently pending in a district court, it violated the rule that coordinate branches cannot direct Article III courts to dispose of specific cases in a particular way.

The doctrine of separation of powers exists in part to prevent abuses that might eventuate if claims of private rights are adjudicated outside Article III courts. By empowering the Executive Branch to resolve such disputes in the patent infringement context, the IPR statute weakens Article III safeguards of impartial adjudication, and therefore contravenes separation of powers principles.

## **ARGUMENT**

### **I. Adjudication Of Claims Of Private Rights Is The Exclusive Province Of The Judiciary.**

Article III requires that claims of private rights be adjudicated in Article III courts. *Stern v. Marshall*, 564 U.S. 462, 488-92 (2011) (collecting cases). As this Court explained, a “private right” is one that implicates “the liability of one individual to another under the law as defined.” *Id.* at 489 (quoting *Crowell v. Benson*, 285 U.S. 22, 50, 51 (1932)). Although this Court allowed certain claims involving private parties to be adjudicated by specialized tribunals, e.g., *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568 (1985), claims sounding in common law are core private rights that have historically been, and must continue to be, resolved in

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Article III courts. Stern, 564 U.S. at 497-99 (tortious interference claims must be adjudicated in an Article III court); *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 43-46 (1989) (same for fraudulent conveyance); *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 71-72 (1982) (plurality op.) (same for breach of contract).

In opposing certiorari, neither respondent disputes that claims of private rights must be adjudicated in the Judicial Branch. Rather, both contend that the PTAB adjudications at issue in this case fall under the “public rights” exception to this requirement because patent rights are granted by the government. Greene’s BIO at 6-7 (citing *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1855); Thomas, 473 U.S. at 587); Fed. BIO at 8-9. In so doing, respondents repeat the error of the Federal Circuit in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (2015), cert. denied, 137 S. Ct. 292 (2016), by imagining that the PTAB’s patent invalidation decisions exist in isolation from infringement litigation. Respondents and the Federal Circuit overlook the fact that, in both structure and practice, the IPR statute charges the PTAB with deciding important, often dispositive questions in cases involving private rights.

In contrast, petitioner correctly notes that “patent infringement cases - complete with invalidity defenses - were ‘traditional actions at common law’ and therefore ‘the responsibility for deciding that [type of] suit rests,’ if not with juries then at a minimum, ‘with Article III judges in Article III courts.’ ” Petition for a Writ of Certiorari at 19 (alteration in original) (emphasis added) (quoting Stern, 564 U.S. at 498 (quoting *N. Pipeline*, 458 U.S. at 90 (Rehnquist, J., concurring in the judgment))). Under petitioner’s proper framing of the Article III question, the IPR statute creates a fatal separation of powers problem because it enables an agency to usurp the exclusive power of the judiciary to adjudicate claims of private rights.

## **II. Patent Infringement Is A Claim Of Private Right.**

### **A. Patent Infringement Claims Sound In Common-Law Trespass, A Private Right.**

A suit for patent infringement involves the determination of one party’s liability to another, see 35 U.S.C. §§ 271, 281 (2012), and patent infringement claims have long been the province of the judiciary. Patent disputes, including validity challenges as defenses to claims of infringement, have been heard in courts since

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the first federal patent laws, see Act of Apr. 10, 1790, ch. 7, §§ 4-5, 1 Stat. 109, 111 (1790), and one can easily trace the “descent of today’s patent infringement action from the infringement actions tried at law in the 18th century.” *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996).

Patent law has a historic kinship to common-law trespass, both in the sense of writs of trespass and trespass on the case that constitute the foundation for modern tort law, see *Brown v. Kendall*, 60 Mass. 292, 295 (1850), and of the property torts of the same name. “Trespass, and the role of writs as the basis for trespass actions, played a key role in early understandings of patent infringement liability.” Lynda J. Oswald, The “Strict Liability” of Direct Patent Infringement, 19 Vand. J. Ent. & Tech. L. 993, 1000 (2017). This connection is not merely a similarity, but a substantive link that has done real work in the law of patents. For example, the 1870 Patent Act stated that “damages for the infringement of any patent may be recovered by action on the case” Act of July 8, 1870, ch. 230, § 59, 16 Stat. 198, 207 (1870) (emphasis added); see 3 William C. Robinson, *The Law of Patents for Useful Inventions* § 992, at 203 (1890) (comparing pleadings in patent cases to those “in other common-law actions”); id. § 1082, at 392 (noting that “[t]he acts of Congress, prior to 1819, made no provision for any suit in equity by the owner of the patent … in connection with his action for damages at common law”) (emphasis added).

Reflecting these common-law roots, examples of treatment of patent infringement as trespass abound. A nineteenth-century treatise classified patent infringement as a species of “particular torts,” explaining that “infringement … is a wrongful act, in the nature of a trespass,” and noting that “of course the defendant in any such action or suit may plead the invalidity of the patent.” Arthur Underhill et al., *Principles of the Law of Torts; or, Wrongs Independent of Contract* 612, 652, 653 (1st American ed. from 2d English ed., Albany, William Gould & Son 1881) (quoting *Union Sugar Refinery v. Mathiesson*, 24 F. Cas. 686, 689 (C.C.D. Mass. 1865) (No. 14,399) (Clifford, Circuit Justice) (charging the jury)). An 1856 circuit court decision explained that “[t]he infringement of a patent is a tort; but as the wrongful act is not committed with direct force, and the injury is the indirect effect of the wrongful act of the defendant, the form of action is that description of tort called ‘trespass on the case.’” *Stein v. Goddard*, 22 F. Cas. 1233 (C.C.D. Cal. 1856) (No. 13,353); see also *Thomson-Houston Elec. Co. v. Ohio Brass Co.*, 80 F. 712, 721 (6th Cir. 1897) (“An infringement of a patent is a tort analogous to trespass or trespass on the case.”). These are but a few examples; a large number of

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nineteenth-century cases describe infringement as a species of trespass. See Adam Mossoff, Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” in Historical Context, 92 Cornell L. Rev. 953, 993 & n.192 (2007) (collecting cases).

Consistent with this history, this Court has long discussed patent infringement in trespassory terms. For example, in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, the Court referred to remedies for patent infringement as “reparation for the trespass.” 210 U.S. 405, 430 (1908). In *Carbice Corp. v. American Patents Development Corp.*, the Court stated that “[i]nfringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee.” 283 U.S. 27,33 (1931); see also *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915) (“[T]he exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property....”). Thus, although patents are granted by an agency created by Congress, the infringement cause of action is closely linked to actions at common law. Patent infringement is a claim to vindicate a property right by an action deriving from the writ of trespass, and is the patent counterpart of the trespassory property torts.

Once this connection to common-law trespass is recognized, the die is cast: This Court has never suggested that one private party’s claim of trespass against another could be adjudicated within the Executive Branch. To the contrary, the Court in *Murray’s Lessee* made clear that “we do not consider congress can either withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.” 59 U.S. (18 How.) at 284.

**B. Patent Infringement Claims Bear Little Resemblance To Causes Of Action That Have Qualified For The Public Rights Exception.**

The close relationship between claims of patent infringement and claims of trespass comes into focus when infringement is contrasted with causes of action that have qualified for the public rights exception. For example, claims for compensation under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), see *Thomas*, 473 U.S. at 582-83, lack connection in form or history to claims known to common law. Unlike the Patent Act, FIFRA is a modern regulatory statute that implemented “an essentially legislative function” of “ratemaking,” which Congress accomplished by authorizing subsidies for firms

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that submitted research data to the federal government via a system that “permits the parties to fix the amount of compensation, with binding arbitration to resolve intractable disputes.” Id. at 590 (citing *St. Joseph Stockyards Co. v. United States*, 298 U.S. 38, 49-53 (1936)). Similarly, in upholding a commission’s power to set reasonable rents and regulate rights of landlords vis a vis holdover tenants, this Court observed that “if public interest be established the regulation of rates is one of the first forms in which it is asserted....” *Block v. Hirsh*, 256 U.S. 135, 157 (1921) (cited in *Thomas*, 473 U.S. at 589). Indeed, the government has numerous statutory compensation schemes - the Social Security system, for example - that are just as far removed from common law causes of action as they are from a claim of patent infringement. See 42 U.S.C. § 405(g) (2015) (providing for deferential judicial review of the decisions of the Commissioner of Social Security).

As another example, the Treasury Department’s issuance of a distress warrant to recover property purchased with federal funds embezzled by a customs officer also lacked any antecedent private cause of action under the common law. See *Murray’s Lessee*, 59 U.S. at 284. This Court concluded that Article III courts were not constitutionally required to issue such warrants based on historical practice in England and the constitutional commitment to Congress of the power to lay and collect taxes, which Congress had authorized the Executive Branch to bring into effect via appointment of customs officers. Id. at 281-82. Likewise, in *Ex Parte Bakelite Corp.*, this Court allowed the Court of Customs Appeals to adjudicate appeals of the Tariff Commission’s exclusion orders after observing that this legislative court “was created by Congress in virtue of its power to lay and collect duties on imports and to adopt any appropriate means of carrying that power into execution.” 279 U.S. 438,458 (1929) . The Court explained that “[t]he full province of the [customs] court under the act creating it is that of determining matters arising between the Government and others in the executive administration and application of the customs laws” and noted that the customs court was empowered to decide “matters the determination of which may be, and at times has been, committed exclusively to executive officers.” Id. Finally, as this Court in *Crowell* observed in its discussion of *Murray’s Lessee*, claims relating to immigration status and veterans benefits would similarly be committed to Executive and Legislative Branches. 285 U.S. at 51. None of these claims resemble causes of action at common law.

As these cases illustrate, the question of whether a right at issue is public or private turns on the nature of the cause of action being adjudicated, not on the type of the

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underlying property interest in the abstract. Thus, while the Treasury Department could constitutionally issue distress warrants with respect to land, it could not adjudicate causes of action relating to that same land sounding in common law, such as trespass. Cf. Caleb Nelson, *Adjudication in the Political Branches*, 107 Colum. L. Rev. 559, 588-89 (2007) (discussing Murray's Lessee and concluding that “even if the traditional power of taxation enabled the government to take authoritative actions adverse to core private rights without any ‘judicial’ involvement, and even if the power of eminent domain was cut from the same cloth in some respects, these deviations from the traditional framework were quite limited. Whatever their precise contours, they did not spill over to the broad areas of governmental authority that nineteenth-century jurists grouped under the loose rubric of the ‘police power.’ ”). But see Greene's BIO at 7 (stating that “[p]atents are quintessential public rights” without considering the context of infringement litigation); Fed. BIO at 9 (same). A cause of action for patent infringement, a tort-like claim between private parties, cannot be fairly analogized to a ratemaking, a distress warrant, or a claim for compensation from the government, and therefore belongs only in an Article III court.

**III. Invalidity Is An Affirmative Defense To A Claim For Patent Infringement, Which Congress Has Unconstitutionally Delegated To An Agency To Resolve.**

**A. Invalidity Is Inextricably Tied To Claims For Patent Infringement In District Courts.**

**1. Invalidity, Which The IPR Statute Empowers The PTAB To Resolve, Can Be Charged In Patent Cases Only If There Is Actual Or Threatened Infringement.**

Under the Patent Act, invalidity is an “affirmative defense” to a claim for patent infringement. *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1929 (2015); 35 U.S.C. § 282(b)(2) (2012). Accordingly, if established, invalidity precludes the defendant's liability to the plaintiff in an infringement case, and so resolves “the liability of one individual to another under the law as defined.” *Crowell*, 285 U.S. at 51.

Although invalidity can also be styled as a “counterclaim,” *Cardinal Chem. Co. v. Morton Int'l, Inc.*, 508 U.S. 83, 96 (1993), it is not a separate cause of action.

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Invalidity can be asserted at the outset of a patent case only to counter a charge of infringement or as a claim for relief under the Declaratory Judgment Act, and the party asserting invalidity must face at least a “threatened enforcement action,” i.e., a suit for infringement. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 130 (2007). In the absence of “adverse legal interests” between parties arising from an actual or threatened infringement claim, there is no case or controversy, and a district court has no subject matter jurisdiction over an assertion of invalidity. *Id.* at 127 (citations omitted). Invalidity defenses and counterclaims in district courts are thus inextricably tied to claims of infringement. See *Organic Seed Growers & Trade Ass'n v. Monsanto Co.*, 718 F.3d 1350, 1359 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 901 (2014) (declaratory judgment plaintiff must allege “significant, concrete steps to conduct infringing activity”) (citation omitted); *Arris Grp., Inc. v. British Telecommc'ns PLC*, 639 F.3d 1368, 1381 (Fed. Cir. 2011) (finding subject matter jurisdiction based on an “implied assertion” that the declaratory judgment plaintiff “was committing … infringement”).

The IPR statute empowers the PTAB to decide questions of validity in an adversarial proceeding in the shadow of a district court. The effect of patent invalidation at the PTAB on court proceedings is that “the patentee's cause of action is extinguished and the suit fails.” *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 721 F.3d 1330, 1340 (Fed. Cir. 2013), cert. denied, 134 S. Ct. 2295 (2014);<sup>4</sup> see also *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2143 (2016) (“[A] decision to cancel a patent normally has the same effect as a district court's determination of a patent's invalidity.”). The IPR proceeding, therefore, in operation allows the PTAB to take the adjudication of an affirmative defense to a private-right claim out of the courts and, in so doing, vests resolution of the action for infringement in an administrative agency.

The close connection between assertions of invalidity in district courts and at the PTAB is reflected in the IPR statute itself, which precludes IPR institution if the potential defendant in an infringement suit “filed a civil action challenging the validity of a claim of the patent.” 35 U.S.C. § 315(a)(1) (2012); see also *id.* § 315(a)(2). Moreover, Congress spelled out the relationship between IPR and future infringement actions, *id.* § 315(e), and provided for appellate review of the PTAB's decisions on the assumption that the petitioner would, as a party facing an actual or potential infringement suit, have standing to appeal the PTAB's confirmation of the patentability of the claims at issue, *id.* § 319. Finally, a closely related statute setting forth so-called “Post-Grant Review,” adopted in the same legislation as

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IPR, explicitly ties PTAB actions to assertions of invalidity defenses in district court. It states that “[a] petitioner … may request to cancel as unpatentable 1 or more claims of a patent on any ground that could be raised under paragraph (2) or (3) of section 282(b),” the Patent Act’s “Defenses” section. Id. § 321(b). Although “the purpose of the [IPR] proceeding is not quite the same as the purpose of district court litigation,” Cuozzo, 136 S. Ct. at 2144, statutory design reveals a close tie between the two.

Thus, as a matter of Article III standing and statutory structure, private allegations of invalidity are inextricably linked to claims of infringement. The function of invalidity determinations is often to resolve these claims.

## **2. PTAB Proceedings Typically Take Place In Parallel With Litigation.**

The connection between allegations of infringement and assertions of validity is borne out in the experience of the PTAB. The typical IPR takes place in the shadow of a district court, thus enabling the PTAB to moot the entire patent case by resolving the defense of invalidity. Parallel proceedings that might lead to such results were explicitly contemplated by Congress, 35 U.S.C. § 315, and are the norm in practice. A recent empirical study found that approximately 70% of IPR petitioners have challenged before the PTAB the same patents that they had been accused of infringing in district courts. Saurabh Vishnubhakat et al., Strategic Decisionmaking in Dual PTAB and District Court Proceedings, 31 Berkeley Tech. L.J. 45, 73 (2016) (“We find that, overall, [Covered Business Method] and IPR petitions are in fact predominantly assertions of the petitioners' own direct interests with respect to infringement liability on the particular patent being challenged.”). The developments that brought the instant case to this Court are typical and illustrative. Petitioner Oil States sued respondent Greene's for patent infringement in a district court and sought monetary and injunctive relief. Complaint at 6-7, 12-13, Oil States Energy Servs., LLC v. Trojan Wellhead Protection, Inc. and Greene's Energy Grp., LLC, No. 6:12-cv-00611-RWS (E.D. Tex. Sept. 10, 2012), ECF No. 1. The trial judge construed the asserted claims and denied Greene's motion for summary judgment of invalidity of the claims under 35 U.S.C. § 112(b), 2014 WL 12360946 (E.D. Tex. June 23, 2014), discovery closed, and the date for jury trial was set, ECF No. 173 (Mar. 16, 2015). Greene's, however, had filed a petition for an IPR. In an administrative ruling that was summarily affirmed by the Federal Circuit, the PTAB invalidated the very patent claims that Oil States had alleged Greene's was infringing. Greene's Energy Grp., LLC v. Oil States Energy Servs., LLC, Case IPR2014-00216, 2015 WL 2089371 (Patent Tr. & App.

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Bd. May 1, 2015), aff'd, 639 Fed. App'x 639 (Fed. Cir. 2016) (mem.). In so doing, the PTAB effectively resolved the infringement case in favor of Greene's, and the patent suit would have been fully extinguished had this Court not granted certiorari in this case.

Given the commonality of these parallel proceedings, the prospect of conflicting decisions between the agency and Article III courts is real. And when the PTAB and the courts reach opposing conclusions with respect to validity, the agency supersedes the courts. For example, as long as the district court has issues left to address in a case and all the appeals have not been resolved,<sup>6</sup> the PTAB's decision to invalidate a patent can wipe out a judgment for past monetary damages, even if that judgment was affirmed by the Federal Circuit in a prior opinion. Fresenius, 721 F.3d at 1340-44. Moreover, the PTAB's invalidity decision can undo a judgment of contempt against an infringer for disregarding an injunction, as long as the injunction was not final. ePlus, Inc. v. Lawson Software, Inc., 789 F.3d 1349, 1356-58 (Fed. Cir. 2015), cert. denied, 136 S. Ct. 1166 (2016).

**3. By Resolving Invalidity, The PTAB Takes Infringement Suits Away From District Courts.**

In creating the IPR system, Congress dissected a cause of action that is rooted in the common law and has long been the exclusive province of the judiciary, and vested a particular aspect of that cause of action, the affirmative defense of invalidity, in an agency. Once the PTAB establishes invalidity, it does not matter what conclusion the courts have reached with respect to validity or infringement of the same patent in a case between the same parties - the suit is resolved in favor of the defendant. Cf. Fresenius, 721 F.3d at 1339 ("[T]he language and legislative history of the reexamination statute show that Congress expected reexamination to take place concurrent with litigation, and that cancellation of claims during reexamination would be binding in concurrent infringement litigation."). Such a scheme - which renders a district court a mere adjunct to the PTAB in the resolution of a claim for liability in a patent case - offends Article III because it allows an agency to dispose of "a private right, that is, the liability of one individual to another under the law as defined." Crowell, 285 U.S. at 51.

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The fact that district courts might still adjudicate whether the defendant infringes the patent and whether the patent is valid - if the PTAB happens to uphold the challenged claims - does not cure the constitutional problem. An example will illustrate why. Suppose a trespass claim arises under the law of a jurisdiction in which consent is an affirmative defense. Given that the *prima facie* trespass claim must be adjudicated in an Article III tribunal, it would be odd to conclude that Congress could nonetheless delegate to an agency the question of consent with the effect that a trespass suit must be dismissed if the agency found that the plaintiff consented to entry. When agencies decide questions that require the dismissal of a case, courts are left with nothing to adjudicate, and the plaintiff is denied its day in an Article III forum.

The effect in the patent context is the same: Congress impermissibly enabled an agency to “oust the jurisdiction of [a] court to which the [patent] owner might apply for an adjudication of his rights.” McCormick Harvesting Mach. Co. v. C. Aultman & Co., 169 U.S. 606, 611-12 (1898). Even if district courts might have something meaningful left to do in some infringement cases running in parallel with PTAB proceedings, and even though some decisions in parallel infringement cases are not rendered null by the PTAB, the IPR scheme still cannot stand. “A statute may no more lawfully chip away at the authority of the Judicial Branch than it may eliminate it entirely.” Stern, 546 U.S. at 502-03.

## **B. PTO Expertise Does Not Justify The PTAB's Authority To Bind Federal Courts.**

### **1. Expertise Does Not Allow Agencies To Take The Place Of Courts When Private Rights Are At Issue.**

A counterargument respondents are likely to advance is that the PTO possesses expertise with respect to patent validity that makes agency adjudication permissible in this case. The PTO does play an important role in a “particularized area of law,” Stern, 564 U.S. at 489 n.6, and this specialization was central to the Federal Circuit’s rejection of a prior Article III challenge to IPR, see MCM Portfolio, 812 F.3d at 1291 (“It would be odd indeed if Congress could not authorize the PTO to reconsider its own decisions.”). And, to be sure, this Court has referred to the PTO’s “special expertise.” Kappos v. Hyatt, 132 S. Ct. 1690, 1700 (2012).

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Nonetheless, while this Court has deferred to agency expertise in deciding whether a claim may be adjudicated outside an Article III court, e.g., *Schor*, 478 U.S. at 855-56, it has done so when “the magnitude of any intrusion on the Judicial Branch can only be termed de minimis,” *id.* at 856. This is not such a case. When a plaintiff is attempting to exercise its rights under a patent, it is asserting a property right via a claim stemming from the common law, necessitating an Article III forum for the claim’s resolution. Cf. *Nelson*, *supra*, at 578 (describing the “vest[ing]” or rights granted by land patents, whereby rights could not be taken away without a judgment of a court, even though an agency was responsible for the initial grant); see also Act of Apr. 10, 1790, § 5, 1 Stat. 109, 111 (empowering “defendant[s]” in patent infringement cases to make pleas to “repeal … patents” via an “oath or affirmation made before the judge of the district court”).

Infringement causes of action, therefore, do not fall within the sphere of “a limited regulatory objective within the agency’s authority.” *Stern*, 564 U.S. at 490.

That is not to say that the PTO’s expertise can never be invoked to address validity of a patent after its grant. Indeed, post-issuance proceedings can “help[] protect the public’s ‘paramount interest in seeing that patent monopolies … are kept within their legitimate scope.’ ” *Cuozzo*, 136 S. Ct. at 2144 (quoting *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945)). More generally, certain “curative” statutes have withstood constitutional scrutiny. See, e.g., *Graham v. Goodcell*, 282 U.S. 409, 428-31 (1931); see also *Cuozzo*, 136 S. Ct. at 2144; cf. *Mark D. Janis, Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 Harv. J. L. & Tech. 193-122 (1997) (discussing possible post-issuance review schemes that are unlikely to raise constitutional problems). For example, Congress could create an opposition proceeding that would prevent a patent from being enforceable until it undergoes third-party challenges to validity within a defined period after a provisional grant. Cf. 15 U.S.C. § 1063 (2006) (setting forth the process of opposition to trademark registration).

But the IPR scheme goes well beyond empowering the PTO to correct its own mistakes, instead installing the PTAB as a kind of specialized quasi-court authorized to make determinations that are binding on Article III courts in which these questions have traditionally been adjudicated. In addition to the effects already discussed, *supra* Section III.A, the IPR statute includes an estoppel provision stating that an IPR petitioner “may not assert either in a civil action arising … under section 1338 of title 28 or in a proceeding before the International Trade Commission … that the claim is invalid on any ground that the petitioner

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raised or reasonably could have raised during that [IPR].” 35 U.S.C. § 315(e)(2). This subsection reinforces the conclusion that the IPR statute has gone beyond error correction and empowered the PTAB to function as an alternative adjudicatory forum for cases in the district courts.

**2. The PTAB's Role In IPRs Extends Beyond Functions That Expert Agencies Have Traditionally Been Permitted To Exercise.**

The PTAB's role under the IPR statute with respect to private rights is unlike those exercised even by expert agencies in other contexts. The PTO's singular power to effectively decide patent infringement suits in a plenary fashion by invalidating patents lies in stark contrast to, first, the role of an agency under the doctrine of primary jurisdiction, under which “the federal courts have developed the practice of using their discretionary power to decide that certain issues otherwise properly in federal court must be litigated before a federal administrative agency,” Sidney A. Shapiro, Abstention and Primary Jurisdiction: Two Chips Off the Same Block - a Comparative Analysis, 60 Cornell L. Rev. 75, 79 (1974) (emphasis added); see Clark v. Time Warner Cable, 523 F.3d 1110, 1114 (9th Cir. 2008) (“The primary jurisdiction doctrine allows courts to stay proceedings or to dismiss a complaint without prejudice pending the resolution of an issue within the special competence of an administrative agency. A court's invocation of the doctrine does not indicate that it lacks jurisdiction. Rather, the doctrine is a ‘prudential’ one, under which a court determines that an otherwise cognizable claim implicates technical and policy questions that should be addressed in the first instance by the agency with regulatory authority over the relevant industry rather than by the judicial branch.” (quoting Reiter v. Cooper, 507 U.S. 258, 268-69 (1993))). Under the IPR statute, however, courts lack any discretion whether or not to defer to the agency, and effectively lose jurisdiction upon PTAB invalidation of the asserted patents.

Second, the PTAB's role extends beyond that played by agency determinations that could foreclose litigation in courts under traditional issue or claim preclusion principles. For example, a preclusive effect of a prior determination by an agency is subject to standard rules of res judicata, such as identity of issues, B & B Hardware, Inc. v. Hargis Indus., Inc., 135 S. Ct. 1293, 1305-08 (2015), and might be avoided if there is a “compelling showing of unfairness,” id. at 1309 (quoting Restatement (Second) of Judgments § 28, Comments g and j, at 283-84 (1980)); see also id. at 1306 (“Ultimately, [Trademark Trial and Appeal] Board decisions on likelihood of confusion … should be given preclusive effect on a case-by-case basis.” (quoting A. LaLonde, Gilson on Trademarks § 11.08[4][i][iii][B], p. 11-

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319) (2014)) (emphasis added). But under the IPR scheme, PTO decisions of invalidity effectively bind district courts even if the specific issues litigated were not the same, and there is no case-by-case analysis or an unfairness out. Cf. *ePlus*, 790 F.3d at 1315 (concluding that finality gamesmanship under the current regime can be “just plain unfair”) (Moore, J., dissenting from denial of rehearing en banc).<sup>11</sup> In addition, while PTAB determinations of invalidity dispose of concurrent litigation in the federal courts, court determinations of invalidity have no preclusive effect of any kind on the PTO. See *Baxter*, 678 F.3d at 1360-61. Third, the role of the PTAB under the IPR system extends far beyond that of agencies functioning as “an adjunct to the [district] court” in cases involving private rights, whereby “the ‘essential attributes’ of the judicial decision must remain in an article III enforcement court.” Richard H. Fallon, Jr., *Of Legislative Courts, Administrative Agencies, and Article III*, 101 Harv. L. Rev. 915, 924 (1988) (citing *Crowell*, 285 U.S. at 50-51); see *Stern*, 564 U.S. at 489 n.6 (“[T]he administrative adjudicator had only limited authority to make specialized, narrowly confined factual determinations regarding a particularized area of law and to issue orders that could be enforced only by action of the District Court.”) (discussing *Crowell*). Under the IPR statute, the PTAB is more than an adjunct and more, even, than a district court’s equal. Instead, the PTAB makes determinations that bind the courts. See *supra* Section III.A. Notably, the PTAB’s decisions are not subject to de novo review by a district court and require no court action for enforcement. See, e.g., *Joint Stipulation of Dismissal* at 2, *elcommerce.com v. SAP AG*, 745 F3d 490 (Fed. Cir.), vacated, 564 Fed. App’x 599 (Fed. Cir. 2014) (en banc) (mem.) (No. 11-1369), ECF No. 50 (jointly moving to dismiss an appeal of an infringement case where the PTAB invalidated the asserted patents and “no appeal [of the PTAB’s decision] was filed”).

**3. The Statutory Scheme At Issue Breaks With The Historical Practice Of De Novo Review Of PTO Determinations.**

Before the advent of recently adopted post-issuance proceedings, Congress has long given parties aggrieved by PTO determinations an option to challenge the agency in a district court. Thus, the PTAB’s power to decide validity of issued patents subject only to deferential appellate review, 35 U.S.C. § 141(c) (2012); see *Dickinson v. Zurko*, 527 U.S. 150, 152-53 (1999), can be contrasted - for example - with challenges to the PTO’s decisions under § 145, the section of the Patent Act at issue in *Hyatt*, 132 S. Ct. at 1700. That section, titled “Civil action to obtain a patent,” grants patent applicants the right to challenge the PTO’s rejection of their

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desired patent claims in a district court, and empowers the court to take evidence that was not before the PTO and make de novo determinations of validity. Hyatt, 132 S. Ct. at 1694-95; see id. at 1696 (“The PTO, no matter how great its authority or expertise, cannot account for evidence that it has never seen.”). In contrast to the IPR scheme, § 145 provides a model for the PTO’s functioning that is consistent with the role of the agency as an adjunct to an Article III court.

Notably, de novo review of PTO determinations has deep historical roots. See *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50,61 (1884) (discussing the predecessor statute to § 145); see also Hyatt, 132 S. Ct. at 1697-98. When the 1952 Patent Act granted to the PTO, for the first time, the power to cancel claims of an issued patent without the applicant’s consent in a so-called interference proceeding, Congress allowed for de novo review in district court of that decision under 35 U.S.C. § 146,13 the section that paralleled, and was consistent with, § 145; see *Troy v. Samson Mfg. Corp.*, 758 F.3d 1322, 1325-28 (Fed. Cir. 2014); cf. *Executive Benefits Ins. Ag’cy v. Arkison*, 134 S. Ct. 2165, 2171 (2014) (upholding the power of bankruptcy courts to adjudicate Stern claims because of availability of de novo review in district courts, which also enter final judgments). As noted by one of the 1952 Act’s drafters, this power of “cancellation of the claims involved from the patent … is new in substance and is made possible by the amplification of the right of review of the patentee provided for in section 146.” P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc’y 161, 193 (1993) (reprinted from Title 35, United States Code Annotated (1954 West Publishing Co. ed.)). The IPR statute breaks with this long practice. Under the challenged scheme, the PTAB wields significant power vis a vis Article III courts, and does so in a context in which private rights are implicated.

**C. The PTAB’s Invalidity Determinations Are Not Collateral, But Central, To Infringement Suits, And Are Designed To Preempt District Court Adjudication Of The Same Questions.**

Another argument likely to be advanced in support of the IPR statute is that court proceedings can sometimes be mooted by collateral actions of agencies without offending Article III. For example, a case might become moot when an agency withdraws a prior decision that is subject to a court challenge and replaces it with another decision. See, e.g., *Theodore Roosevelt Conservation P’ship v. Salazar*,

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661 F.3d 66, 79 (D.C. Cir. 2011) (holding that it is “impossible to grant any prospective relief” for alleged non-enforcement of an agency decision that was superseded, and dismissing the appeal as moot); Ctr. for Sci. in the Pub. Interest v. Regan, 727 F.2d 1161, 1164 (D.C. Cir. 1984) (dismissing as moot an appeal challenging a rule that was superseded); see Note, “Moot” Administrative Orders, 53 Harv. L. Rev. 628 (1940).

The statutory scheme at issue in this case, however, is different. Here, an agency resolves the very same issues of patent validity that district courts are empowered to adjudicate in the course of infringement suits. Under the statutory design, the PTAB proceeding is not collateral to, but can be intimately connected with and frequently triggered by, “Action[s]” for patent infringement. 35 U.S.C. § 315(b). PTAB decisions are made in trial-like proceedings often implicating, as here, the same two parties that are involved in parallel district court litigation. See *supra* Section III.A. This Court, indeed, acknowledged the IPR’s function of “helping resolve concrete patent-related disputes among parties.” *Cuozzo*, 136 S. Ct. at 2144. But the PTAB can do a lot more under the IPR statute than merely “help.” It can make determinations that a district court in a parallel proceeding has no discretion to reject, even if the suit already reached advanced stages and even if the court already entered judgment that the patentee is entitled to retrospective relief. See, e.g., *Ultratec, Inc. v. CaptionCall, LLC*, Nos. 2016-1708, 2016-1709, 2016-1715, 2017 WL 3687453, at \*1 (Fed. Cir. Aug. 28, 2017); *Fresenius*, 721 F.3d at 1340-44; *Translogic Tech., Inc. v. Hitachi, Ltd.*, 250 Fed. App’x 988 (Fed. Cir.) (unpublished), cert. denied, 555 U.S. 1045 (2008).

In such circumstances, the PTAB steps into the shoes of a court on certain questions of invalidity and takes over its role to “render dispositive judgments.” Frank H. Easterbrook, Presidential Review, 40 Case W. Res. L. Rev. 905, 926 (1989). The dispositive effect of PTAB determinations on co-pending cases is not happenstance of agency vicissitudes, but a part of the statutory design. The Constitution cannot countenance an adjunct role for Article III courts in the adjudication of the private rights embodied in the patent infringement cause of action.

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**IV. The IPR Statute Offends The Principle Of Separation Of Powers By Allowing An Agency To Direct A Court How To Decide A Specific Case.**

**A. PTAB Determinations Of Invalidity Function As “Rules of Decision” That End Pending Cases.**

Coordinate branches may not “prescribe rules of decision to the Judicial Department of the government in cases pending before it.” *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 218 (1995) (quoting *United States v. Klein*, 80 U.S. (13 Wall.) 128, 146 (1872)). Although this principle does not prohibit Congress from amending applicable law so as to affect outcomes in pending cases, *Robertson v. Seattle Audubon Soc.*, 503 U.S. 429 (1992), this Court suggested that Congress may “overstep[] its bounds by granting [a court] jurisdiction to decide the merits of [a] claim, while prescribing a rule for decision that left the court no adjudicatory function to perform.” *United States v. Sioux Nation*, 448 U.S. 371, 392 (1980) (citing *Klein*, 80 U.S. (13 Wall.) at 146). Congress has done just that here. While allowing courts to retain jurisdiction over patent cases, it also empowered the PTAB to make determinations that make courts superfluous.

*Sioux Nation* is instructive on the reach of the separation of powers principles relevant here, and shows why IPRs violate them. As characterized in *Plaut*, the statute under consideration in *Sioux Nation* “required the Court of Claims … [to] review on the merits, without regard to the defense of res judicata or collateral estoppel, a Sioux claim for just compensation from the United States - even though the Court of Claims had previously heard and rejected that very claim.” 514 U.S. at 230 (citing *Sioux Nation*, 448 U.S. at 391-92). The Court in *Sioux Nation* concluded that this statute did not offend separation of powers because “it neither brought into question the finality of [the Court of Claims’] earlier judgments, nor interfered with that court’s judicial function in deciding the merits of the claim.” 448 U.S. at 406. Here, however, the PTAB interfered with the judicial function by effectively terminating a patent case via adjudicating the defense of invalidity, thereby taking away a court’s ability to decide the case. Under this scheme, the courts have been relegated to the role of a stalking horse.

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**B. Rather Than Amend Applicable Law, The IPR Statute Delegates To The PTAB The Power To Pick Winners And Losers In Patent Cases.**

This Court's recent decision in *Bank Markazi v. Peterson* reiterated the long-held principle that amendments to applicable law during the pendency of litigation do not offend separation of powers. 136 S. Ct. 1310, 1317 (2016). The law whose constitutionality was upheld in *Bank Markazi* made certain assets subject to attachment for the execution of judgments in a specific set of cases. Id. at 1332-33. This Court reasoned that “a statute does not impinge on judicial power when it directs courts to apply a new legal standard to undisputed facts.” Id. at 1325. The Court made clear, however, that “Congress could not enact a statute directing that, in ‘Smith v. Jones,’ ‘Smith wins.’ ” Id. at 1323 n.17. In addition, the Court noted that the statute under dispute “facilitates execution of judgments in 16 suits,” rather than a single suit, id. at 1326, and explained that its decision was driven in part by the tradition of the courts' deference to the coordinate branches in matters of foreign policy, id. at 1328-29.

But here, there was no amendment of applicable law, passed by Congress and signed by the President, that had the effect of terminating some group of pending cases. Instead, Congress has delegated to the Executive Branch an unprecedented power, subject only to deferential appellate review, to effectively decide particular patent infringement suits. As discussed throughout, that power has the character of directing a court to decide that, in “*Patentee v. Infringer*,” “*Patentee loses*,” if the PTAB concludes that the claims that are also asserted in litigation are invalid. The intervening determination is not a change in governing law that embodies a new legal standard, but a legal conclusion made by an arm of the Executive Branch that effectively terminates individual patent cases.

**V. Adjudication Of Cases Involving Private Rights In Article III Courts Effectuates The Values Protected By The Doctrine Of Separation Of Powers.**

In part because of its independence from political whims, the federal judiciary serves as an important safeguard of liberty in its role as a neutral arbiter of private disputes. “This Court consistently has given voice to, and has reaffirmed, the central judgment of the Framers of the Constitution that, within our political scheme, the separation of governmental powers into three coordinate Branches is essential to the preservation of liberty.” *Mistretta v. United States*, 488 U.S. 361, 380 (1989). In contrast, a system that reposes the ability to end lawsuits involving

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private rights in the Executive Branch is fraught with potential of favoritism and raises the specter of a coordinate branch's power to pick winners and losers that has been this Court's concern. *Bank Markazi*, 136 S. Ct. at 1323 n.17; *N. Pipeline*, 458 U.S. at 58 (plurality op.) (characterizing Article III “[a]s an inseparable element of the constitutional system of checks and balances, and as a guarantee of judicial impartiality”).

Patent law itself provides an example. Over a decade ago, the PTO Director decided to order reexaminations of patents at issue in high-stakes infringement cases involving lesser-known plaintiffs (Eolas and NTP) and high-powered defendants (Microsoft and RIM - the maker of BlackBerry - respectively). See Amy L. Magas, Comment, When Politics Interfere with Patent Reexamination, 4 J. Marshall Rev. Intell. Prop. L. 160, 160 (2004) (“The reexaminations were ordered after an independent or small entity inventor received a substantial judgment against a large company.”). Not surprisingly, these decisions “created controversy among patent practitioners,” id. at 168, and some have argued that the PTO actions “disrupt[ed] the judicial system” because patents were being reexamined “at the same time as [their] validity is examined in a federal district court,” id. at 170. Worse yet, the NTP reexamination was marred by allegations of ex parte contacts between PTO officials and RIM representatives, and of other undue external influence on the PTO. See, e.g., Dennis Crouch, *RIM v. NTP Continues to Trouble Patent Office*, Patently-O, <https://patentlyo.com/patent/2008/05/rim-v-ntp-conti.html> (May 12, 2008) (“It is clear ... that in the months leading up to the NTP settlement, the PTO was feeling a tremendous amount of political pressure from RIM as well as Congress and the Senate.”); Kevin E. Noonan, What the Director's Letter Did Not Say, Patent Docs, <http://www.patentdocs.org/2008/06/what-the-direct.html> (June 15, 2008). But in the courts, the picture was different. Judge Spencer, who presided over the NTP-RIM infringement case, made it clear that he would follow binding law even if it meant enjoining RIM from making and selling the BlackBerry in the United States, and would do so in spite of “the politics” and “the lobbying.” Catherine Frederburgh, Reading the BlackBerry Tea Leaves, Law360, <https://www.law360.com/articles/5509> (Mar. 1, 2006) (quoting a transcript of the permanent injunction hearing); id. (“[Judge Spencer] is ... telling the parties that he will not allow political pressure or media limelight to sway his decision in any way”). Judge Spencer's approach in the BlackBerry litigation is the stuff that Article III is made of.

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Even before allegations of impropriety in the NTP reexamination process surfaced, a proposal was made “to minimize influences from the political arena” on high-stakes patent cases. Magas, *supra*, at 179. But a mechanism for doing so already exists. That mechanism is the doctrine of separation of powers, which prevents the political branches from stepping into the shoes of the courts. Indeed, “[j]udicial power … is the power of a court to decide and pronounce a judgment and carry it into effect between persons and parties who bring a case before it for decision.” *Muskrat v. United States*, 219 U.S. 346, 356 (1911). The statutory scheme at issue in this case contravenes the doctrine of separation of powers because it empowers an agency to decide cases in which private rights are at stake in place of the courts, and it cannot stand in the current form.

## **CONCLUSION**

The IPR statute violates Article III of the Constitution and the separation of powers doctrine by impermissibly entrusting adjudication of private-right claims to an agency. The judgment of the Federal Circuit should be reversed.

## **Brief of Amicus Curiae Intellectual Property Owners Association in Support of Neither Party**

### **SUMMARY OF ARGUMENT**

The Supreme Court has long held that granted patents are not public rights. Rather, the owner of a granted U.S. patent obtains a vested interest in a substantial property right. Importantly, this view has persisted throughout the Supreme Court's development of the so-called "public rights" doctrine in areas of law unrelated to patents.

For this reason, IPO believes that the Federal Circuit's statement in *MCM Portfolio* that patents are public rights is incorrect. *MCM* relies on this Court's public rights jurisprudence involving rights that are not analogous to granted patents. More importantly, the Federal Circuit in *MCM* ignored this Court's earlier and controlling precedent that defined granted patent rights as personal property. A Supreme Court opinion deeming granted patents to be public rights could be damaging to the interests of patent owners, as well as the patent system at large. Patents have traditionally been afforded the same constitutional protections as other private property. However, because of the deference the government receives in matters of public rights, classifying granted patents as public rights will make patents more susceptible to government action. For example, the treatment of granted patents as public rights could be used to justify government proposals for the compulsory licensing of patent rights to a patent owner's competitors, or governmental takings of patent rights without just compensation or adequate due process.

IPO takes no position on the question presented in this case, i.e., whether *inter partes* review violates the Constitution.

### **ARGUMENT**

#### **I. Supreme Court Precedent Has Long Held That Granted U.S. Patents Are Not Public Rights**

Throughout its history, this Court has consistently held that a granted U.S. patent affords its owner a substantial property right. In particular, a granted U.S. patent "has become the property of the patentee ... [and] is entitled to the same legal

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protection as other property.” *McCormick Harvesting Mach. v. C. Aultman*, 169 U.S. 606, 609 (1898). Importantly, this treatment of granted patents prevailed both before and after the development of the Court’s public rights doctrine. Indeed, the notion of public rights was not developed in a patent context, and this Court has never extended the public rights doctrine to patent rights.

The public rights doctrine traces its origins to *Murray's Lessee v. Hoboken Land and Improvement Co.*, 59 U.S. 272 (1855) where the Supreme Court first held that “there are matters, involving public rights … which are susceptible of judicial determination, but which [C]ongress may or may not bring within the cognizance of the courts of the United States … as it depends upon the will of [C]ongress, … they may regulate it and prescribe such rules of determination as they may think just and needful.” *Id.* at 284.

IPO acknowledges that the laws related to applying for and obtaining a U.S. patent are clearly within the determination of Congress, as derived from the Constitution. U.S. Const. art. I, § 8, cl. 8. However, this Court’s precedent provides ample support for the proposition that a U.S. patent, once granted, should not be treated as a public right. For example, shortly before *Murray's Lessee* was decided, this Court unanimously held in *McClurg v. Kingsland*, 42 U.S. 202 (1843) that the repeal of a patent statute “can have no effect to impair the right of property then existing in a patentee, or his assignee, according to the well-established principles of this court.” *Id.* at 206. Thus, even a subsequent act of Congress is ineffective to disturb the vested property interest that an inventor obtains in a granted U.S. patent.

Moreover, this Court’s treatment of granted U.S. patents did not change in the decades following *Murray's Lessee*. In *Cammeyer v. Newton*, 94 U.S. 225 (1876), the Court held that federal officials were not immunized from claims for patent infringement because “[a]gents of the public have no more right to take such *private property* than individuals.” *Id.* at 234-35 (emphasis added). And with respect to the U.S. specifically, “the government cannot, after the patent is issued, make use of the improvement any more than a private individual, without license of the inventor.” *Id.* at 235 (citing *U.S. v. Burns*, 79, U.S. 246 (1870)). Further, in *McCormick*, the Court held that a granted patent “has become the property of the patentee … [and] is entitled to the same legal protection as other property.” *McCormick*, 169 U.S. at 609. The *McCormick* Court was considering the reissue process for issued patents, and noted the “repeated decisions of this

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court” holding that “when a patent has . . . had affixed to it the seal of the patent office, it has passed beyond the control and jurisdiction of that office.” *Id.* at 608 (citing *U.S. v. Schurz*, 102 U.S. 378 (1880); *U.S. v. Am. Bell Tel. Co.*, 128 U.S. 315, 363 (1888)). The Court then went on to discuss the reissue process as the sole exception to this rule. In reissue proceedings, the commissioner of patents may regain jurisdiction over an issued patent only upon application *by the patentee* to correct errors made due to inadvertence or mistake on the part of the patentee, and then only upon surrender of the original patent. *Id.* at 609-10.

These cases make clear this Court’s consistent view that, once granted, a U.S. patent should not be treated as a public right.

## **II. The Federal Circuit’s Analysis in *MCM Portfolio* Is Not in Harmony with Supreme Court Precedent Regarding Patent Rights**

Despite the clarity of this Court’s opinions that granted U.S. patents should not be characterized as public rights, the Federal Circuit relied on subsequent Supreme Court decisions dealing with the “public rights” doctrine to support its recent statement to the contrary. *See MCM Portfolio*, 812 F.3d at 1293. However, these later decisions do not address granted U.S. patents.

The Federal Circuit’s opinion in *MCM* is based on an overly broad reading of *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568 (1985) and *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833 (1986). In *Thomas*, the Court found that the public rights doctrine applied to the EPA’s binding determination of the amount of compensation owed from one pesticide manufacturer to another under a data sharing regime created by federal statute. 473 U.S. at 573-74. In *Schor*, the Court applied the public rights doctrine to uphold the CFTC’s statutorily granted authority to hear state law counterclaims brought in a reparations proceeding for violations of the Commodity Exchange Act. 478 U.S. at 853-54. Neither case deals with rights in a granted patent.

The Federal Circuit in *MCM* also considered *Stern v. Marshall*, 564 U.S. 462 (2011). In *Stern*, this Court analyzed the applicability of the public rights doctrine to a bankruptcy court’s ability to rule on state law tort claims. *Id.* at 487-88. The Supreme Court indicated that the doctrine could apply in “cases in which the claim at issue derives from a federal regulatory scheme.” *Id.* at 490. Because the state law tort claims did not, the public rights doctrine was not applicable.

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Applying these decisions in *MCM*, the Federal Circuit held that agency adjudication of rights in a granted U.S. patent is “indistinguishable from the agency adjudications held permissible [sic] in *Thomas* and *Schor*, and wholly distinguishable from the review of state law claims at issue in *Stern*.” *MCM*, 812 F.3d at 1290. Therefore, the Federal Circuit reasoned, the public rights doctrine applies to patent rights.

As noted above, however, none of the decisions relied on by the Federal Circuit in *MCM* dealt with property rights that are analogous to patents. As stated in the patent statute itself, a granted patent “shall have the attributes of personal property.” 35 U.S.C. § 261. The most important of these attributes is the right to exclude others from the making, using, or selling a patented invention. 35 U.S.C. § 271 is fundamentally different from the right at issue in *Thomas*, which guaranteed compensation for the use of registration data, the use of which was specifically permitted by statute. Similarly, the right examined in *Schor* was a state law counterclaim to recover a debt, which bears little or no resemblance to the exclusionary property right of a granted U.S. patent.

Finally, the *Thomas*, *Schor*, and *Stern* opinions never addressed the prior decisions of this Court noted above that describe a granted patent as private property. Therefore, IPO respectfully submits that a granted U.S. patent is not a public right.

### **III. Classifying Granted Patents as Public Rights Could Have Serious Adverse Consequences for Patent Owners**

A Supreme Court decision finding that granted patents are public rights could negatively affect the patent system by decreasing the level of predictability patent owners and investors currently have in patent ownership. Patents, like other private property, have traditionally enjoyed constitutional protections against takings without just compensation and without due process. Indeed, the Supreme Court has recently affirmed that 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.” *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2427 (2015) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)); *see also* 28 U.S.C. § 1498 (providing for a cause of action against the United States for patent infringement).

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Conversely, the Supreme Court has described matters of public right as those that “could be conclusively determined by the Executive and Legislative Branches.” *Thomas*, 473 U.S. at 585. Because the disposition of public rights is more deferential to the government, classifying granted patents as such could weaken the traditional private property protections discussed in *Horne*, and might leave patent ownership more vulnerable to executive and legislative branch intervention. For example, if granted patents were deemed to be public rights, government figures might be more inclined to consider takings of patent rights, perhaps without just compensation or adequate due process. This is not a theoretical concern. In 2001, U.S. officials threatened to suspend drug manufacturer Bayer's patent on Cipro®, notably used in the treatment of anthrax infections. *See Jill Carroll and Ron Winslow, Bayer Agrees to Slash Prices for Cipro Drug*, Wall Street J., Oct. 25, 2001, at A3 (“The agreement comes after a high-stakes threat by Tommy Thompson HHS secretary, to break Bayer's patent for Cipro if he didn't get the price he wanted.”).

IPO is not suggesting that such extreme actions would necessarily follow from a holding that patent rights constitute public rights. Nonetheless, a classification by this Court of granted patents as public rights would run counter to the prevailing view of patents as constitutionally protected private property, and could erode confidence in the value of well-established property rights in U.S. patents.

Similarly, if granted patents were defined as public rights, this might embolden government proposals to implement compulsory licensing programs in which patent rights are forcibly made available to a patent owner's competitors. Again, such programs are not merely hypothetical. *See, e.g.*, Vikas Bajaj and Andrew Pollack, *India Orders Bayer to License a Patented Drug*, N.Y. Times, Mar. 12, 2012, at B2. (“According to the decision, Bayer must license the drug Nexavar, or sorafenib, to Natco Pharma, an Indian company”). . Indeed, the Supreme Court has recently affirmed that 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.” *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2427 (2015) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)); *see also* 28 U.S.C. § 1498 (providing for a cause of action against the United States for patent infringement).

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Moreover, diminishing the private property interest in granted patents would run counter to current U.S. efforts to promote the development of patent regimes in other countries, including some U.S. trading partners where there have been calls for compulsory licensing and other forms of involuntary takings or access to patent rights. For example, the Office of the U.S. Trade Representative (USTR) recently found in a 2017 Special Report that:

Right holders operating in other countries report an increasing variety of government measures, policies, and practices that are touted as means to incentivize domestic ‘indigenous innovation,’ but that, in practice, can disadvantage U.S. companies, such as by requiring foreign companies to give up their IP as the price of market entry. Such initiatives serve as market access barriers, discouraging foreign investment and hurting local manufacturers, distributors, and retailers. Such government-imposed conditions or incentives may distort licensing and other private business arrangements, resulting in

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commercially suboptimal outcomes for the firms involved and for innovation, generally. Further, these measures discourage foreign investment in national economies, slowing the pace of innovation and economic progress. Government intervention in the commercial decisions that enterprises make regarding the ownership, development, registration, or licensing of IP is not consistent with international practice, and may raise concerns regarding consistency with international obligations as well. These government measures often have the effect of distorting trade by forcing U.S. companies to transfer their technology or other valuable commercial information to national entities.

U.S. Trade Representative, *2017 Special 301 Report on Intellectual Property Issues*, Office of the U.S. Trade Representative 18-19.<sup>5</sup> USTR Report makes the U.S.'s position on such practices clear, stating:

The United States urges that, in formulating policies to promote innovation, trading partners ... refrain from coercive local content and technology transfer policies. *Id.* at 20.

Finally, if granted patents were viewed as public rights, the government might attempt to restrict the transfer or licensing of patents. This would upend the long-running expectations of patent owners, who today can transfer or license a patent in the same manner as other personal, private property. However, such restrictions might be seen as permissible if the ownership of a granted patent has the attributes of a public right, which "depends upon the will of [C]ongress ... [such that] they may regulate it and prescribe such rules of determination as they may think just and needful." *Murray's Lessee*, 59 U.S. at 284.

## **CONCLUSION**

Supreme Court precedent establishes that a granted U.S. patent does not fall within the public rights doctrine developed from *Murray's Lessee*. The Federal Circuit's statement to the contrary in *MCM* is based on a misapplication of non-analogous decisions dealing with the public rights doctrine. Moreover, the Federal Circuit in *MCM* failed to consider this Court's controlling precedent defining the nature of granted patent rights. Finally, a Supreme Court decision holding that granted patents are public rights could have adverse consequences for patent owners, and for the patent system in general.

For these reasons, IPO respectfully requests that this Court reaffirm that granted U.S. patents are not public rights.

## **Brief of Amicus Curiae American Intellectual Property Law Association**

### **SUMMARY OF ARGUMENT**

The constitutionality of the statute authorizing the Patent Trial and Appeal Board (“PTAB”) to determine patent validity<sup>3</sup> in its *inter partes* review (“IPR”) proceedings cannot be resolved simply by asking whether patent rights are “private rights” that must be adjudicated by an Article III tribunal, or are instead “public rights” that may be adjudicated by a non-Article III tribunal. Such a rigid, binary parsing of the bundle of patent rights is not required by judicial precedent, nor is it what Congress intended when, in 2011, it enacted the Leahy-Smith America Invents Act (“AIA”).

Rather, to determine whether Congress acted within the limits of its authority in establishing a non-Article III adjudicatory forum, one must consider the substance of what Congress was seeking to accomplish with the enabling legislation. In the case of the AIA, Congress sought to take advantage of the Patent and Trademark Office’s (“PTO”) expertise by authorizing it to revisit and revise earlier patent grants in *inter partes* adjudications with specifically limited criteria and procedures. In creating this authority within the PTO, Congress acted within its right to “promote the progress of the useful arts” under Article I of the Constitution.

### **ARGUMENT**

#### **I. AN ARTICLE I TRIBUNAL'S LIMITED ADJUDICATORY AUTHORITY TO REVIEW PATENT VALIDITY VIOLATES NEITHER THE SEPARATION OF POWERS DOCTRINE NOR THE SEVENTH AMENDMENT**

Congress's creation of an adjudicatory process within the Patent and Trademark Office (“PTO”) for the limited purpose of reviewing and, if necessary, cancelling improperly issued patents violates neither the Constitution's separation of powers nor its Seventh Amendment guarantee of a right to a jury trial. This administrative adjudication process was a significant part of the extensive patent reform under the

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AIA. It was enacted to permit expert review of a patent's validity in a quick, efficient and relatively inexpensive process. The legislation establishes procedures specific to the patent review proceeding, and delegates to the agency the authority to promulgate procedural rules adapted to the agency resources and the statutory procedures.

The use of a limited adjudicatory process administered by an agency is by no means unique to patent law. Congress has created agency adjudicatory bodies in numerous federal agencies, including, for example, the Securities and Exchange Commission, 5 U.S.C. § 557, 17 C.F.R. § 201.360, the Federal Trade Commission, 15 U.S.C. § 43, 16 C.F.R. § 3, and the Food and Drug Administration, 21 U.S.C. §§ 334, 335(b), 21 C.F.R. § 17, to name a few. In the case of patent rights, such law-making is well within Congress's distinct authority under Article I of the Constitution to promote the progress of the useful arts.

This is not to say that the necessary level of fairness has been achieved in the PTO's implementation of the AIA provisions on patent review. This new type of patent review, described below, continues to pose important procedural challenges on issues such as pleading practice, burdens of proof, claim construction, and amendment of patent claims. The PTO has engaged with the patent bar to work on the fairness of the proceeding.

Notwithstanding these issues of procedural fairness, the patent review proceeding established by the AIA is well within the long-accepted bounds of legislative tribunals that engage in limited adjudication to effect specific statutory rights created by Congress.

#### **A. The Separation of Powers Doctrine Permits Limited Adjudication By Non-Article III Tribunals**

Article III of the Constitution implements the separation of powers doctrine by promoting an independent judiciary free from influence by the political branches and public opinion. *See, e.g., Thomas v. Union Carbide Agricultural Prods. Co.*, 473 U.S. 568, 582 (1985) (citations omitted) (“Article III, § 1, establishes a broad policy that federal judicial power shall be vested in courts whose judges enjoy life tenure and fixed compensation”).

By contrast, Article I of the Constitution authorizes Congress to implement a wide range of governmental functions, including the establishment of adjudicatory

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tribunals to carry out those functions. *See, e.g.*, Const. Art. I. While such Article I tribunals lack the attributes of independence required under Article III, they do not necessarily conflict with the judicial prerogatives of Article III. *See Thomas*, 473 U.S. at 583 (“[T]he Court has long recognized that Congress is not barred from acting pursuant to its powers under Article I to vest decisionmaking authority in tribunals that lack the attributes of Article III courts.”); *see also Crowell v. Benson*, 285 U.S. 22, 50 (1932) (determining that claims for compensation between private parties under a federal statute providing for employer strict liability could be determined by administrative proceeding).

This Court has described the matters adjudicated by such legislative tribunals as “public rights,” which were first characterized as disputes in which the government is a party, although the public rights/private rights dichotomy has been rejected as a bright-line test for determining when Article III must apply. *Thomas*, 473 U.S. at 585-586. An Article I tribunal is one where “the claim at issue derives from a federal regulatory scheme, or in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency's authority.” *Stern v. Marshall*, 131 S. Ct. 2594, 2613 (2011). *See also Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 54 (1989) (“If a statutory right is not closely intertwined with a federal regulatory program Congress has power to enact, and if that right neither belongs to nor exists against the Federal Government, then it must be adjudicated by an Article III court.”).

As further explained below, the limited adjudication of patent validity within the expert agency of the PTO is fully authorized by Article I and does not impinge on Article III.

### **B. Article I Agency Adjudication Does Not Trigger The Seventh Amendment's Right To Jury Trial**

Not all adjudications implicate the right to jury trial. In particular, an adjudication that properly takes place in a non-Article III forum is not subject to the Seventh Amendment. *See e.g., Atlas Roofing Co., Inc. v. Occupational Safety and Health Review Comm'n*, 430 U.S. 442, 443 (1977) (holding that the Seventh Amendment does not prevent Congress from assigning the task of adjudicating OSHA violations to an administrative agency); *see also, Block v. Hirsch*, 256 U.S. 135, 155-56 (1921) (upholding commission determination of rent increase as for the public benefit); *NLRB v. Jones & Laughlin Steel Corp.*, 301 U. S. 1, 48-49 (1937) (upholding the award of back pay without jury trial in an NLRB unfair labor practice proceeding).

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In deciding whether a right to a jury trial applies in a non-Article III tribunal, this Court considers more than whether the matter adjudicated is a public right or a private right. The additional considerations include the following:

- Did Congress create the right assigned to the non-Article III tribunal for adjudication?
- Did Congress's reasons for not relying on an Article III court support resolution of the matter by the non-Article III tribunal?
- Is the non-Article III tribunal's jurisdiction limited to specific issues?
- Are the decisions of the non-Article III forum subject to appropriate review by an Article III court?

*See Commodity Futures Trading Comm'n ("CFTC") v. Schor*, 478 U.S. 833, 851 (1986) (hereinafter, "Schor"). The discussion of PTAB adjudications below demonstrates that the foregoing considerations weigh heavily against applying the Seventh Amendment right to a jury trial in proceedings before the PTAB.

## **II. CONGRESS PROPERLY DELEGATED RESOLUTUION OF PATENT VALIDITY DISPUTES TO THE PTAB**

### **A. Patents Are Property Rights But May Be Properly Classified As "Public Rights" For Article III Analysis**

The creation by Congress of the PTAB for reviewing the validity of patents does not conflict with the uniform recognition of a patent as a "property right." It is erroneous to equate the private property status of patent rights with "private rights" that are governed exclusively in Article III tribunals.

The "property right" character of a patent is confirmed in both the Patent Act and in the case law, both of which highlight the hallmark characteristic of property interests as the right to exclude others. *See* 35 U.S.C. § 154(a)(1) ("Every patent shall contain ... a grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention...."); *see also Florida Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) (holding that patents are property rights secured under the Due Process Clause of the Fourteenth Amendment). A patent also "confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used ... without just compensation ...." *James v. Campbell*, 104 U.S. 356, 358 (1881).

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This property right characterization is central to the commodity status and transferability of patents. In 1952, Congress incorporated the private property concept into the patent statute, where it remains to this day. *See 35 U.S.C. § 261.* Following the initial qualifying language, “[s]ubject to the provisions of this title,” Section 261 provides that “patents shall have the attributes of personal property.” *Id.* Section 261 has been explained as “codify[ing] the case law reaching back to the early American Republics.” Adam Mossoff, *Exclusion and Exclusive Use in Patent Law*, 22 Harv. J. L. & Tech. 321, 343-45 (2009).

However, there is no inconsistency in concluding that the source of the patent property right is a public right conferred by federal statute. *See, e.g., Cascades Projection LLC v. Epson Am., Inc.*, 864 F.3d 1309, 1310-12 (Fed. Cir. May 11, 2017) (Dyk, J., concurrence in denial of initial hearing *en banc*, Prost, C.J., Hughes, J., joining in the concurrence). Patents did not exist at common law, and the rights created by Congress are available only upon compliance with strict statutory requirements. *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 494 (1850). *See also Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 229 n.5 (1964) (“Patent rights exist only by virtue of statute.”); Reilly, *The Constitutionality of Administrative Patent Cancellation*, 23 B.U. J. of Sci. & Tech. L., 1, 34 (“The relevant Article III question is not whether a claim involves private property rights but rather what the source of those rights is.”) (forthcoming). Moreover, the PTAB’s consideration of issues of patent validity does not preclude patent validity consideration by the judiciary in traditional patent enforcement litigation. Where such issues arise in infringement litigation, the Article III court is empowered to resolve them as part of providing complete relief to the parties in the dispute. *See Cardinal Chem. Co. v. Morton Int'l Inc.*, 508 U.S. 83, 101 (1993) (emphasizing the “strong public interest in the finality of judgments in patent litigation,” and overruling the Federal Circuit’s practice of reversing district court invalidity decisions on appeal if the district court’s non-infringement ruling is affirmed). Nonetheless, since the Patent Act of 1836, the PTO has had limited authority to resolve patent validity disputes that are brought before it.<sup>5</sup> Patent Act of 1836, Pub. L. No. 24-357, § 8, 5 Stat. 117, 120-21 (1836). Since 1999, with the implementation of the *inter pates* reexamination process, a board of administrative law judges at the PTO has had the authority to resolve questions related to patent validity pursued by third parties adverse to the patentee. American Inventors Protection Act, Public Law 106-113 (1999).

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Hence, Congress's creation of the PTAB within the PTO for resolution of patent validity issues follows a long history of resolving such issues within the agency. In enacting the AIA, Congress amended several sections of the patent statute relating to the grant and enforcement of a patent, and revised the longstanding practice of reexamining issued patents by creating three new procedures for implementation by the PTAB. *See 35 U.S.C. §§311 et seq.* (*inter partes* review), 321 *et seq.* (post-grant review), and §18 of the AIA (covered business method patent review).<sup>6</sup> These provisions of the AIA are tailored to respect the separation of powers doctrine and to provide appropriate limited adjudicatory rights to the PTAB, consistent with Article III Court oversight.

### **B. Patent Rights Are Properly Subject To Article I Adjudication**

From the first Patent Act to the present implementation of the AIA, Congress has enacted statutes with strict conditions and requirements for conferring the exclusive rights under a patent. *See Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 6 (1966) (“Within the scope established by the Constitution, Congress may set out conditions and tests for patentability”). This Court's precedent provides that:

when Congress creates a substantive federal right, it possesses substantial discretion to prescribe the manner in which that right may be adjudicated ... [including] provid[ing] that persons seeking to vindicate that right must do so before particular tribunals created to perform the specialized adjudicative tasks related to that right.

*Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 80, 83 (1982) (plurality). The power to determine how disputes within its statutory right are resolved is “incidental to Congress's power to define the right that it has created.” *Id.* at 83. Thus, Congress's enactment of the Patent Statute and hence, resolution of patent rights pursuant to its Article I powers, strongly supports the conclusion that Congress may apportion limited adjudication to the agency responsible for managing the grant of rights. *See, e.g.*, Reilly, 23 B.U. J. of Sci. & Tech. L. at 34.

In this respect, the “public right” / “private right” dichotomy to determine the limits of legislative tribunals fails because it ignores Congressional discretion to prescribe modes of relief in the laws it enacts. For example, in *Block v. Hirsh*, this

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Court addressed a land owner's exclusive possession of his property. 256 U.S. at 153. There, the owner tried to recover possession of his property after a tenant refused to vacate at the end of his lease. *Id.* Even though real property disputes between two parties are the epitome of private rights, this Court upheld Congress's creation of an administrative commission to determine both the right of possession and the appropriate amount of rent. *Id.* at 157-58.

In several other cases, this Court also has held that claims involving private property interests are appropriately adjudicated by non-Article III forums when created by federal statute. *See, e.g., Stern*, 564 U.S. at 498-99 (upholding non-Article III adjudication in bankruptcy cases that involved a "right of recovery created by federal bankruptcy law"); *Thomas*, 473 U.S. at 586 (upholding resolution of disputes between pesticide manufacturers in non-Article III forum); *Crowell*, 285 U.S. at 58 (1932) (upholding agency adjudication when the right to compensation for injuries sustained on navigable waters was created by federal law). Thus, where, as here, Congress has created rights pursuant to its Article I power, such creation provides a strong indication that Congress also can assign adjudication of those rights to an expert agency. *See, e.g., Reilly*, 23 B.U. J. of Sci. & Tech. L. at 32.

This Court's decision in *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606 (1898) is not to the contrary. *McCormick* dealt with the patent reissue statute in effect at the time, which required the patent owner to surrender the original patent in order for the reissue patent to take effect and hence for the original patent to be canceled. *McCormick*, 169 U.S. at 610. When the patent owner failed to surrender the original patent, *McCormick* held that only the courts, and not the PTO, had the authority to set aside a patent, based on the language of the reissue statute. *Id.*

As pointed out by the Federal Circuit, *McCormick* was based on a statutory challenge rather than a constitutional challenge. *See, e.g., MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015), cert denied 137 S. Ct. 292 (2016). Because the source of the rights at issue was the patent reissue statute of 1878,<sup>7</sup> the *McCormick* decision accords with the line of cases that defer to Congress's choice in implementing the statutory rights it has created. *See, e.g., Crowell*, 285 U.S. at 58; *Thomas*, 473 U.S. at 573; *Schor*, 478 U.S. at 851; *see also, Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604, 606 (Fed. Cir. 1985) (considering constitutionality of the *ex parte* reexamination statute); *MCM Portfolio*, 812 F.3d at 1291 (considering the constitutionality of patent invalidation

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by the PTAB in an IPR proceeding); *Cascades Projection.*, 864 F.3d at 1310-12 (Fed. Cir. May 11, 2017) (Dyk, J., concurrence in denial of hearing *en banc*, Prost, C.J., Hughes, J., joining in the concurrence).

### **C. The AIA Proceedings Advance The Patent Office's Expert Regulatory Function Of Evaluating and Issuing Patents**

This Court has confirmed that Congress is entitled under Article I of the Constitution to create tribunals that can adjudicate claims that derive “from a federal regulatory scheme, or in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency's authority.” *Stern*, 131 S. Ct. at 2613 (2011).

Patent law is plainly “a federal regulatory scheme,” considering not only the exclusively federal source of the patent right and the exclusive adjudicatory authority over the enforcement of those rights. It is also plain that patent law includes an extensive regulatory program designed to achieve “a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the “Progress of Science and useful Arts.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Moreover, the PTO is an expert agency responsible for examining patent applications and issuing patent claims that survive the scrutiny of examination. The Patent Office has long maintained procedures for an administrative “second look” at its decisions to grant patents, and since at least 1980, the Patent Office also has had the authority to reexamine and cancel a patent claim that it previously allowed. *See, e.g., Cuozzo Speed Techs. LLC v. Lee*, 136 S. Ct. 2131, 2137 (2016). Through various iterations, that authority has expanded to its current scope in IPR proceedings. *See, e.g., Cuozzo*, 136 S. Ct. at 2137-2138 (walking through statutory iterations from *ex parte* reexamination through *inter partes* review).

With respect to the AIA IPR provisions, one important objective was to expand the PTO's power to revisit and revise earlier patent grants in order to improve the overall patent system. *See id.* at 2140, citing H.R. Rep. No. 112-98, pt. 1, pp. 45, 58 (2011) (H.R. Rep.) (explaining the AIA statute seeks to “improve patent quality and restore confidence in the presumption of validity that comes with issued patents”); 157 Cong. Rec. 9778 (2011) (remarks of Rep. Goodlatte) (noting that IPR is meant to “screen out bad patents while bolstering valid ones”).

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Congress created the PTAB administrative adjudicatory body to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs, while making sure no party’s access to court is denied.” AIA, H.R. Rep. 1249 (2011) (remarks of Sen. Leahy); *see also Schor*, 478 U.S. at 855 (stating purpose of CFTC). The recognition of a need for “an inexpensive and expeditious alternative forum” to promote the progress of the useful arts supports Congress’s decision to depart from an Article III forum. *Schor*, 478 at 855. Instead of trying to undermine Article III with this procedure, Congress attempted to “ensure the effectiveness of th[e] scheme” it created pursuant to its Article I powers. *Id.* at 256; *see also Reilly*, 23 B.U. J. of Sci. & Tech. L. at 45.

#### **D. PTAB Adjudication Applies Only To A Limited Subset of Issues Within The Specialized Area Of Patent Law**

The adjudication conducted by the PTAB in *inter partes* review is subject to a variety of significant limitations. The PTAB’s IPR proceeding is concerned only with patent validity, not infringement, and even its validity determination is limited:

A petitioner in an inter partes review may request to cancel as unpatentable 1 [one] or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.

35 U.S.C. § 311(b). Confining the PTAB to validity issues of novelty and nonobviousness under Sections 102 and 103, respectively, based on prior art patents and printed publications stands in sharp contrast to the expansive scope of issues that could be considered by the bankruptcy courts analyzed in *Northern Pipeline*. *See Northern Pipeline*, 458 U.S. at 83 (holding that Art. III bars Congress from establishing legislative courts to exercise jurisdiction over all matters arising under the bankruptcy laws). Instead, the PTAB post-issuance review proceedings are “limited to a ‘particularized area of law,’ as in *Cowell, Thomas, and Schor*.” *Stern*, 564 U.S. at 493. The PTAB’s jurisdiction also is limited by specific timing requirements: under Section 315(b), an IPR petition must be filed within a year of receiving notice of infringement litigation, and under

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Section 316(11) the IPR proceeding must be concluded within 12 months of institution.

In sum, through its establishment of the IPR proceeding, Congress focused on “making effective a specific and limited federal regulatory scheme,” *Schor*, 478 U.S. at 855; “i.e., the Patent Office’s basic regulatory role in limiting patent rights to the permissible scope … authorized by the … Patent Act.” *Reilly*, 23 B.U. J. of Sci. & Tech. L. at 45.

**E. Article III Courts Retain Full Appellate Review Of PTAB Decisions, Thereby Respecting The Separation of Powers Doctrine**

In reviewing the constitutionality of Congressional delegations of adjudicatory authority to a non-Article III tribunal, this Court’s precedent considers the availability of Article III review of those tribunals’ decisions. *See, e.g., Thomas*, 473 U.S. at 592, citing *Crowell*, 285 U.S. at 54 (holding that judicial review of agency adjudication afforded by statute including review of matters of law, “provides for the appropriate exercise of the judicial function …”)).

For example, in *Thomas*, a pesticide manufacturer challenged the constitutionality Federal Insecticide, Fungicide, and Rodenticide Act (“FIFRA”). According to the manufacturer, FIFRA violated Article III by allocating to arbitrators the functions of the judiciary and by limiting Article III review. This Court held, however, that Article III did not prohibit Congress from selecting a non-Article III forum with limited judicial review as the mechanism for resolving disputes in Congress’s statutory scheme, regardless of the private nature of the disputes between pesticide companies. *Id.* at 590. According to the Court, “many matters that involve the application of legal standards to facts and affect private interests are routinely decided by agency action with limited or no review by Article III courts.” *Id.* at 583.

The IPR proceedings at issue in this case are subject to a more thorough Article III review of the expert agency decision. The statute provides for appellate review by the Federal Circuit Court of Appeals under the Administrative Procedure Act standards. *See* 5 U.S.C. § 706 (scope of appellate review of agency final decision). Specifically, legal determinations are reviewed *de novo* and factual determinations are reviewed for substantial evidence. 5 U.S.C. § 706(2)(D), (E). In addition, the IPR proceedings do not preclude a determination by an Article III court in a corresponding infringement action. The defendant in such an action has the right to

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choose the IPR proceeding initially over validity adjudication in an Article III court, and it is within the Article III court's discretion to stay its own proceedings in view of an IPR proceeding. *Clinton v. Jones*, 520 U.S. 681, 706 (1997) ("The District Court has broad discretion to stay proceedings as an incident to its power to control its own docket.").

Congress's limited delegation of authority to the PTO to resolve specific validity issues with appellate review by the Federal Circuit is thus appropriate in this statutory scheme. *See Thomas*, 473 U.S. at 593; *see also Crowell*, 285 U.S. at 51.

**CONCLUSION**

For the foregoing reasons, AIPLA respectfully requests that this Court confirm the constitutionality of the PTO's *inter partes* review process.

**Brief of 3M Company, Bristol-Myers Squibb Co., Cargill Incorporated, Johnson & Johnson, Monsanto Company, the Procter & Gamble Company, Raytheon Company, and Shell International as Amici Curiae**

**INTRODUCTION AND SUMMARY OF THE ARGUMENT**

For nearly two centuries, this Court's precedents have reaffirmed that issued patents are private property, protected by the same constitutional principles and common-law doctrines that protect other forms of private property. A granted patent necessarily carries with it a judicially-enforceable right to exclude others from the use of a claimed invention, just as any other property inherently includes a judicially-enforceable right against its theft or unauthorized use. Accordingly, inventors from the English common-law era, through the founding of the United States, to today - until very recently, that is - have understood their issued patents to be their private property, not public rights subject to plenary government control. To the extent the Federal Circuit has concluded otherwise, this Court should reject that holding.

Amici take no position on the further issue of whether the status of patents as private rights compels a holding that inter partes review (“IPR”), under the current statutory framework, is facially unconstitutional. They expect those constitutional issues to be thoroughly briefed by the parties and other amici. Rather, amici write to aid the Court's understanding of the practical consequences of holding IPR unconstitutional, based on the extensive experience of many of them in litigating patents before the agency and in the courts. The bottom line: if the Court were to hold that Article III and Seventh Amendment protections must be provided for all adjudications of patent validity, that holding would not significantly disrupt the patent system. Rather, improvements to agency reviews of issued patents, subject to de novo review by Article III courts, would likely improve the consistency, reliability, and fairness of patent validity adjudications.

In amici's view, were the IPR provisions of the America Invents Act (“AIA”) to be found unconstitutional, the patent system would not be cast into turmoil. The Act's provisions relating to PTAB adjudications are readily severable from the rest of the AIA. Moreover, modified IPR could be implemented with “fixes” that are readily available to Congress. Such modified reviews could still allow the agency to apply

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its administrative expertise to questions of patentability, while preserving the historical role of courts and juries in adjudicating patent validity.

Ultimately, the crafting of specific reforms is for Congress, not this Court. But the prospect of reform can be a welcome boon, and need not be a downside, of any holding that IPR is unconstitutional. Legislative reforms to address constitutional concerns could ameliorate many of the problems with IPR as now implemented by the PTO. Those problems are legion, in large part because today's IPR represents a significant regulatory overreach by an administrative agency afforded great power to extinguish private property rights without adequate judicial review.

## **ARGUMENT**

### **I. Patents Are Private Property Rights.**

1. Patents, once issued, are vested private property rights, as long recognized in this Court's cases. E.g., *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824) (“The inventor has, during this period [of the life of the patent] a property in his inventions … of which the law intended to give him the absolute enjoyment and possession.”) (Story, J.). That is why patents cannot be taken for public use without just compensation. *Horne v. Dep't of Agric.*, 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[.]”) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)). Patents are likewise afforded the due process protections guaranteed for private property. *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) (Patents “are surely included within the ‘property’ of which no person may be deprived by a State without due process of law.”). In short, Congress is not “empowered to grant to inventors a favor, but to secure to them a right,” *McKeever v. United States* (*McKeever's Case*), 14 Ct. Cl. 396, 421 (1878), which takes the form of private property.

That right is based on a “carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design in return for the exclusive right to practice the invention for a period of years.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). Because an inventor is normally free to “keep his invention secret and reap its fruits indefinitely,” the grant of a patent rewards the inventor for “disclosure and the

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consequent benefit to the community.” Id. at 151. The public, at the same time, gains the benefit of the knowledge and ideas disclosed in the patent, upon which it can thereafter build, accelerating the “progress of science and useful arts.” U.S. Const., art. I, § 8, cl. 8.

In recognition of this bargain, an issued patent is a constitutionally-protected private property right that secures the “mind-work which we term inventions,” not the grant of a mere public privilege. *McKeever's Case*, 14 Ct. Cl. at 420. This understanding of patents as constitutionally-protected private property comports with that of the founding generation. In early nineteenth-century America, patents were described as “privileges,” but that term was understood to mean “civil rights in property afforded expansive and liberal protections under the law,” and to include other property rights and contract rights. Adam Mossoff, Who Cares What Thomas Jefferson Thought About Patents? *Reevaluating the Patent “Privilege” in Historical Context*, 92 Cornell L. Rev. 953, 957, 991 (2007); see also Adam Mossoff, *Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause*, 87 B.U. L. Rev. 689 (2007) (discussing nineteenth century Supreme Court cases, as well as the legislative history of the Patent Act, all of which confirm that patents, once issued, are constitutionally-protected private property).

If the character of an issued patent as purely private property were in any doubt, this Court's recurring analogy to land patents dispels it. See *Horne*, 135 S. Ct. at 2427 (a patent for an invention cannot be taken without compensation “any more than [the government] can appropriate or use without compensation land which has been patented to a private purchaser”); *Consol. Fruit Jar Co. v. Wright*, 94 U.S. 92, 96 (1876) (“A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions.”). Both, once issued, confer private property rights protected by the Constitution. In sum, issued patents represent private property rights that are neither solely derived from, nor solely exist by, the will of Congress.

**2. The private-property status of issued patents has certain legal consequences, long reflected in this Court's jurisprudence.**

First, although Congress may shape the limits of the exclusive right to a claimed invention before issuance of a patent, Congress may not change the fundamental nature of that right once vested by an issued patent. *McGlurg v. Kingsland*, 42 U.S. (1 How.) 202, 206 (1843). In *McGlurg*, this Court held that an already issued

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patent may not be invalidated simply because the underlying statute issuing it has been repealed. Id. (“[R]epeal [of a patent statute] can have no effect to impair the right of property then existing in a patentee, or his assignee, according to well-established principles of this court[.]”). And, consistent with the well-established understanding that patents are private property, the Court relied on real-property cases to reach its holding. See id. (citing *Society for the Propagation of the Gospel in Foreign Parts v. New Haven*, 21 U.S. (8 Wheat.) 464 (1823) (a case addressing the status of property rights in land under a treaty)).

Private property that is vested thus comes with settled expectations that cannot be disturbed by retroactive changes to the nature of the right. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (explaining that patent rights constitute “the legitimate expectations of inventors in their property” and “courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community”).

Second, one of the sticks inherent in the bundle of rights owned by a patentee - the most important one - is the right to exclude. See *Bonito Boats*, 489 U.S. at 150. That right has, from the beginning, been protected by common-law property doctrines that apply to other forms of private property. Just as a real property owner has a trespass claim against someone who invades his property, patent owners have an infringement claim. Infringement of a patent is a tort tantamount to trespass. Nineteenth-century jurists spoke in those terms and applied common-law property doctrines to patent disputes. See, e.g., *Goodyear Dental Vulcanite Co. v. Van Antwerp*, 10 F. Cas. 749, 750 (C.C.D.N.J. 1876) (No. 5,600) (equating patent infringement with a “trespass” of horse stables); *Brooks v. Byam*, 4 F. Cas. 261, 268-70 (C.C.D. Mass. 1843) (No. 1,948) (Story, Circuit Justice) (analogizing a patent license to a “right of way … over the grantor’s lands” and applying real property cases and common-law property treatises to adjudicate a patent dispute). That understanding continued into the twentieth century. See *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 648 (1915) (describing patent infringement as the “tortious taking of a part” of the “exclusive right conferred by the patent [which] was property”).

As early cases reflect, the right to enforce an issued patent exists apart from congressional favor. “When the government, fulfilling the intent of the founders, granted to inventors a new right of property in their inventions, no statutory command was needed to open the door of equity to receive the patentee’s bill to

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stop future trespasses, and to make the defendant pay for past trespasses.” Computing Scale Co. v. Toledo Computing Scale Co., 279 F. 648, 671 (7th Cir. 1921).

Finally, as Petitioner and other amici cover in detail, patent invalidity claims likewise have common-law roots. Private parties' competing claims of patent invalidity have traditionally been litigated in the courts, and were litigated in the courts of England, including with juries ruling on fact questions related to validity, at the time of the founding. See Petr. Br. 22-27; Amicus Curiae Brief in Support of Neither Party filed by H. Tomás Gómez-Arostegui and Sean Bottomley, at 30-33 (compiling eighteenth century cases where juries decided validity issues).

As this Court held at the turn of the twentieth century, the long-established understanding was that the “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.” McCormick Harvesting Mach. Co. v. C. Aultman & Co., 169 U.S. 606, 609 (1898). In McCormick Harvesting, the Court both reaffirmed and relied upon the fact that once a patent issues, “[i]t has become the property of the patentee, and as such is entitled to the same legal protection as other property.” Id. at 609. Given the private-property nature of the patent, the Court expressed its concern that permitting the agency to cancel an issued, vested patent “would be … an invasion of the judicial branch of the government by the executive.” Id. at 612.

For similar reasons - vested private-property status - quiet title disputes about land patents have likewise historically been adjudicated in courts, not by the issuing agency. See, e.g., Moore v. Robbins, 96 U.S. 530, 532 (1877) (“[W]hen the patent has been awarded to one of the contestants, and has been issued, delivered, and accepted, all right to control the title or to decide on the right to the title has passed from the land-office,” and “from the Executive Department of the government.”); United States v. Stone, 69 U.S. (2 Wall.) 525, 535 (1864) (“A patent is the highest evidence of title, and is conclusive … until it is set aside or annulled by some judicial tribunal.”). This applies even when some party claims a mistake in the original issuance of the patent. See Moore, 96 U.S. at 532 (Once a land patent issues, “[i]f fraud, mistake, error, or wrong has been done, the courts of justice present the only remedy.”); Stone, 69 U.S. at 535 (“Patents are sometimes issued unadvisedly or by mistake.... In such cases courts of law will pronounce them void.”).

Consistent with these precedents, there is a deep-rooted historical tradition of litigating challenges to patent validity in courts, often with juries, both in the

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English common-law tradition and in the early years of the Nation. See generally Amicus Curiae Brief in Support of Neither Party filed by H. Tomás Gómez-Arostegui and Sean Bottomley.

Thus, whether as a defense to an infringement claim, or as a freestanding claim for relief, the forum for adjudication of patent validity has historically been the courts. Early congressional enactments reflected this understanding, largely following pre-existing common law regarding challenges to patent validity. See *Mowry v. Whitney*, 81 U.S. (14 Wall.) 434, 440 (1871) (describing the 1836 Patent Act as following “the common law in regard to annulling patents”). In sum, and as for land patents, once “title ha[s] passed from the government,” a more complete form of judicial review is available because “the question became one of private right.” *Johnson v. Towsley*, 80 U.S. (13 Wall.) 72, 87 (1871).

3. This tradition of judicial adjudication of patent validity ended only very recently. In upholding the substitution of administrative adjudication for federal courts, the Federal Circuit based its holding on the erroneous conclusion that the “patent right” is a “public right” because it “derives from an extensive federal regulatory scheme, and is created by federal law.” *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1289-90 (Fed. Cir. 2015) (internal quotation marks and citation omitted).

But for all of the above reasons, patents are not “public rights.” Rather, they are a form of private property imbued with vested characteristics that cannot be retroactively altered by Congress. The basic premise of MCM - that patents are mere public rights - was thus both wrong and destructive of long-held understandings underpinning the stability and security of patent rights. Whatever the Court decides with respect to the constitutionality of IPR, it should reject the Federal Circuit’s erroneous holding that patents are public rights.<sup>3</sup>

**II. Holding IPR Unconstitutional Need Not Cause Significant Disruption; Congress May Readily Fix The Problems Created By IPR's Significant Expansion Of Agency Power.**

Petitioner has argued that the historical status of patent validity claims as private rights litigated in Article III courts (and in front of juries) compels the conclusion that IPR is unconstitutional. See Petr. Br. 22-39. Respondents will no doubt disagree. Amici do not address these constitutional arguments in the expectation

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that they will be well-covered in other briefing. Rather, amici, grounded in the experience of many of them as frequent litigants on both sides of the “v” before both the PTAB and the courts, seek here to inform the Court about the potential practical consequences of holding IPR unconstitutional.

In amici's view, holding IPR unconstitutional need not cause widespread disruption within the patent system. In the first place, any such holding would affect only IPR, and not the America Invents Act as a whole. The IPR provisions are discrete and can easily be severed from the rest of the Act. Moreover, in fixing the AIA's provisions relating to IPR, Congress would have an opportunity to simultaneously address many of the problems that have plagued the IPR process as implemented by the PTO. The end result is likely to be a system that more fairly and efficiently adjudicates patent validity claims, affording courts and the PTAB roles appropriate to their comparative constitutional and practical advantages.

**A. Holding IPR Unconstitutional Would Not Cause Widespread Disruption to the Patent System.**

Holding IPR unconstitutional would have a narrow effect. It need not disturb most of the remainder of the AIA, nor the PTO's ability to conduct appropriate error-correction proceedings through reissue or ex parte reexaminations.

As an initial matter, IPR judgments that have become final need not be disturbed. See *Harper v. Va. Dep't of Taxation*, 509 U.S. 86, 97 (1993) (a new rule declared in a federal case is applicable only to cases “still open on direct review”); 35 U.S.C. § 142 (Federal Circuit appeal must be filed no later than 60 days after PTAB decision); *Chicot County Drainage Dist. v. Baxter State Bank*, 308 U.S. 371, 374-77 (1940) (holding that a final judgment had full preclusive effect notwithstanding that the Court had, subsequent to the judgment, held unconstitutional the statute conferring jurisdiction on the district court in the earlier case).

Moreover, because the IPR provisions are discrete and plainly severable from the remainder of the Act, a holding on the constitutional question here would not invalidate any of the AIA's other provisions. A “court should refrain from invalidating more of the statute than is necessary.... [W]henever an act of Congress contains unobjectionable provisions separable from those found to be unconstitutional, it is the duty of this court to so declare, and to maintain the act in so far as it is valid.” *Alaska Airlines v. Brock*, 480 U.S. 678, 684 (1987) (internal quotation marks and citation omitted).

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Severability applies unless it is overcome by clear intent that all provisions of an act must rise and fall together. See *Buckley v. Valeo*, 424 U.S. 1, 108 (1976) (per curiam) (“Unless it is evident that the Legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law.”). No such intent is evident here. Severing the IPR provisions, if deemed unconstitutional, would avoid the tail wagging the dog, given the broad scope of the AIA.

The AIA constitutes the first “comprehensive patent law reform in nearly 60 years.” H.R. Rep. No. 112-98, 38 (2011), reprinted in 2011 US.C.C.A.N. 67. Its reforms extend far beyond the creation of IPR, and include, *inter alia*, the shift to a “first inventor to file” patent system, *id.* at 40-43, permitting “virtual marking” to provide public notice of a patent and limiting false marking suits, *id.* at 52-53, and expansion of pre-issuance submissions from third parties, *id.* at 48-49. Although the creation of IPR and other post-grant review procedures was a significant part of the Act, none of the many other important reforms depend upon IPR to function. Such independence alone indicates that the AIA need not rise and fall together. See *Buckley*, 424 U.S. at 108.

There is no other indication that Congress would have wanted the entire Act, or any other portion of it, to fall if IPR were inoperative. The lack of a severability clause does not supply the requisite indicia of congressional intent. *Alaska Airlines*, 480 U.S. at 686 (“In the absence of a severability clause, … Congress’ silence is just that - silence - and does not raise a presumption against severability.”). Nor can any inference be drawn from the rejection of a severability clause during the legislative process. See, e.g., 157 Cong. Rec. H4,491 (daily ed. June 23, 2011) (statement of Rep. Watt) (describing an amendment offered during the House of Representatives floor debate that would have added a severability clause as simply “standard policy”; the amendment was later withdrawn). The clause could have been rejected simply because it is unnecessary, or for any number of other reasons. Ultimately, such “‘mute intermediate legislative maneuvers’ are not reliable indicators of congressional intent.” *Mead Corp. v. Tilley*, 490 U.S. 714, 723 (1989) (quoting *Trailmobile Co. v. Whirls*, 331 U.S. 40, 61 (1947)); see also e.g., *City of Milwaukee v. Illinois & Michigan*, 451 U.S. 304, 332 n.24 (1981) (rejecting reliance on rejection of a proposed amendment in determining legislative intent because, among other things, “unsuccessful attempts at legislation are not the best of guides to legislative intent”).

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Finally, the PTO's ability to correct errors in issued patents with the benefit of agency expertise will be preserved even under a judgment holding IPR unconstitutional. Alternative procedures within the PTO will remain available to address the same kinds of prior art as IPRs, including reissues and ex parte reexaminations. See 35 U.S.C. § 251 (reissue); id. §§ 302-307 (ex parte reexaminations). Like IPRs, ex parte reexaminations may be requested by any person, id. § 302, but the proceedings are otherwise fundamentally different. If instituted, reexamination is conducted by the PTO on an ex parte basis, with no involvement of third parties; the proceedings are solely between the government and the patent owner. Moreover, reexamination is not conducted like litigation, with discovery, burdens of proof, trials, and judgments. Rather the examiner works with the patentee using precisely the same iterative process as in the initial examination to refine and correct the patent, including freely permitting amendments. Id. § 305. IPR, on the other hand, involves litigation between private parties, no iterative correction of errors, and is not necessary to preserve the PTO's ability to correct errors in issued patents.

**B. Compelling Congress to Take Another Look at IPR Would Permit Congress to Rebalance the Expansion of Administrative Power that Has Undermined Patent Rights.**

In the view of amici, the problems that have plagued the IPR process are significant. If the Court were to hold IPR unconstitutional, it would present an opportunity for Congress to remedy the problems created by the agency's use of its new patent-validity adjudication power to adopt overwhelmingly pro-petitioner rules.

**1. The PTAB has exercised its regulatory discretion in a manner that makes IPR overwhelmingly and unfairly judge patents to be invalid.**

By assigning the power to adjudicate patent validity to the PTO, Congress conferred substantially more authority on the PTO (including the PTAB) than it would

(and anti-patent owner) have if Congress had left the adjudication of patent validity to the courts. This power transfer results not only from transferring an adjudicative function, but also, in part, from precedent accepting the regulatory discretion inherent within such a delegation of power to an administrative agency. See *Chevron USA Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 843 (1984) (“[I]f

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the statute is silent or ambiguous ..., the question for the court is whether the agency's answer is based on a permissible construction of the statute.”).

Accordingly, when interpreting any ambiguity in the Patent Act, the PTO may choose from a range of interpretations, so long as its interpretation is reasonable, even if a court might construe the statute differently. See *id.* at 844 (“[A] court may not substitute its own construction of a statutory provision for a reasonable interpretation made by the administrator of an agency.”); *Cuozzo Speed Techs*, 136 S. Ct. at 2144-45 (holding that “construing a patent claim according to its broadest reasonable construction” in IPR “represents a reasonable exercise of ... rulemaking authority”).

The PTO has overwhelmingly exercised the agency discretion affirmed in *Cuozzo* to select pro-petitioner alternatives when implementing IPR. For example, this regulatory choice is reflected in the selection of the “broadest reasonable interpretation” standard for claim construction in IPR. *Cuozzo*, 136 S. Ct. at 2136; 37 C.F.R. § 42.100. By using an artificially expansive reading of claims, beyond their ordinary meaning to one skilled in the art and regardless of the prosecution history and the way that claims may have been narrowed or refined during examination, that standard makes claims more likely to run afoul of otherwise distinguishable prior art than the standard applied in the courts. *Cuozzo*, 136 S. Ct. at 2139 (noting courts give claims their “ordinary meaning ... as understood by a person of skill in the art”).

The PTO also declined to apply the presumption of validity Congress mandated for issued patents whose validity is adjudicated in court, 35 U.S.C. § 282(a). See 77 Fed. Reg. 48,680, 48,697 (Aug. 14, 2012). Although the statute requires the PTO to apply a lower burden of proof to patent challengers than the courts would (preponderance of the evidence rather than clear and convincing proof), 35 U.S.C. § 316(e), nothing in the IPR statute would preclude use of the presumption of validity although it would be rebutted at a lower evidentiary standard. When all of the agency's regulatory choices are combined, the result is that IPR functions as a pro-petitioner, patent-invalidating juggernaut.

The numbers speak for themselves. Through July 31, 2017, nearly 7,000 IPR petitions have been filed. PTO, Patent Trial and Appeal Board, Trial Statistics: IGR, PGR, CBM, at 3 (July 2017) (“PTAB Statistics”).<sup>7</sup> For the nearly 5,400 petitions for IPR, post-grant review or covered business method review in which institution decisions have been made, more than two-thirds (68.5%) were instituted. *Id.* at 7. Institution leads almost invariably to patent invalidity; some or

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all patent claims are found invalid in more than 80% of the cases in which written decisions are issued. Id. at 11. And most of the time (65% of cases), it is the case that all patent claims are found invalid; in an additional 17% of cases, some claims were invalidated.

What's more, these statistics understate the actual rate at which the PTAB adjudicates patents invalid. As discussed below, the same patents can be (and often are) challenged repeatedly before the PTAB, but the statistics are compiled on a petitions-filed (not patents-challenged) basis. See Anne Layne-Farrar, *The Other Thirty Percent: An Economic Assessment of Duplication in PTAB Proceedings and Patent Infringement Litigation*, at 6 (June 28, 2017). For example, imagine that four petitions were filed challenging the same claim and the first two were denied, the third was instituted but the claim found valid, and the fourth - building on everything learned through the first three unsuccessful petitions - was instituted and the claim was invalidated. See id. The PTO's statistics methodology would report this as a 50% institution rate, with claims invalidated in 50% of the written decisions. But it is in fact a 100% invalidity rate for the patent challenged. Because, as the next section details, duplicative litigation before the PTAB is very common, statistics calculated on a per-patent basis would show a claim-invalidation rate much higher than 82%.

By comparison, a 2014 study of district court cases filed in 2008 and 2009 concluded that courts held patents invalid only about 42% of the time that the cases did not settle, John R. Allison et al., *Understanding the Realities of Modern Patent Litigation*, 92 Tex. L. Rev. 1769, 1787 fig.4 (2014) - and this invalidation rate is roughly half the PTAB rate despite the fact that the grounds for invalidity that can be asserted in district court are more numerous than the grounds available in IPR, compare 35 U.S.C. § 311(b), with id. § 282(b)(2), albeit judged under a higher evidentiary standard.

When patent challengers get second, third, and fourth bites to attack validity before the agency, and with friendlier rules than they would face in court, the incentives are too great not to keep trying, especially when the agency adjudication can relieve them of the need to defend an infringement action in court. See *infra* II.B.2. This effect is magnified by the agency's practice of manipulating procedures to achieve desired outcomes, for example by admittedly stacking PTAB panels to ensure that any PTAB judgments the agency dislikes are overturned by expanded panels. Before its lopsided rules went into practice, the PTO estimated

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approximately 460 petitions would be filed per year in the first few years after enactment of the AIA. See 77 Fed. Reg. at 48,724. By fiscal year 2015, the number of annual petitions filed (over 1,700) was more than three times what the PTO projected for the year. See PTO, Patent Trial and Appeal Board Statistics, at 4 (Sept. 2015).

The IPR process can be analogized to an individual purchasing land through appropriate legal channels, only to be told years after building a factory on that land, investing in technology, and hiring employees, that the property very likely will be taken away after a valuable business is created. And even if the landowner is lucky enough to win the first challenge, second, third, fourth, or more challengers can come along to take a shot at the property. Each challenger has a better than even chance of winning; put together, the odds are long against the owner being able to retain the property. This unacceptable risk significantly diminishes the value of the patent private property right, and shortchanges the corresponding innovation, investment, and job creation that is achieved by building on the bedrock of a strong patent system.

**2. Patent owners face repeated and duplicative patent challenges because of the inapplicability of judicial preclusion doctrines.**

As this Court has recognized, the IPR statute affords the PTAB effectively the same patent-invalidating power as the district court. See Cuozzo, 136 S. Ct. at 2143 (In IPR, “a decision to cancel a patent normally has the same effect as a district court’s determination of a patent’s invalidity.”). Expanding administrative power in this way has invited duplicative litigation in two directions: parallel litigation across different forums, and serial litigation before the agency itself. Requiring patent owners to repeatedly defend the same claims, in competing forums with different rules, significantly undermines the strength and stability of patents.

Because the res judicata doctrines that would apply in courts do not apply of their own force before the PTAB, there is effectively no quiet title protection for patent owners. The IPR statute provides that the PTO “may,” but is not required to, refuse to institute an IPR petition on the ground that “the same or substantially the same prior art or arguments previously were presented to the Office.” 35 U.S.C. § 325(d).12 Accordingly, IPR petitions may be serially filed without limit against a patent by the same or different petitioners until the challenge is eventually

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successful. This is not a hypothetical possibility. Among only those patents that were tried before the PTAB and were subject to final written decisions, a full third had faced more than one IPR proceeding. Bryan Koenig, PTAB Not Mowing Down Patents, USPTO Head Says, Law360, May 16, 2017 (reporting statements of former PTO Director Michelle Lee). If the lens is broadened to the institution stage, the serial nature of IPR filings is even more apparent. From the effective date of IPR in September 2012 through June 2016, 49% of IPR and post-grant review petitions were serial petitions. Layne-Farrar, *supra*, at 7.

Making matters worse, the inapplicability of judicial doctrines like stare decisis means that successive petitions often work. The decisions of PTAB panels do not bind one another, and the panels vary in their statutory interpretation and evaluation of the same arguments. A study of a sample of 294 patents subject to serial IPR challenges revealed that for 63 of them (over 20%), one or more prior art references were admitted in a successive proceeding that had previously been denied. Layne-Farrar, *supra*, at 7.

On top of the serial litigation before the PTAB, parallel litigation between the PTAB and the courts, too, is an overwhelming reality for patent owners. The vast majority - over 85% - of patents challenged in IPR are also involved in district court proceedings. See Saurabh Vishnubhakat, et al., Strategic Decision Making in Dual PTAB and District Court Proceedings, 31 Berkeley Tech. L.J. 45, 69 (2016) (studying all patent cases filed in both forums between September 2011 and June 2015 and concluding that “86.7% of IPR-or [covered business method]-challenged patents are also being litigated in the federal courts”). Essentially, “challenges to patent validity through inter partes review are primarily … a defensive response to existing litigation.” *Id.* at 76.

This invites strategic behavior whereby patent challengers manipulate the timing of IPR to give them a second bite at the apple if they are unsuccessful on patent invalidity defenses in federal court. Under the PTO’s interpretation of the statute, there are ways to circumvent the one-year time limit for filing an IPR petition after an infringement suit is filed, for example by requesting joinder with a pending IPR petition. See Nidec Motor Corp., 2017 WL 3597455, at \*6 (Dyk, J., concurring). Joinder and similar mechanisms thus enable district court defendants to preserve the ability to seek IPR if they lose their invalidity defense in district court.

The end result can be that patents judged valid by an Article III court are later judged invalid by an administrative tribunal, applying looser standards. See, e.g.,

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Novartis AG v. Noven Pharm. Inc., 853 F.3d 1289, 1294 (Fed. Cir. 2017) (“[T]he PTAB properly may reach a different conclusion [than a federal court] based on the same evidence.”); PATENT ACT - Finding Effective Solutions to Address Abusive Patent Practices: Hearing on S. 1137 Before the S. Comm. on the Judiciary (May 7, 2015) (statement of Kevin H. Rhodes, Vice President and Chief Intellectual Property Counsel of 3M Company, at 25) (describing additional example of an unsuccessful district court litigant resorting to IPR). In short, a patent infringement claim in an Article III court can effectively be nullified by an administrative tribunal. And this effect is asymmetric; a judgment of validity can be continually re-litigated, whereas a judgment of invalidity is final.

### **3. The problem of duplicative litigation is made worse by the absence of standing requirements.**

The possibilities for serial and duplicative litigation are magnified, moreover, because the PTAB's adjudicative power, unlike a court's, does not depend upon the existence of an actual case or controversy. IPR petitions may be, and often are, filed by persons who would not satisfy standing requirements in federal court. This has led to abusive practices, such as hedge funds that are shorting the stock of a patent holder filing multiple IPR petitions in an effort to drive down share prices through the mere fact of petition filing - given the well-known statistics on the high patent “kill rate” in IPRs - regardless of how those IPR petitions are resolved on the merits. See Ed Silverstein, Hedge Fund Manager Kyle Bass Continues in His Efforts at the PTAB, Inside Counsel, Sept. 17, 2015 (describing hedge fund manager's strategy of filing 30-plus IPR petitions against pharmaceutical patents, many of them successive).

Standing requirements do apply, of course, for the limited appeals available from PTAB decisions to the Federal Circuit. 35 U.S.C. § 141(c); Consumer Watchdog v. Wis. Alumni Research Found., 753 F.3d 1258 (Fed. Cir. 2014). But because the Federal Circuit applies deferential administrative review standards, e.g., Novartis AG, 853 F.3d at 1291 (reviewing factual findings under substantial evidence standard), and the volume of appeals cannot possibly keep pace with the volume of IPRs, Federal Circuit review has not been sufficient to fix the many structural and procedural failings of the system. See Kerry S. Taylor & Daniel A. Kamkar, IPR Appeals: Pendency and Success Rates at Fed. Cir., Law360, Feb. 8, 2017 (reporting that the Federal Circuit issued 99 decisions on IPR appeals in 2016, with a 75% affirmance rate).

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**C. Congress May Readily Fix the IPR System to Address Any Constitutional Deficiencies.**

The Court, and Congress, have tools at hand to avoid turmoil following any decision holding IPR unconstitutional. To start, as it did in the bankruptcy context, this Court could stay its judgment to afford Congress time to address any infirmities in IPR. E.g., N. Pipeline Constr. Co. v. Marathon Pipe Line Co., 458 U.S. 50, 88 (1982) (plurality) (staying judgment because a “limited stay will afford Congress an opportunity to reconstitute the bankruptcy courts or to adopt other valid means of adjudication, without impairing the interim administration of the bankruptcy laws”).

Several options are available to Congress to address constitutional concerns. For example, Congress could provide for different forms of Article III review or otherwise alter the IPR system such that the PTAB could serve as an “adjunct” to the district court. See United States v. Raddatz, 447 U.S. 667, 682 (1980) (holding magistrate judges act as permissible adjuncts because “[t]he authority - and the responsibility - to make an informed, final determination … remains with the [district] judge”).

Bankruptcy courts and magistrate judges provide ready models. Magistrate judges serve as adjuncts to the district court by issuing recommendations on the resolution of dispositive motions to the district court, which may adopt the report and recommendation but must review de novo any parts of the recommendation to which there is an objection. 28 U.S.C. § 636(b)(1)(B)-(C); Raddatz, 447 U.S. at 681-82. Not only could Congress provide for the PTAB to issue opinions akin to reports and recommendations, it could materially reduce the current duplicative litigation between the PTAB and the courts by doing so. Specifically, when a related patent infringement suit is pending - as it usually is - Congress could authorize the PTAB to issue an advisory opinion on patent validity to the district court in which the related patent infringement suit is pending.

In bankruptcy court, the degree of involvement by Article III courts depends upon whether the claim at issue involves a “core” or “non-core” proceeding. 28 U.S.C. § 157(b)(2), (4). “Core” proceedings are those in which Congress “thought bankruptcy courts could constitutionally enter judgment” because they are intrinsically intertwined with the core bankruptcy function of “the restructuring of debtor-creditor relations.” Wellness Int'l Network, Ltd. v. Sharif, 135 S. Ct. 1932, 1940 & n.3 (2015); see N. Pipeline, 458 U.S. at 71 (plurality) (assuming without

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deciding that the “restructuring of debtor-creditor relations” “may well be a ‘public right’ ”). Such proceedings are decided by bankruptcy judges subject to appeal to district courts, followed by the courts of appeals, 28 U.S.C. § 158, with review “under traditional appellate standards,” Stern v. Marshall, 564 U.S. 462, 475 (2011). For “non-core” proceedings, however - meant to cover the adjudication of certain private rights that require Article III adjudication - the bankruptcy court functions much as a magistrate judge does, issuing opinions subject to de novo review by the district court, which issues the final judgment. 28 U.S.C. § 157(c); Stern, 564 U.S. at 475. Congress could provide for an equivalent form of de novo review of PTAB decisions in the district courts.

Indeed, the Patent Act already contains a well-established model for de novo district court review. Specifically, the Patent Act provides for appeals through the institution of a new civil action in district court for certain post-grant proceedings (but not IPR). 35 U.S.C. §§ 141(d), 146. Appeals under Section 146 are currently provided for derivation proceedings, and were long used for interferences (and still are for interferences filed regarding first-to-invent patents, which do not apply for newer first-to-file patents established by the AIA). See 35 U.S.C. § 146 (2010); AIA, § 3(n), 125 Stat. at 293 (providing for continuation of interferences related to pre-AIA patents).

A civil action has been available in such interference proceedings involving a granted patent since 1836. See P. J. Federico, Evolution of Patent Office Appeals: Part I, 22 J. Pat. Off. Soc'y 838, 840 & n.6 (1940). And it was precisely because two adverse parties with competing claims were involved that the 1836 Congress provided a civil action. See S. Doc. No. 338 (1836), as reprinted in 18 J. Pat. Off. Soc'y 854, 858 (1936). This choice reflects Congress's early and long-standing understanding that fairness and constitutional structure favored permitting a party aggrieved by a decision in an adversarial proceeding before the agency to appeal de novo to the district court. Congress was able to preserve this right when derivation proceedings replaced interferences, and could do so again for IPRs. Another option for Congress would be to require both parties' consent to the authority of the PTAB to issue a binding final judgment on patent validity. See Wellness Int'l Network, 135 S. Ct. at 1939 (holding that “Article III is not violated when the parties knowingly and voluntarily consent to adjudication by a bankruptcy judge” of claims for which they “are constitutionally entitled to an Article III adjudication”); Peretz v. United States, 501 U.S. 923, 936 (1991) (holding that allowing a magistrate judge to supervise jury selection in a criminal

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trial, with consent, does not violate Article III). Currently, only the patent challenger consents to IPR.

Amici recognize that, if the Court were to hold IPR unconstitutional, these fixes are for Congress to undertake, not the Court. They offer their views based upon many decades of experience navigating patent litigation only to reassure the Court that holding IPR unconstitutional can yield a narrow ruling that need not disturb the remainder of the AIA, or completed IPRs, and that alterations to IPR, if necessary, need not be drawn out, difficult, or disruptive.

## CONCLUSION

For the foregoing reasons, the Court should hold that issued patents and patent validity claims are private rights. If the Court invalidates IPR, the Court should stay its judgment to permit Congress to fix any constitutional infirmities in IPR, and hold that the other parts of the AIA are severable, or remand that question to the Court of Appeals for further consideration.

## **Brief of Biotechnology Innovation Organization (BIO) and Association of University Technology Managers (AUTM) as Amici Curiae**

### **SUMMARY OF ARGUMENT**

I. Patents are property to which private rights attach. Under this Court's jurisprudence, patents have long been treated as conveying private rights, not "public rights." Indeed, it is well-settled that patents are constitutionally protected forms of private property under the Fifth Amendment's Takings Clause.

The Government contends that patents are "quintessential public rights" and compares them to federal employee benefits, veterans' benefits, and Social Security benefits. Opp. Cert. 12. But contrary to the Government's position, the historical treatment of patents shows that they are not analogous to statutory benefits deemed public rights. Treating them as such would devalue patent rights and disrupt well-settled investment-backed expectations. This Court should reaffirm that patent rights are private, not "public rights."

The Government's theory also would undermine the property-based quid pro quo between inventor and society that provides the basis for the patent system.

According to the Government, patent rights are no more vested or secure than statutory benefits that can be altered or revoked altogether. Such a theory is inconsistent with the specific demand of the Constitution and would disrupt the reasonable expectations of the biotechnology industry and many other businesses, academic institutions, and other organizations that have made significant investments in intellectual property in reliance on the premise that patent rights are vested forms of property rather than revocable "public rights" or governmental gratuities. The Government's "public rights" theory is far too sweeping and does not provide an appropriate basis for resolving this case.

II. In the past, this Court has concluded that, in some circumstances, Congress may assign the adjudication of certain private rights to non-Article III tribunals, where the parties have consented to the arrangement, the rights involved have not been specifically provided for in the Constitution, and the administrative tribunals have been confined to narrow jurisdiction and have adopted fair adjudicatory procedures.

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The IPR process in the Patent Trial and Appeal Board (“PTAB”) has none of those attributes. As currently constituted, the IPR process does not offer a fair and impartial forum for the adjudication of patent rights. The IPR process has been transformed into a “hunting license,” allowing anyone (including financial speculators) to force patent-owners to undergo burdensome and expensive defenses of their patents, sometimes over and over again. PTAB judges are Title 5 employees of the executive branch, appointed by the Secretary of Commerce and serving under his “policy direction.” These executive branch employees can, and sometimes do, effectively overturn the results of years of litigation in Article III courts.

The IPR process is also conspicuously different from other proceedings to review patents, such as interference or derivation proceedings. Those proceedings are narrower in scope, have more fairness protections, operate under less prejudicial timelines, often concern another inventor’s claim to a patent, and allow for more robust judicial review.

The IPR process is particularly suspect as applied retroactively to patents issued prior to the enactment of the AIA in 2011. Because property rights vest upon the issuance of a patent, Congress cannot undermine or nullify those rights after-the-fact. The current IPR process offers no special safeguards to protect vested rights. Instead, it eliminates statutory and constitutional protections afforded patents in Article III courts, resulting in many cases in the complete destruction of property rights.

## **Brief of the Pharmaceutical Research and Manufacturers of America as Amicus Curiae in Support of Petitioner**

### **SUMMARY OF ARGUMENT**

From the earliest days of the Republic, courts and Congress understood that issued patents are property - just like granted rights in land and chattels - and must be protected as such. Whatever leeway Congress has to dictate the terms on which patents issue, cancellation and invalidation of already-issued patents must conform to the requirements applicable to private property. In this case, the Federal Circuit upheld inter partes review based on the mistaken view that patent rights are public rights, even after the patent is issued and vests. That misconception cannot be sustained. Text, history, and common sense all demonstrate that patents, once issued, are personal property, not public rights.

I-A. While the boundary between private and public rights has sometimes been unclear, disputes over private property have always fallen on the private-rights side of the line. For “[w]holy private tort, contract, and property cases,” the public-rights doctrine is “not at all implicated.” *Atlas Roofing Co. v. Occupational Safety & Health Review Comm'n*, 430 U.S. 442, 458 (1977). Once issued and vested, patents are property rights, not public rights. Courts have understood as much for at least a century and a half; so did Framing-era Congresses. The Patent Act of 1793, for example, identified patents as “exclusive property.” Sec. 1, ch. 11, 1 Stat. 318, 320. As one early treatise concisely put it: “Patents are property.” Albert H. Walker, *Text-Book of the Patent Laws* § 151 (3d ed. 1895).

Like their contemporary counterparts, early Congresses confronted issues of patent quality (and even fraudulent procurement). But, for nearly 200 years, Congress addressed those issues by allowing the validity of issued patents to be challenged the way property rights are traditionally challenged - in court.

B. Issued patents have all the “attributes of personal property.” 35 U.S.C. § 261. Patents confer the right to exclude others, and to bring suit against those who invade that right. They can be bought, sold, and inherited. Patents are protected from government takings without compensation, from retroactive annulment by

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Congress, and from deprivation without due process. Public rights traditionally bear none of those hallmarks of private property.

C. Patents are similar to other government-conferred, private rights. Land patents and mining patents transfer property from the sovereign to individuals pursuant to a statutory scheme administered by an agency. Once issued, however, land and mining patents are “private rights of great value,” *Johnson v. Towsley*, 80 U.S. (13 Wall.) 72, 84 (1871); the lands they cover “cease[] to be the land of the government,” *United States v. Schurz*, 102 U.S. 378, 396-397 (1880). Copyrights are also “private rights,” in large part because, like patents, they confer rights of exclusion. Even licenses that are not property in the hands of the government can become private property once issued to individuals. Once issued, patents are private property as well.

D. The Federal Circuit focused on the fact that patents exist by virtue of statute and are granted by an administrative agency. But that speaks to how patents come into existence - not whether they are private property once issued. Once a land patent or mining patent is issued - by an agency under statutory authority - the land at issue becomes private property, not a public right. Issuance is thus a watershed moment. Congress may be able to grant agencies time-limited authority to corral mistakes in issuance before rights vest. But that does not include authority to continuously revisit and upset vested private property rights in perpetuity.

II. The Framers recognized that respect for private property was critical to the Nation's prosperity. The constitutional power “to secure” patent rights to inventors reflects that understanding. Our patent system can promote investment in research and development, and facilitate licensing of inventions, only if issued patents are accorded the respect accorded other forms of private property. Treating patents as public rights, as opposed to the private rights the Constitution directs Congress to “secur[e],” is inconsistent with constitutional goals.

III. The Federal Circuit upheld “inter partes” adversary litigation before an agency, over Seventh Amendment and Article III challenges, based on the erroneous view that issued patent rights are public rights rather than private property. That fundamental error at the threshold of the Federal Circuit’s analysis infected everything that came after. Once a court determines that a right is private, it must at the very least apply “searching” scrutiny to any scheme that provides for adjudication of that right before an agency. That searching review may include

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inquiry into consent (not granted here), or consent's significance in the particular context. Because the Federal Circuit mistakenly deemed issued patents to be public rather than private property rights, its analysis fell short of the searching review required when private rights are at stake. Reversal is warranted.

## **ARGUMENT**

Once issued to the inventor, patents are private property - not "public rights." This Court's cases, historical practice, the enactments of the earliest Congresses, and common sense all reflect that understanding. The Constitution grants Congress authority to "promote the Progress of Science and useful Arts" by "securing" to inventors "the exclusive Right" to their inventions. Our patent system can achieve that constitutional goal only if patents are accorded the stability and respect that is due other forms of property. The pharmaceutical industry invests hundreds of billions of dollars in researching and developing new treatments to improve the health and welfare of the public across the globe. Those investments make sense only because the resulting intellectual property is respected as property.

The question presented in this case asks whether Congress exceeded constitutional boundaries by granting the Patent and Trademark Office (PTO) - an administrative agency - authority to conduct adversary adjudications over the invalidation of issued patents. How that question is answered hinges on whether patents, once issued, are private property. Congress may have broad authority to assign determinations about public-rights questions to administrative agencies. But efforts to assign adjudication of "private rights" outside of the judicial branch are at the very least subject to "searching" review. The Federal Circuit upheld inter partes review based on its conclusion that patents are public rights even after they are issued to inventors. That conclusion cannot be reconciled with text, history, or common sense. It may be that questions over whether to issue a patent in the first place are questions of public rights. But once the patent has issued, the rights it conveys are private property rights - no less than the right to land granted by a government-issued land patent or the right to a chattel conveyed by a government sale. Because the Federal Circuit faltered at the very first step of the analysis, the judgment below cannot be sustained.

### **I. American Law Has Long Regarded Patent Rights As Private Property - Not Public Rights**

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While the boundary between “public” and “private” rights may not always have been clear, there should be no doubt that rights to private property fall on the “private rights” side of that divide. Whatever the scope of the “public rights” doctrine generally, “[w]holy private tort, contract, and property cases, \*\*\* are not at all implicated” by it. *Atlas Roofing Co. v. Occupational Safety & Health Review Comm'n*, 430 U.S. 442, 458 (1977) (emphasis added). Because they concern the “liability of one individual to another under the law as defined,” disputes over property are “matters ‘of private right’ ” - not public rights. *Stern v. Marshall*, 564 U.S. 462, 489 (2011).

Because issued patents are private property, they - and disputes about them - likewise fall on the “private” side of the divide. Issued “[p]atents \*\*\* have long been considered a species of property,” like land and chattels. *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999). For more than two centuries, the courts, Congress, and commentators have understood that issued patents are private property. That is true even though patent rights derive from government action. When the government is considering whether to grant property to an individual - whether through a utility patent or a land patent - the individual may have no “vested right.” *Johnson v. Towsley*, 80 U.S. (13 Wall.) 72, 84 (1871). Some unissued rights in the government's hands may not even qualify as “property.” Cf. *Cleveland v. United States*, 531 U.S. 12, 25-26 (2000). But once the government has conferred property to a citizen, “title \*\*\* passe[s] from the government,” and any dispute concerning the property “bec[o]me[s] one of private right.” *Johnson*, 80 U.S. (13 Wall.) at 87. Patents, once issued, are the private property of the inventors to whom they are issued, no less than issued land patents or other rights the government might confer.

**A. For Centuries, the Courts, Congress, and Commentators Have Understood That Issued Patents Are Private Property**

1. This Court and its members concluded long ago that patent rights, once issued, are private property. By 1824, this Court was already equating patents with “property.” *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824). Reiterating that conclusion nearly a century and a half ago, this Court observed that “[i]nventions secured by letters patent are property in the holder of the patent.” *Seymour v. Osborne*, 78 U.S. (11 Wall.) 516, 533 (1871). Patent rights “rest[] on the same foundation” as other property, *Consol. Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96

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(1877), and are “as much entitled to protection as any other property,” Cammeyer v. Newton, 94 U.S. 225, 226 (1877).

As one Justice summarized: “An inventor holds a property in his invention by as good a title as the farmer holds his farm and flock.” *Hovey v. Henry*, 12 F. Cas. 603, 604 (C.C.D. Mass. 1846) (Woodbury, Circuit Justice). Justice Story agreed, describing patent infringement suits as cases about “private rights.” *Wyeth v. Stone*, 30 F. Cas. 723, 728 (C.C.D. Mass. 1840). Patents thus concern “a question of property, of private right, unconnected with the public interest, and without any reference to the public, unless a case is made out of a design to deceive them.” *Whitney v. Emmett*, 29 F. Cas. 1074, 1080 (C.C.E.D. Pa. 1831) (Baldwin, Circuit Justice) (emphasis added).

This Court gave effect to that understanding early in this Nation's history. Because issued patents are property of the inventor, the Court held, Congress cannot rescind them by repealing the underlying patent law. *McClurg v. Kingsland*, 42 U.S. (1 How.) 202 (1843). Congress, the Court declared, could not “take away the rights of property in existing patents.” Id. at 206. Permitting Congress to do so would contravene “well-established principles,” *ibid.*, including the rule that the legislature cannot “extinguish[ ]” by repeal “rights of property already vested,” *Soc'y for the Propagation of the Gospel in Foreign Parts v. Town of New Haven*, 21 U.S. (8 Wheat.) 464, 493-494 (1823).

In *McCormick Harvesting Machine Co. v. Aultman*, 169 U.S. 606 (1898), the Court likewise rebuffed the Executive's attempt “to set \*\*\* aside” an already-issued patent. Id. at 609. Upon issuance, the patent “passed beyond the control and jurisdiction” of the Executive. Id. at 608. It became “the property of the patentee \*\*\* entitled to the same legal protection as other property.” Id. at 609. The Patent Office loses the “power to revoke, cancel or annul” a patent “upon [its] issue”; a contrary ruling would “deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive.” Id. at 612.

2. Early Congresses understood that patents confer property - “exclusive property,” Patent Act of 1793, § 1, ch. 11, 1 Stat. 318, 320 - to inventors. The Patent Acts of 1790 and 1793 (as well as the 1836 Act) authorized a patentee to seek damages from infringers by affording them “a right to sue at common law.” *Ex parte Wood*, 22 U.S. at 608. This Court has “long recognized” that “ ‘suit[s] at common law’ ”

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involve private rights - not public rights. Stern, 564 U.S. at 484 (quoting Murray's Lessee v. Hoboken Land & Improvement Co., 59 U.S. (18 How.) 272 (1856)). The 1790, 1793, and 1836 Patent Acts, moreover, specified the form of action, authorizing an “action on the case.” Patent Act of 1836, § 14, ch. 357, 5 Stat. 117, 123; Patent Act of 1793, § 5, ch. 11, 1 Stat. 318, 322; Patent Act of 1790, § 4, ch. 7, 1 Stat. 109, 111. An “action on the case” was a then-commonplace form of action used to obtain “damages for invasions of other property rights.” Feltner v. Columbia Pictures Television, Inc., 523 U.S. 340, 349 (1998).

Indeed, for nearly 200 years - from 1790 until at least 1981 - Congress provided only one mechanism for withdrawing wrongfully issued patent rights - an action in court. Patent Act of 1793, § 10, ch. 11, 1 Stat. 318, 323; Patent Act of 1836, § 12, ch. 357, 5 Stat. 117, 121-122; Pub. L. No. 82-593, § 281, 66 Stat. 792, 812 (1952). That is consistent with the understanding that patents, once issued, become personal property entitled to the protections afforded land and other forms of property. If Congress thought vested patent rights were not personal property (but mere public rights), it surely would have attempted to create an administrative process to rescind wrongfully issued patents at some point during the first 190 years of the Republic's history. See Printz v. United States, 521 U.S. 898, 905 (1997) (If “earlier Congresses avoided use of this highly attractive power, we would have reason to believe the power was thought not to exist.”). Yet it did not. That inaction was not for lack of incentives. The 1793 Patent Act was blamed for a surge in low-quality patents for non-useful innovations, as well as “extensive and serious” frauds. See S. Doc. 338, 24th Cong., 1st Sess., at 3 (1836) (noting that the 1793 Act “open[ed] the door to frauds, which have already become extensive and serious” and that “[a] considerable portion of all the patents granted are worthless and void”). Through the Patent Act of 1836, Congress attempted to promote greater discernment in the issuance of patents, 1 William C. Robinson, *The Law of Patents for Useful Inventions* §§ 49-50 (1890), and it revamped procedures in the 1870 Patent Act as well, id. § 48. But questions concerning the validity of granted patents, like other property disputes, were left to the courts. See Patent Act of 1836, §§ 14-17, ch. 357, 5 Stat. 117, 122-124; Patent Act of 1870, §§ 59-61, ch. 230, 16 Stat. 198, 207-208; 2 Robinson, *supra*, §§ 721-730.

Simply put, despite myriad revisions to the patent laws spanning nearly two centuries, Congress consistently refused to treat issued patents as anything less than granted and vested property rights. “The ‘numerousness of these statutes’ ” requiring the sort of process associated with private property, “‘contrasted with the

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utter lack of statutes' " permitting an agency to rescind a patent without those protections, " suggests an assumed absence of such power." Alden v. Maine, 527 U.S. 706, 744 (1999). Indeed, only once did Congress (arguably) purport to repeal issued patents itself - an effort this Court swiftly rebuffed. McClurg, 42 U.S. (1 How.) at 206-207.

Congress has, of course, enacted private bills granting (or restoring or extending) patents. See, e.g., Act of Jan. 25, 1828, ch. 3, 6 Stat. 370; Act of Feb. 7, 1815, ch. 36, 6 Stat. 147; Act of Jan. 21, 1808, ch. 13, 6 Stat. 70. As explained below, however, Congress's power to grant patent rights does not mean that already-granted patent rights are not property. See pp. 25-26, infra. Early Congresses also granted land patents. Act of Apr. 21, 1792, ch. 25, 1 Stat. 257; Act of May 5, 1792, ch. 30, 1 Stat. 266. Yet no one would say that land, once granted to an individual, is anything but that individual's private property. The same thing is true of utility patents once granted to inventors.

The Constitution provides that Congress may promote scientific progress by "securing" for inventors the "exclusive Right[s]" in their inventions. U.S. Const. art. I, § 8, cl. 8. Until recently, Congress confined itself to doing that. It created the Patent Office (Patent Act of 1836, § 1, ch. 357, 5 Stat. 117, 117-118), sometimes extended patent terms (see p. 12, supra), and permitted inventors to retain state-issued patents (see p. 12 n.3, supra). Consistent with the Constitution's text, for 190 years, Congress's enactments all sought to "secure" private property to inventors. Congress did not understand itself to have authority to do the opposite - to rescind property rights, already issued and secured to the inventor - at least not without the protections that would apply to efforts to divest a citizen of any other form of property.

3. Although dedicated patent treatises first took hold midway through the 19th century, they recognized from the outset that issued patents are property. Reflecting on nearly 100 years of practice, they observed that "[p]atents are property." Albert H. Walker, *Text-Book of the Patent Laws* § 151 (3d ed. 1895); see also 2 Robinson, *supra*, § 752; George Ticknor Curtis, *A Treatise on the Law of Patents for Useful Inventions*, at xx (4th ed. 1873). That conclusion carried with it the expected implications. It meant that a patentee could transfer his title through an assignment or license. See 2 Robinson, *supra*, § 752; Curtis, *supra*, §§ 167-168. It meant a patentee was entitled to compensation for use of his invention by the government. See Walker, *supra*, § 157. And it meant Congress could not "destroy"

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or “impair” patent rights: “Patent rights, once vested, are \*\*\* incapable of being divested by act of Congress.” Walker, *supra*, § 151; see 1 Robinson, *supra*, § 46. In short, treatise writers from the earliest times recognized that patents are individual property rights - not public rights.

### **B. Common Sense Compels the Conclusion That Patents Are Private Property Rights**

Common sense supports the same conclusion: Patent rights are in the nature of “[w]holly private \*\*\* property” rights, *Atlas Roofing*, 430 U.S. at 458, and are nothing like public rights such as tariffs, *Ex parte Bakelite Corp.*, 279 U.S. 438, 458-461 (1929), tribal membership, *Wallace v. Adams*, 204 U.S. 415, 423-425 (1907), and working-condition regulations, *Atlas Roofing*, 430 U.S. at 441-442. “The hallmark of a protected property interest is the right to exclude others.” *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 527 U.S. 666, 673 (1999). Patent rights include that “‘most essential stick [] in the bundle of rights that are commonly characterized as property.’” *Dolan v. City of Tigard*, 512 U.S. 374, 384 (1994). Indeed, “exclusion” has been said to be “of the very essence of the right conferred” by patents. *Cont'l Paper Bag Co. v. E. Paper Bag Co.*, 210 U.S. 405, 429 (1908). Patents can also be bought, sold, and inherited as “personal property.” 35 U.S.C. § 261; *Star Salt Caster Co. v. Crossman*, 22 F. Cas. 1132, 1136 (C.C.D. Mass. 1878) (Clifford, Circuit Justice) (holder of patent “may sell, assign, lease, or give away the property” as “with any other personal property”). Public rights, by contrast, share none of those attributes. No one would suppose that the public right to bring a citizen suit for Clean Water Act violations could be sold by one environmental group to another.

Patentees can sue private parties who infringe their patent rights for damages, see 35 U.S.C. § 284 - another traditional marker of private property rights. See *Stern*, 564 U.S. at 489. The resulting damages awards can be millions or hundreds of millions of dollars. PWC, 2017 Patent Litigation Study 9 (May 2017), <https://www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf>. It blinks reality to suggest that those actions involve “public” rights akin to a citizen suit. The “‘liability of one individual to another’” is quintessentially a question of private rights. *Stern*, 564 U.S. at 489.

Nor can the government “reserve to itself, either expressly or by implication,” the prerogative of using a patent without negotiating a license. *James v. Campbell*, 104

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U.S. 356, 358 (1882). That is because a patent, like other forms of personal property, “cannot be appropriated or used by the government itself, without just compensation.” Horne v. Dep’t of Agric., 135 S. Ct. 2419, 2427 (2015) (quoting James, 104 U.S. at 358); see also Cammeyer, 94 U.S. at 234-235; Brown v. Duchesne, 60 U.S. (19 How.) 183, 198 (1857). Patents are also “included within the ‘property’ of which no person may be deprived by a State without due process of law.” Fla. Prepaid, 527 U.S. at 642. And patents cannot be retroactively annulled, even after repeal of the law that authorized them. This Court long ago rejected the argument that Congress could “impair” a patentee’s existing “right of property” by retroactively changing the criteria for patentability. McClurg, 42 U.S. (1 How.) at 206. That conclusion, the Court explained, derives from the general prohibition on legislative repeal of other private rights. See *ibid.*; p. 9, *supra*.<sup>5</sup> That feature is common for private property rights - and less common for public rights. See *Lynch v. United States*, 292 U.S. 571, 577 (1934); *Coombes v. Getz*, 285 U.S. 434, 441-442 (1932); *Butler v. Pennsylvania*, 51 U.S. (10 How.) 402, 416 (1851); *Soc'y for Propagation of Gospel*, 21 U.S. (8 Wheat.) at 493-494. Those characteristics belie the notion that patent rights, once issued, are anything but private property.

### C. Analogous Areas of Law Confirm That Issued Patents Are Private Rights

Patents share many characteristics with other rights having statutory origins, including land patents, mineral patents, and copyrights. Precedent from those areas of law confirms that, once patents are issued, they are the personal property of the grantee.

1. From the time of the Framing, Congress and the Executive have transferred public property - lands owned by the federal government - to private citizens through land patents. See, e.g., *United States v. Schurz*, 102 U.S. 378, 396-397 (1880); Act of Apr. 21, 1792, ch. 25, 1 Stat. 257. Like utility patents, Congress’s authority to issue land patents derives from a specific constitutional provision - in the case of land patents, art. IV, § 3, cl. 2, which gives Congress the “Power to dispose of \*\*\* Property belonging to the United States.” “[T]here is a striking similarity” in that clause and the one “conferring the power upon the government under which patents are issued for inventions.” *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 358 (1888).

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Indeed, as with utility patents, Congress has sometimes exercised the power to issue land patents directly, but has generally exercised its powers by establishing laws implemented by the Executive Branch. *Am. Bell*, 128 U.S. at 357-359. Like their intellectual property cousin, land patents are thus issued by virtue of statute and are administered by an Executive agency. This Court has long recognized the analogy between government-issued utility patents and land patents. “The power \*\*\* to issue a patent for an invention, and the authority to issue such an instrument for a grant of land, emanate from the same source” and “are of the same nature, character and validity.” *Id.* at 358-359.

Land patents, once issued, represent private property, not public rights. Granted land patents are “private rights of great value.” *Johnson*, 80 U.S. (13 Wall.) at 84 (emphasis added). That is because an issued land patent confers a “vested right,” *id.* at 84-85 - “title” in the property that is the subject of the patent, *United States v. Stone*, 69 U.S. (2 Wall.) 525, 535 (1865). Consequently, issued land patents cannot be canceled by the Executive without resort to judicial process. As this Court has explained, cancellation or annulment of an issued land patent “is a judicial act, and requires the judgment of a court.” *Ibid.* The act of invalidating a land patent “is always and ultimately a question of judicial cognizance,” *Iron Silver Mining Co. v. Campbell*, 135 U.S. 286, 293 (1890) - “the very essence of judicial authority,” *Johnson*, 80 U.S. (13 Wall.) at 85.

For over a century, mining patents too have been conferred on individuals by executive agencies under federal statutes. But, for nearly as long, this Court has recognized that such patents confer a “fee simple title” in the grantee. *Creede & Cripple Creek Mining & Milling Co. v. Uinta Tunnel Mining & Transp. Co.*, 196 U.S. 337, 347 (1905); see *Smelting Co. v. Kemp*, 104 U.S. 636, 653 (1880) (“The object in allowing patents is to vest the fee in the miner \*\*\*.”). The patent’s issuance thus removes the patent from the Executive’s reach. Whereas the “government or private individuals can contest an unpatented claim” in an administrative proceeding, such a challenge “cannot be brought against a patented claim.” *N. Alaska Envtl. Ctr. v. Lujan*, 872 F.2d 901, 904 n.2 (9th Cir. 1989). The “only way in which the title” from a mining patent “can be impeached is by a bill in chancery.” *Iron Silver Mining*, 135 U.S. at 301.

That such patents have their origins in government action, through a government program, subject to statutory requirements as a precondition to their issuance, makes no difference. Once a land patent is issued, the “land has ceased to be the

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land of the government” and “legal title has passed from the government” to the patent’s recipient. Schurz, 102 U.S. at 402; see also Mich. Land & Lumber Co. v. Rust, 168 U.S. 589, 593 (1897) (“After the issue of the patent the matter becomes subject to inquiry only in the courts and by judicial proceedings.”); Moore v. Robbins, 96 U.S. 530, 533 (1878) (issuance of patent “passes away all authority or control of the Executive Department over the land, and over the title which it has conveyed”). Once “the government has issued and delivered” a mining patent, “the control of the department over the title to such land has ceased” as well. Iron Silver Mining, 135 U.S. at 301. Control over land and natural resources is undoubtedly a matter of great import to this Nation’s prosperity, economic development, and security. But once the patent issues, the land becomes the patentee’s private property, entitled to all the protections accorded other forms of private property. Utility patents are no different. In McCormick, for example, this Court relied heavily on land-patent precedents to hold that the “only authority competent to set a [utility] patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States.” 169 U.S. at 609 (citing Stone, 69 U.S. (2 Wall.) at 535, and Iron Silver Mining, 135 U.S. at 286); see p. 9, *supra*. That holding rested on constitutional principles derived from the fact that patents, once issued, are private property: An examiner’s “attempt to cancel a patent upon an application for reissue \*\*\* would be to deprive the applicant of his property without due process of law.” McCormick, 169 U.S. at 612. Issued patents - whether in real or intellectual property - convey private property to the recipient.

2. This Court looks to patent principles when addressing copyright questions given their common origins. See, e.g., *Eldred v. Ashcroft*, 537 U.S. 186, 201 (2003); see *SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods.*, 137 S. Ct. 954, 960-961 (2017). And copyrights are unquestionably private property. As explained above, this Court has held that “‘matters of common law’” and “‘traditional actions at common law’” are private rights. Stern, 564 U.S. at 484. And copyright infringement was a traditional action at common law. “[T]he common law and statutes in England and this country granted copyright owners causes of action for infringement,” which were “tried in courts of law, and thus before juries.” Feltner, 523 U.S. at 348-349. That was equally true of statutory and common law copyrights. *Id.* at 353. Moreover, copyrights possess all the qualities of traditional property, including the right to exclude others and the capacity to be bought, sold, and transferred. See *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932).

Issued patents are no less private property than copyrights. Patents and copyrights share the same hallmarks of private property. They spring from the same constitutional provision - indeed, from the same sentence. U.S. Const. art. I, § 8, cl.

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8. And the Framers understood them both to convey the same sort of right on inventors and authors. As James Madison wrote, “[t]he copyright of authors has been solemnly adjudged in Great Britain to be a right of common law. The right to useful inventions seems with equal reason to belong to the inventors.” The Federalist No. 43, at 268 (Madison) (Rossiter ed., 2008). Just as copyrights are “a right of” authors, patents “belong to” - they are property of - the inventors.

3. This Court’s (somewhat less analogous) criminal-law jurisprudence confirms that issued patents are private property, even if unissued patents are not. In Cleveland, for example, this Court addressed the scope of the mail-fraud statute, which prohibits fraudulent schemes to obtain another’s “property” using the mails. 531 U.S. at 18-19. The Court held that the mail-fraud statute does not reach fraudulent acquisition of “a state or municipal license [because] such a license is not ‘property’ in the government regulator’s hands.” Id. at 20. Prior to issuance, such licenses were “regulatory” and “paradigmatic exercises of the States’ traditional police powers.” Id. at 23.

The Court recognized, however, that the character of the licenses fundamentally changes once they are issued to private individuals. Upon issuance, such licenses “become property in the recipient’s hands.” Cleveland, 531 U.S. at 15. In other words, such grants are individual property even though they were initially granted by the government in service of a regulatory goal. That conclusion applies with special force in the patent context, where the right’s historical pedigree and attributes - including the right to exclude others - make clear that it becomes the inventor’s personal property upon issuance. As the government’s brief in Cleveland observed: “It is well established that patents are a ‘species of property.’ ” U.S. Br. at 33-34, *Cleveland v. United States*, 531 U.S. 12 (2000) (No. 99-804) (citing cases).

This Court agreed with that assessment in Cleveland, even as it rejected the government’s other arguments. The government had attempted to “compare [ ] the State’s interest in” not-yet-issued “poker licenses to a patent holder’s interest in” an issued “patent that she has not yet licensed.” Cleveland, 531 U.S. at 23. Rejecting the comparison, the Court explained that unissued licenses could not be analogized to issued patents. The “better analogy” for unissued licenses was “to the Federal Government’s interest in an unissued patent.” Ibid. (emphasis added). But the Court left no doubt that issued patents are private property belonging to the inventor. An issued patent, it explained, could be sold and carried the “‘attributes of personal property.’ ” Ibid. If an issued patent is private property of the inventor for purposes of trade - and for criminal prosecutions - then surely it must be private

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property when courts consider whether adversary proceedings to take it away can be vested in an administrative agency.

**D. The Federal Circuit Improperly Conflated the Process of Patent Issuance with the Status of Issued Patents**

In MCM Portfolio LLC v. Hewlett-Packard Co., 812 F.3d 1284, 1290 (Fed. Cir. 2015), the Federal Circuit held that patents are public rights because the PTO issues them through a “federal regulatory scheme.” The Federal Circuit also relied on the fact that patents are issued pursuant to statute. Id. at 1293; see Cascades Projection LLC v. Epson Am., Inc., 864 F.3d 1309, 1311 (Fed. Cir. 2017) (Dyk, J., concurring in denial of rehearing en banc, joined by the other two members of the MCM panel). That reasoning is insufficient.

1. The Federal Circuit’s assertion that patents are issued by the PTO as part of a “federal regulatory scheme” doubly fails. First, it looks at the wrong end of the elephant. The PTO’s operations for issuing patents in the first instance may involve a regulatory process, and that process may even involve questions of “public rights.” But once the patent has been issued, the patent and the rights inhering in it become the inventor’s private property. See pp. 8-14, supra. This Court made exactly that point in connection with land patents, Johnson, 80 U.S. (13 Wall.) at 87 (“after the title had passed from the government, \*\*\* the question became one of private right”); state-issued licenses, Cleveland, 531 U.S. at 15 (licenses “bec[a]me property in the recipient’s hands”); and utility patents themselves, McCormick, 169 U.S. at 612 (“attempt to cancel a patent upon an application for reissue \*\*\* would be in fact an invasion of the judicial branch of the government by the executive”).

Second, it is wrong to describe issued patents as part of a “regulatory scheme.” Patents bear no resemblance to licenses from the FDA or other regulators, where maintenance of the license requires continuous interaction “ ‘between the Government and persons subject to its authority in connection with the performance of the constitutional functions.’ ” Stern, 564 U.S. at 489. The PTO does not monitor, control, or regulate the assertion and use of the patents it issues. To the contrary, the PTO is “responsible” only “for the granting and issuing of patents” and for “disseminating to the public information with respect to patents.” 35 U.S.C. § 2(a)(2)(A). It has rulemaking authority only with respect to “the conduct of proceedings in the [PTO].” Id. § 2(b). It neither has, nor attempts to

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exercise, authority over the use or assertion of patents once they are issued; other than receiving maintenance fees, it has virtually no involvement at all. See USPTO, General Information Concerning Patents (Oct. 2015), <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-6> (“The USPTO has no jurisdiction over questions of infringement and the enforcement of patents.”). Issued patents are no more part of a “regulatory scheme” than, for example, formerly federal lands the government conveyed to homesteaders (or surplus chattels sold by the government). Once conveyed, the use of that property is in the hands of the patentee.

Nor does it matter that, in conducting inter partes review, the PTO may in some sense reconsider whether it should have issued the patent in the first instance. MCM, 812 F.3d at 1291 (suggesting that it “would be odd” if the PTO could not be authorized “to reconsider its own decisions”). Inter partes review is not a time-limited reconsideration process that allows further agency contemplation before rights vest. It is an adversary adjudication used to challenge patents long after they have issued and vested - indeed, after millions may have been invested in commercialization - that can take place almost any time during a patent's life. This Court has already rejected the notion of an infinite reconsideration period in the land-patent context, and with good reason. If the “right to reconsider and annul a [land] patent after it has once become perfect exists in the Executive Department,” the Court explained, “it can be exercised at anytime, however remote.” Moore, 96 U.S. at 534. That “is utterly inconsistent with the universal principle on which the right of private property is founded.” Ibid.; see pp. 17-19, supra. Once private property is granted and vests in the inventor, the time for reconsideration ends. The first two Patent Acts thus required the Executive to go to court to cancel even fraudulently procured patents. See pp. 10-11, supra.

The government's attempt to analogize inter partes review to statutes that “allow agencies to correct their own errors” and “recover[] erroneous disbursements of money to private parties,” U.S. Br. in Opp. 12, practically disproves itself. The cited debt-collection statutes, for example, provide administrative process only for offsets from future payments and wages. See 31 U.S.C. §§ 3711(g)(9), 3716, 3720D. Property already issued to the debtor cannot be reached except by “litigation or foreclosure.” Id. § 3711(g)(9)(H). Those statutes thus reflect a distinction that pervades the law - between withholding not-yet issued property from an individual, and attempting to seize or destroy already-issued, vested property rights. The government ignores that distinction.

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Inter partes review, moreover, has been extended well beyond allowing the agency to reconsider its own decisions. The PTO uses inter partes review to reconsider - and effectively overturn - decisions of Article III courts. See, e.g., Novartis AG v. Noven Pharm. Inc., 853 F.3d 1289, 1293 (Fed. Cir. 2017). Under the AIA, the PTO claims authority to invalidate a patent even after a district court has held it not invalid, and even after that judgment has been affirmed on appeal - in litigation involving the very same arguments - so long as some collateral matter is still in litigation. *Ibid.*; cf. Fresenius USA Inc. v. Baxter Int'l, Inc., 721 F.3d 1330, 1344 (Fed. Cir. 2013) (same result in ex parte reexamination); *id.* at 1348 (Newman, J., dissenting). Permitting an agency to “tell [a court] to reverse [its] decision like some sort of super court of appeals” raises grave separation-of-powers concerns. *Gutierrez-Brizuela v. Lynch*, 834 F.3d 1142, 1150 (10th Cir. 2016) (Gorsuch, J., concurring); cf. *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211, 228 (1995) (Congress may not, consistent with “separation-of-powers” principles, “depriv[e] judicial judgments of \*\*\* conclusive effect.”).

2. The Federal Circuit also invoked the fact that patent rights exist by virtue of statute. MCM, 812 F.3d at 1290-1291. That, however, cannot deprive issued patents of their status as personal property. Land and mining patents, which grant individuals property formerly owned by the government, likewise exist only by virtue of the various statutes under which they are authorized and administered. *Moore*, 96 U.S. at 531. Indeed, statutory authorization to dispose of such property is constitutionally required. U.S. Const. art. IV, § 3, cl. 2. Nonetheless, land and mining patents confer private rights. See *Johnson*, 80 U.S. (13 Wall.) at 84-85; see pp. 16-19, *supra*.

Today's farmers would surely be surprised to learn that the fields they have worked for generations are not their private property, but public rights the Department of Interior can reconsider any time so long as title traces back to a centuries-old, statutorily authorized land grant. Copyrights are governed by statute as well. See, e.g., 17 U.S.C. § 102. But they are considered private rights. See pp. 19-20, *supra*. Patents are no different.

3. The Federal Circuit likewise erred to the extent it assumed that Congress, while authorizing the issuance of patents, could preclude them from being property by providing for continuous inter partes reconsideration throughout the patents' lifespans. For one thing, the patents before the Court in this case were not so limited. They were issued before the effective date of the AIA and the creation of

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the inter partes review process at issue. Pet. App. 5. This Court held long ago that Congress cannot, by statute, retroactively “impair the right of property then existing in a patentee.” McClurg, 42 U.S. (1 How.) at 206.

Besides, “[p]roperty” cannot be defined by the procedures provided for its deprivation.” Cleveland Bd. of Educ. v. Loudermill, 470 U.S. 532, 541 (1985). Patent rights are private rights. They do not become something less based on the procedures Congress establishes for their deprivation. The procedures for terminating a vested property right do not determine whether that right is public or private. Rather, the status of the right determines the procedures needed to terminate it. See Commodity Futures Trading Comm'n v. Schor, 478 U.S. 833, 853 (1986). Were it otherwise, Congress could transform a right from private to public “simply by deeming it part of some amorphous ‘public right,’ [and] Article III would be transformed from the guardian of individual liberty and separation of powers \*\*\* into mere wishful thinking.” Stern, 564 U.S. at 495.

4. Finally, the Federal Circuit placed undue weight on the existence of ex parte and inter partes reexaminations before the PTO. MCM, 812 F.3d at 1290-1291. Ex parte reexaminations were first authorized in 1980, and inter partes reexaminations were first authorized in 1999. Pub. L. No. 96-517, 94 Stat. 3015 (1980); Pub. L. No. 106-113, 113 Stat. 1501 (1999). Those procedures do not have a historical pedigree that approaches even bell-bottoms or MTV, much less anything that would have been familiar to the Framers. Patents were private rights for nearly two centuries before reexamination proceedings were a glimmer in anyone's eye. That history controls the constitutional analysis of more recent enactments - not the other way around. Moreover, as explained above, Congress cannot convert private property into public rights by enacting new procedures to terminate those rights. And, while the Federal Circuit upheld ex parte reexaminations, it made the same error it repeated here - its ruling rested on the assertion that patents are public rights. Patlex Corp. v. Mossinghoff, 758 F.2d 594, 604 (Fed. Cir. 1985) . Recycling that mistaken rationale in this context just compounds the error. Besides, ex parte and inter partes reexaminations are, as their names suggest, examinational rather than adversarial proceedings. By contrast, inter partes reviews are initiated by a private adversary who pursues an invalidity case against the patent owner. See 35 U.S.C. §§ 311-312, 316(a), (d). Congress intended inter partes review to “convert[ ] inter partes reexamination from an examinational to an adjudicative proceeding.” H.R. Rep. No. 112-98, pt. 1, at 46 (2011). Nearly 80% of all petitions for inter partes review relate to district court litigation involving the same parties. See IPR Report, Vol. 16, Harnessing Patent Office Litigation,

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Harness Dickey (Dec. 16, 2016), available at <http://ipr-pgr.com/wp-content/uploads/2017/03/IPR-PGR-Report-Vol.-16.pdf>.

The distinction between adversarial proceedings and examinational ones may mean that the procedures for inter partes review now before the Court and reexaminations (not before the Court) will follow different constitutional paths. See *United States v. Am. Bell Tel. Co.*, 167 U.S. 224, 264-265 (1897) (ruling that government could “discharge its obligations to the public” by bringing a lawsuit “to set aside one of its patents” when wrongly issued, but that it could not bring “suit simply to help an individual; making itself, as it were, the instrument by which the right of that individual against the patentee can be established”). But it cannot change the fact that patents, once issued, are the personal and private property of the inventor to whom they are issued.

## **II. Constitutional Policy Recognizes Patents As Individual Property**

Private property is the foundation of this Nation's economic prosperity. It is the stability of property rights, and the legal protection accorded them, that “induces \*\*\* willingness to improve property in possession.” *Halstead v. Grinnan*, 152 U.S. 412, 416 (1894); see *Colorado v. New Mexico*, 467 U.S. 310, 316 (1984); *BFP v. Resolution Tr. Corp.*, 511 U.S. 531, 544 (1994) (recognizing “essential state interest” in “ ‘security of the titles to real estate’ ”). As this Court explained (with respect to federally granted land patents), “the immense importance and necessity of the stability of titles dependent upon these official instruments” cannot “be dependent upon the hazard of successful resistance to the whims and caprices of every person who chooses to attack them.” *United States v. Maxwell Land-Grant Co.*, 121 U.S. 325, 381 (1887). Commerce in land “rest[s] upon faith in the patent issued by the United States Government.” *United States v. Beebe*, 127 U.S. 338, 348 (1888).

The Framers recognized that intellectual property is no different. The Constitution they adopted does not merely authorize Congress to “promote the Progress of Science and useful Arts,” but also directs the means for accomplishing the goal - “by securing to authors and inventors the exclusive right to their respective Writings and Discoveries.” Art. I, §8, cl. 8. (emphasis added). Deeming patents to be public rather than property rights - and thus subject to continuous potential agency reconsideration and withdrawal throughout a patent's lifespan without searching judicial scrutiny - is inconsistent with both the constitutional delegation of authority and accompanying goal. Patents encourage innovation precisely

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because, once granted, they give patent owners a property right that has the hallmarks of and is accorded the same solicitude as other property rights.

Recognizing the special need for stability in this context, this Court accords its patent rulings particular stare decisis effect: For “property (patents) and contracts (licensing agreements),” the Court has held, “considerations favoring stare decisis are ‘at their acme.’ ” *Kimble v. Marvel Comics Entm't, LLC*, 135 S. Ct. 2401, 2410 (2015).

The need for stability and respect is nowhere more pressing than when it comes to developing potentially life-saving medications. It requires on average \$2.6 billion in research and development to bring a single, new drug to market. Joseph A. DiMasi et al., Innovation in the Pharmaceutical Industry: New Estimates of R&D Costs, 47 J. Health Econ. 20, 31 (2016). Few drugs make it to clinical testing, and fewer than 12% that enter clinical studies ever receive FDA approval. *Id.* at 23. Such huge investments are justified only because, in the end, inventors can obtain a property interest - a patent. Lisa Larrimore Ouellette, Note, How Many Patents Does It Take To Make a Drug?, 17 Mich. Telecomm. & Tech. L. Rev. 299, 303 (2010) (collecting studies).

Patents - like other property interests - are also critical to the cooperation upon which commerce and progress depend. Patents “convey rights to coordinate development.” Easterbrook, *supra*, at 111. “[T]he patent owner” is “in a position to coordinate the search for technological and market enhancement” by licensing his discovery to others. Edmund W. Kitch, The Nature and Function of the Patent System, 20 J.L. & Econ. 265, 276 (1977). The “patent system lowers the cost for the owner of technological information of contracting with other firms possessing complementary information and resources.” *Id.* at 277. For example, patents allow start-ups with fewer resources to reveal discoveries to larger organizations, and potentially obtain their support and cooperation, with greater security than contractual confidentiality provisions could provide. *Id.* at 278-279.

Patents cannot achieve those goals - they fail to “secur[e]” the inventor in his rights - if they are accorded lesser respect than other forms of property. Property that is subject to a regime of virtually unlimited, continuous agency reconsideration and revocation throughout its lifespan, without searching scrutiny of that regime by this Court, is not really property at all. For at least 190 years, this Court and Congress treated patents accordingly. In the last 40 years, however, Congress has given us ex parte reexamination, inter partes reexamination, inter partes review, and other means for an agency to invalidate already-granted and potentially fully

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commercialized patents. 77 Fed. Reg. 48,680 (Aug. 14, 2012). Because the rights inhering in issued patents are individual property - no less than land issued under land patents, minerals subject to mining patents, or the rights secured by a copyright - that novel mechanism at the very least must be subjected to "searching review."

### **III. Reversal Is Warranted**

The Federal Circuit resolved the issues before this Court based on the erroneous premise that patents, even after issuance, are public rights. With respect to Article III, the Federal Circuit concluded that "patent rights are public rights," MCM, 812 F.3d at 1293, and deemed that conclusion largely determinative, id. at 1290. The Federal Circuit short-circuited its Seventh Amendment analysis based on the same error. "Because patent rights are public rights," it declared, "the Seventh Amendment poses no barrier to agency adjudication without a jury." Id. at 1293. But issued patents - granted to and vested in inventors - are private property, not public rights. Because the Federal Circuit erred at the first step, it never conducted a proper Article III and Seventh Amendment analysis.

For example, while "the distinction between public rights and private rights" may not be "determinative for Article III purposes," it affects the analysis profoundly. Schor, 478 U.S. at 853. The "'danger of encroaching on the judicial power' is less" grave when public rights are at issue, but more serious "when private rights \*\*\* are relegated as an initial matter to administrative adjudication." Id. at 854. Consequently, where private rights are at stake, courts must at least conduct "searching" scrutiny to ensure that the "adjudicative function does not create a substantial threat to the separation of powers." Ibid. That "searching" review may examine consent, Stern, 564 U.S. at 491 - there was none here - or whether consent can obviate the particular intrusion, Wellness Int'l v. Sharif, 135 S. Ct. 1932, 1946 (2015); id. at 1956-1957 (Roberts, C.J., dissenting). Because the Federal Circuit erroneously held that patents embody "public rights," it departed from the "searching" scrutiny that (at a minimum) is required when private rights are at stake.

Nor did the Federal Circuit address the separation-of-powers concerns that arise when an administrative agency has the ability to contravene the judgment of a district court. See p. 25, *supra*. And for the same reason, the Federal Circuit never conducted a proper Seventh Amendment inquiry. For example, because it

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erroneously ruled patents to be public rights, the Federal Circuit did not address whether invalidity challenges were part of the “right to jury trial as it existed in 1791.” *Curtis v. Loether*, 415 U.S. 189, 193 (1974).

Moreover, while patents “are surely included within the ‘property’ of which no person may be deprived by a State without due process of law,” *Fla. Prepaid*, 527 U.S. at 642, the Federal Circuit has yet to seriously address the due-process issues raised by inter partes review. That procedure has an extraordinarily lopsided track record. Roughly two-thirds of petitions are granted, and at least one claim is found unpatentable 82% of the time. See USPTO, Patent Trial and Appeal Board Trial Statistics (July 31, 2017),

[https://www.uspto.gov/sites/default/files/documents/Trial\\_Statistics\\_2017\\_07\\_31.pdf](https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2017_07_31.pdf). Procedural unfairness creates grave concerns as well. For example, the same panel decides whether to institute review and then decides the review on the merits. And the PTO has admitted to reconfiguring panels to alter outcomes. See *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, No. 16-2321, - F.3d -, 2017 WL 3597455, at \*6 (Fed. Cir. Aug. 22, 2017) (Dyk, J., concurring) (describing panel-packing practice). For those reasons - and because the Federal Circuit short-circuited its analysis with error at the outset - the decision below cannot be sustained.

**CONCLUSION**

The judgment of the court of appeals should be reversed.

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**Brief of 27 Law Professors as Amici Curiae in Support of  
Petitioner *authored by Professor Adam Mossoff,  
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**Summary of Argument**

The decision by the Court of Appeals for the Federal Circuit directly contradicts this Court's longstanding case law that secures constitutional protections for private property rights in patents. The Petitioner fully addresses the specific legal and constitutional issues concerning these private property rights protected under the Seventh Amendment. Amici offer additional support by identifying the substantial case law from this Court and lower federal courts reaching back to the early

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American Republic that patents are private property rights secured under the Constitution. Thus, the Federal Circuit is mistaken in concluding that patents are “public rights” that exist solely at the administrative prerogative of the sovereign, a key legal premise in this case and in many others since the Federal Circuit’s decision in MCM Portfolio LLC v. Hewlett-Packard Co., 812 F.3d 1284, 1293 (Fed. Cir. 2015). This mistake has infected many of the Federal Circuit’s decisions affirming actions by the Patent Trial & Appeal Board (PTAB) at the United States Patent & Trademark Office. This is a predicate issue underlying whether the Seventh Amendment or any other constitutional provision or doctrine applies to the private property rights in patents, and thus it must be resolved in this case.

This Court has long recognized and secured the constitutional protection of patents as private property rights reaching back to the early American Republic. Just two terms ago, this Court confirmed the continuing vitality and relevance of the revered legal proposition that patents are private property rights in Horne v. Department of Agriculture, 135 S. Ct. 2419, 2427 (2015) (Roberts, C.J.), in which the Court approvingly quoted one of its own nineteenth-century decisions that “[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 (1882)). This Court also held seventeen years ago that patents are property rights secured under the Due Process Clause of the Fourteenth Amendment. See Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627 (1999).

To establish the extensive and binding historical case law that supports this Court’s recent decisions affirming the private property rights in patents under the Constitution, amici detail these nineteenth-century cases. These decisions are overwhelming evidence for the public meaning in early American courts that patents are private property rights protected by the Takings Clause and Due Process Clause. See Adam Mossoff, Patents as Constitutional Private Property: The Historical Protection of Patents Under the Takings Clause, 87 B.U. L. Rev. 689, 700-11 (2007) (discussing this case law). Congress explicitly endorsed this case law in the 1952 Patent Act in codifying the legal definition of patents as “property” in 35 U.S.C. § 261. See Adam Mossoff, Exclusion and Exclusive Use in Patent Law, 22 Harv. J. L. & Tech. 321, 343-45 (2009) (discussing the text and

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legislative history of § 261 as “codify[ing] the case law reaching back to the early American Republic that patents are property rights”).

Respondent and its supporting amici will likely argue that the public (or its delegated agents in the government) has an interest in the validity of a patent given that it is a property right granted and secured under federal law, and that this interest is sufficient to classify it as a “public right” on par with other modern regulatory entitlements. See MCM Portfolio, 812 F.3d at 1292-93 (citing only modern administrative law cases). But this assertion proves too much; it is a truism about all private rights. As James Madison recognized in *The Federalist No. 43*, “the copyright of authors had been solemnly adjudged, in Great Britain, to be a right of common law,” and that the “right to useful inventions seems with equal reason to belong to the inventors.” *The Federalist No. 43*, at 271-72 (James Madison) (Clinton Rossiter ed., 1961). As with all private rights, such as the rights to liberty, property, and contract, Madison concluded that “the public good fully coincides in both [patents and copyrights] with the claims of individuals.” *Id.* at 272.

Any appeal to a highly generalized “innovation policy” goal in the patent system is not a coherent ground in policy or law for defining an entire class of private property rights as “public rights.” First, it directly contradicts the weight of this Court’s longstanding decisions to the contrary, holding that patents are private property rights. Second, it contradicts this Court’s recent discussion in *Stern v. Marshall*, 131 S. Ct. 2594, 2612 (2011), that the “public rights exception” does not apply to matters of “private right, that is, of the liability of one individual to another under the law as defined” (quoting *Crowell v. Benson*, 285 U.S. 22, 50 (1932)). In their alienation in the marketplace (via license or assignment) and in their enforcement, patents are quintessential property rights in which rights and liabilities exist solely between individuals “under the law as defined.” *Id.* The fact that patents are uniquely federal property rights, whereas most other “property interests are created and defined by state law,” *Butner v. United States*, 440 U.S. 48, 55 (1979), is a distinction without a difference under this Court’s binding case law reaching back to the early American Republic.

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The Federal Circuit's decision in this case directly conflicts with both modern and long-established decisions on the constitutional protection of patents as private property rights. The result of this contradiction with this Court's jurisprudence on patents has a far-reaching, negative impact for the protection of all "exclusive property" under the Constitution. James, 104 U.S. at 358. The Court should reaffirm expressly its extensive case law that patents are private property rights, which are secured as such under the Constitution, and reverse the Federal Circuit's contrary decision.

**Argument**

**I. Since the Early American Republic, This Court and Lower Federal Courts Have Defined Patents as Private Property Rights.**

This court unequivocally defined patents as property rights in the early American Republic. In 1824, for instance, Justice Joseph Story wrote for a unanimous Supreme Court that the patent secures to an "inventor ... a property in his inventions! a property which is often of very great value, and of which the law intended to give him the absolute enjoyment and possession." *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 608 (1824). In deciding patent cases while riding circuit, Justice Story explicitly relied on real property case law as binding precedent in his opinions.<sup>2</sup> Justice Story was not an outlier, as many Justices and judges repeatedly used common-law property concepts in patent cases, such as defining a patent as a "title" in an invention, identifying patent infringement as a "trespass," and referring to infringement of a patent as "piracy."

This Court explained in its unanimous decision in *Pennock v. Dialogue*, 27 U.S. (2 Pet.) 1, 18 (1829), that a patent is a "title" and thus an act of invention before an application for a patent is "like an inchoate right to land, or an inceptive right to land, well known in some of the states, and every where accompanied with the condition, that to be made available, it must be prosecuted with due diligence, to the consummation or completion of the title." Similarly, in *Gayler v. Wilder*, 51 U.S. (10 How.) 477, 493 (1850), this Court recognized "the discoverer of a new and useful improvement is vested by law with an inchoate right to its exclusive use, which he may perfect and make absolute by proceeding in the manner which the law requires. [The inventor] possessed this inchoate right at the time of the assignment [to Enos Wilder]."

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The Gayler Court's use of the common law property concept of an "assignment" is significant, *id.*, because it further confirms the extent to which this Court and lower courts in the early American Republic defined patents as private property rights. This Court and lower courts expressly incorporated real property concepts from the common law in creating conveyance doctrines in patent law. For instance, in *Potter v. Holland*, 19 F. Cas. 1154 (C.C. Conn. 1858), Justice Story, riding circuit, surveyed in extensive detail how the common law real property doctrines of "assignment" and "license" had been applied in U.S. patent law in defining the nature of the legal interest that a patent owner conveys to a third party. See *id.* at 1156-57 (stating that "[a]n assignment, as understood by the common law, is a parting with the whole property," and that a license is a "less or different interest than ... the interest in the whole patent"). See also *Moore v. Marsh*, 74 U.S. (7 Wall.) 515, 520 (1868) ("An assignee is one who holds, by a valid assignment in writing, the whole interest of a patent, or any undivided part of such whole interest, throughout the United States."); *Suydam v. Day*, 23 F. Cas. 473, 474 (C.C.S.D.N.Y. 1845) (distinguishing between "an assignee of a patent [who] must be regarded as acquiring his title to it, with a right of action in his own name," and "an interest in only a part of each patent, to wit, a license to use"). Federal courts from the early American Republic to the late nineteenth century consistently affirmed that "the [patent] right is a species of property," *Allen v. New York*, 1 F. Cas. 506, 508 (C.C.S.D.N.Y. 1879) (No. 232), and thus infringement is "an unlawful invasion of property," *Gray v. James*, 10 F. Cas. 1019, 1021 (C.C.D. Pa. 1817) (No. 5,719).<sup>6</sup> As Circuit Justice Levi Woodbury explained in 1845: "we protect intellectual property, the labors of the mind, ... as much a man's own, and as much the fruit of his honest industry, as the wheat he cultivates, or the flocks he rears." *Davoll v. Brown*, 7 F. Cas. 197, 199 (C.C.D. Mass. 1845) (No. 3,662).

**II. This Court Has Provided Constitutional Protection to Patents as Private Property Rights for Two Hundred Years.**

The substantial early nineteenth-century case law that patents are private property rights is directly relevant to this case, because it underscores the uncontroversial, unanimous decision by this Court in *McClurg v. Kingsland*, 42 U.S. (1 How.) 202, 206 (1843), that the Constitution prohibits Congress from retroactively abrogating vested property rights in patents. In that case, the question was whether a patent that had issued under a subsequently repealed provision of the patent statute was still valid. The unanimous opinion states bluntly that "a repeal [of a patent statute] can have no effect to impair the right of property then existing in a patentee, or his

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assignee, according to the well-established principles of this court.” Id. In sum, a patent issued to an inventor creates vested property rights, and “the patent must therefore stand” regardless of Congress’s subsequent repeal of the particular statute under which the patent originally issued. Id. The McClurg Court emphasized that its decision was based on the “well-established principles of this court” that constitutional security is provided to vested property rights in patents. Id. Further confirming the legal status of patents as private property rights, the McClurg Court continued the practice of citing real property cases as precedent for defining and securing property rights in patents. See id. (citing Society for the Propagation of the Gospel in Foreign Parts v. New Haven, 21 U.S. (8 Wheat.) 464 (1823), which addressed the status of property rights in land under the treaty that concluded the Revolutionary War). In relying on such “well established principles” set forth in Society, the McClurg Court removed any doubt that might have existed in 1843 that patents are on par with private property rights in land as a matter of constitutional doctrine.

The 174-year-old legal rule in McClurg that patents are private property rights secured under the Constitution has never been reversed or limited. This is confirmed by the holding (and substantial supporting citations) in McCormick Harvesting Mach. Co. v. C. Aultman & Co., 169 U.S. 606 (1898), that once a patent is issued to an inventor “[i]t has become the property of the patentee, and as such is entitled to the same legal protection as other property.” Id. at 609. The Federal Circuit’s decision in this case, and in prior cases in which it has explicitly asserted that patents are only “public rights,” cannot be reconciled with this long-established rule. See, e.g., MCM Portfolio LLC, 812 F.3d at 1293; Cascades Projection LLC v. Epson America, Inc., 864 F.3d 1309 (Fed. Cir. 2017) (Reyna, J., dissenting from denial of rehearing en banc) (critiquing the Federal Circuit’s view from MCM Portfolio and in many follow-on decisions that patents are “public rights”).

Like McClurg, the McCormick Court’s decision in 1898 was not an outlier. In the late nineteenth century, this Court and lower federal courts built upon the precedents in McClurg and many other similar decisions in consistently holding that patents are private property rights secured under the Constitution. See, e.g., United States v. Burns, 79 U.S. 246, 252 (1870) (stating that “the government cannot, after the patent is issued, make use of the improvement any more than a private individual, without license of the inventor or making compensation to him”).<sup>1</sup> Cammeyer v. Newton, 94 U.S. 225, 234 (1876) (holding that a patent

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owner can seek compensation for the unauthorized use of his patented invention by federal officials because “[p]rivate property, the Constitution provides, shall not be taken for public use without just compensation”); *McKeever v. United States*, 14 Ct. Cl. 396 (1878) (rejecting the argument that a patent is a “grant” of special privilege, because the text and structure of the Constitution, as well as court decisions, clearly establish that patents are private property rights).

In *Cammeyer*, for example, this Court expressly rejected an argument by federal officials that a patent was merely a public grant by the sovereign and thus they could use it without authorization. Citing the Takings Clause, the *Cammeyer* Court stated that “[a] gents of the public have no more right to take such private property than other individuals.” *Id.* at 234-35 (emphasis added). Thus, the *Cammeyer* Court held that the Constitution protects patent owners against an “invasion of the private rights of individuals” by federal officials. *Id.* at 235 (emphasis added). This Court again expressly affirmed that patents are private property rights in its summary affirmance of *McKeever v. United States*, 14 Ct. Cl. 396 (1878), in which the Court of Claims held that patents are secured under the Takings Clause as “private property” against unauthorized uses by government officials. See *Russell v. United States*, 182 U.S. 516, 531 (1901) (stating that *McKeever* was “affirmed on appeal by this court”); *United States v. Buffalo Pitts Co.*, 234 U.S. 228, 233 (1914) (citing *McKeever* and stating “affirmed by this court”). The *McKeever* court’s wide-ranging, historical analysis of why U.S. patents are “private property,” as opposed to the English definition of a patent as a “grant” that issues by “royal favor,” *McKeever*, 14 Ct. Cl. at 417-19, makes even more clear the profound contradiction in the Federal Circuit’s contrary conclusion that patents are “public rights.”

Contrary to the English view of patents as solely legal tools of governmental economic policy, the U.S. clearly and definitively recognized that American patents secured the “property in the mind-work of the inventor,” *id.*, as specifically authorized under the Patent and Copyright Clause in the Constitution. U.S. Const, art. I, § 8, cl. 8 (authorizing Congress in “securing” the “exclusive Right” to “Inventors”).

The *McKeever* court’s opinion reflects now-classic textualist and original public meaning analysis. First, it analyzed the text of the Patent and Copyright Clause as evidence of this fundamental difference between the English Crown’s personal privilege and the American private property right. The court explained that the language in this constitutional provision - the use of the terms “right” and

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“exclusive,” the absence of the English legal term “patent,” and the absence of any express reservation in favor of the government - established that the private property rights in an American patent were not on the same legal footing as the personal privileges in a patent granted by the English Crown. McKeever, 14 Ct. Cl. at 421. The Court further observed that this conclusion was buttressed by the fact that the Framers empowered Congress, not the Executive, to secure an inventor’s rights - placing this constitutional provision in Article I, not in Article II - which suggested they viewed patents as important private property rights secured by the people’s representatives, not as a special grant issued by the prerogative of the Executive. Id. Although the Framers did not state their reasons for securing patents in the Constitution, the McKeever court concluded that they “had a clear apprehension of the English law, on the one hand, and a just conception, on the other, of what one of the commentators on the Constitution has termed ‘a natural right to the fruits of mental labor.’ ” Id. at 420.

Second, the McKeever court canvassed the federal government’s interpretation of the Patent and Copyright Clause in the 100 years since the Founding Era, finding again that patents protected private property rights, not special grants of privilege that served only governmental policy goals. Accordingly, Congress’s enactment of the patent statutes, the Executive’s use of patented articles via “express contracts,” and the Judiciary’s interpretation and enforcement of these statutes and contracts all “forbid the assumption that this government has ever sought to appropriate the property of the inventor.” Id. Throughout its opinion, McKeever repeatedly cited this Court’s decisions in Cammeyer, Burns and McClurg - Supreme Court cases holding that the Takings Clause protects a patent as “private property.”

Underlying the Federal Circuit’s decision in this case and in many other cases denying patent owners’ claims that the PTAB violated their rights of due process and constitutional doctrines like the separation of powers is the Federal Circuit’s wrong assertion that “patent rights are public rights,” MCM Portfolio LLC, 812 F.3d at 1293. In saying this, the Federal Circuit directly contradicts the longstanding jurisprudence of this Court. This Court should reverse the Federal Circuit given its ahistorical argument based entirely in modern administrative law that patents are “public rights.” The Federal Circuit is wrong; its decision in this case and prior cases conflict with the decisions handed down by this Court in the early American Republic and repeatedly sustained for over two-hundred years that patents are private property rights. See Gregory Dolin & Irina D. Manta, *Taking Patents*, 73 Wash. & Lee L. Rev. 719 (2016) (relying on this historical case law in

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applying modern takings jurisprudence to conclude that the PTAB effects a constitutional taking of a patent owner's private property).

**III. This Court Recently Reaffirmed That Patents are Private Property Rights Secured Under the Constitution.**

This Court's modern decisions are in accord with the long-standing legal principle that patents are private property rights that are secured under the Constitution. Two years ago in Horne v. Department of Agriculture, 135 S. Ct. 2419, 2427 (2015) (Roberts, C.J.), this Court approvingly quoted one of its decisions in 1882 that “[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 (1882)). Notably, sixteen years after the James decision, the McCormick Court cited it in 1898 along with numerous other decisions by this Court as precedent for the same proposition:

It has been settled by repeated decisions of this court that when a patent has received the signature of the secretary of the interior, countersigned by the commissioner of patents, and has had affixed to it the seal of the patent office .... It has become the property of the patentee, and as such is entitled to the same legal protection as other property.

McCormick, 169 U.S. at 608-09 (citing James and other cases, including Cammeyer). The legal rule reaffirmed two years ago in Horne - patents are private property rights secured under the Constitution - is settled doctrine with a provenance in an unbroken line of decisions by this Court reaching back to the early American Republic.

The Horne Court's reaffirmation of this legal rule was similarly confirmed nineteen years ago by this Court when it held that patents are private property rights secured under the Due Process Clause of the Fourteenth Amendment. See Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank, 527 U.S. 627 (1999) (holding that patents are private property rights secured under the Due Process Clause of the Fourteenth Amendment).

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To reverse the Federal Circuit in this case would not be the first time this Court has stopped the Federal Circuit in ignoring settled legal doctrine. In 2002, this Court warned the Federal Circuit in *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722 (2002), that it must respect “the legitimate expectations of inventors in their property” and thus it cannot abrogate legal doctrines that have existed since the early nineteenth century. *Id.* at 739. In *Festo*, this Court brought an end to a decade-long attempt by the Federal Circuit to abrogate the longstanding infringement doctrine known as the doctrine of equivalents. *Id.* The doctrine of equivalents is based in this Court’s case law reaching back to the Antebellum Era, see, e.g., *Winans v. Denmead*, 56 U.S. (15 How.) 330 (1853), just like the settled constitutional doctrine that patents are private property rights. As Chief Justice John Roberts stated in *eBay Inc. v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (2006), nineteenth-century patent law should be accorded significant weight by modern courts in securing the property rights in patents. *Id.* at 1841-42 (Roberts, C.J., concurring).

### Conclusion

For the foregoing reasons, amici urge this Court to reverse the Federal Circuit and affirm the longstanding rule in patent law and constitutional law that patents are private property rights secured under the Constitution.

**IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF TEXAS  
MARSHALL DIVISION**

ALLERGAN, INC.,

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*Plaintiff,*

v.

Case No. 2:15-cv-1455-WCB

TEVA PHARMACEUTICALS USA, INC.,  
et al.,

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§

*Defendants.*

**MEMORANDUM OPINION AND ORDER**

Before the Court is Plaintiff's Opposed Motion to Join Party Pursuant to Federal Rule of Civil Procedure 25(c). Dkt. No. 517. The Court GRANTS the motion.

**BACKGROUND**

On September 8, 2017, following the trial of this case, plaintiff Allergan, Inc., filed a letter with the Court announcing that Allergan had assigned its rights to the patents at issue in this case, to the Saint Regis Mohawk Tribe and that the Tribe had granted Allergan an exclusive license to the patents. Allergan added that it “expects to join the Tribe as a co-plaintiff in due course.” Dkt. No. 480-1. Under the terms of the agreements between Allergan and the Tribe, the Tribe will receive \$13.5 million upon execution of the agreement and will be eligible to receive \$15 million in annual royalties. Dkt. No. 510-3.

On September 11, defendants Mylan Pharmaceuticals Inc. and Mylan Inc. filed a response stating that Allergan “has admitted in other forums that the intent is to employ Native American sovereign immunity and attempt to cut-off pending validity challenges with the Patent Office.”

Dkt. No. 481, at 1. Mylan argued that “Allergan is attempting to misuse Native American sovereignty to shield invalid patents from cancellation.” Id. at 2.

The Saint Regis Mohawk Tribe has made a special appearance in the inter partes review (“IPR”) proceedings pending before the Patent and Trademark Office (“PTO”), and has moved to dismiss those proceedings based on the assertion of the Tribe’s sovereign immunity. Dkt. No. 510-7.

After waiting a month for Allergan to file the promised motion to join the Tribe, the Court on October 6 entered an order directing Allergan, by October 13, to submit information regarding the assignment to the Tribe and directing the parties by the same date to file briefs addressing the question whether the Tribe should be added as a co-plaintiff or whether the assignment transaction should be disregarded as a sham. Dkt. No. 503.

Later that day, the defendants filed what they styled Defendants’ Notice Regarding Allergan’s Document Production According to the Court’s October 6, 2017 Order (Dkt. No. 503). Dkt. No. 504. In that filing, the defendants sought to ensure that they would receive copies of the materials submitted by Allergan. In addition, the defendants listed nine categories of documents that they believed Allergan should produce in response to the Court’s October 6 order and stated that, “in the event evaluation of Allergan’s production reveals the necessity,” they would be requesting leave to conduct depositions directed to the nature of Allergan’s transaction with the Tribe. Id. at 2. The defendants also requested “leave to file a letter seeking relief from the October 13 filing and allowing Defendants to conduct such depositions on an expedited basis.” Id.

On October 9, Allergan filed Plaintiff’s Response to Defendants’ Notice Regarding Document Production According to the Court’s October 6, 2017 Order. Dkt. No. 505. Allergan stated that it had sought the defendants’ consent to a motion to add the Tribe as a co-plaintiff

pursuant to Federal Rule of Civil Procedure 25(c), but that the defendants had not consented to such a motion. Dkt. No. 505, at 2. Allergan represented that it would produce “all the materials identified in the Court’s October 6 order by October 10, and produce to the Court contemporaneously with this filing the assignment and license documents already provided to Defendants.” Id. at 2-3. Allergan also represented that it would file an opposed motion to add the Tribe as a co-plaintiff by October 13. Id.

The following day, the Court entered an order that (1) directed Allergan to provide to the defendants all of the materials provided to the Court in response to the Court’s October 6 order; (2) directed Allergan to tell the Court what consideration was given to Allergan in exchange for the purported assignment of the patents-in-suit to the Tribe; (3) denied the defendants’ requests for the production of additional materials from Allergan and for the opportunity to conduct depositions regarding the issue of whether the Tribe should be added as a co-plaintiff; and (4) denied the defendants’ request to submit a letter seeking relief from the October 13 date for filing briefs addressing the question whether the Tribe should be added as a co-plaintiff. Dkt. No. 509.

Allergan subsequently provided additional materials related to the assignment and license transactions between Allergan and the Tribe. Dkt. Nos. 510, 511. Allergan also answered the Court’s question about consideration by stating that the consideration for the assignment of the patents to the Tribe was the Tribe’s promise not to waive its sovereign immunity with respect to any IPR or other administrative action in the PTO related to the patents. Dkt. No. 510, at 2-4.

The parties’ briefs were timely filed on October 13. Dkt. Nos. 513, 514. In addition, Allergan moved to substitute the Tribe as the plaintiff in this action pursuant to Federal Rule of Civil Procedure 25(c), which the defendants opposed. Dkt. No. 517. Allergan represented that the

Tribe consents to being joined as a plaintiff in this action. Dkt. No. 513, at 6 n.1. The Court advised the parties that the issue would be resolved without a hearing. Dkt. No. 519.

## **DISCUSSION**

The Court has reviewed the information and briefs filed in response to the Court's order. From that information, it is clear that Allergan's motivation for the assignment was to attempt to avoid the IPR proceedings that are currently pending in the PTO by invoking the Tribe's sovereign immunity as a bar to those proceedings.

The Court has serious concerns about the legitimacy of the tactic that Allergan and the Tribe have employed. The essence of the matter is this: Allergan purports to have sold the patents to the Tribe, but in reality it has paid the Tribe to allow Allergan to purchase—or perhaps more precisely, to rent—the Tribe's sovereign immunity in order to defeat the pending IPR proceedings in the PTO. This is not a situation in which the patentee was entitled to sovereign immunity in the first instance. Rather, Allergan, which does not enjoy sovereign immunity, has invoked the benefits of the patent system and has obtained valuable patent protection for its product, Restasis. But when faced with the possibility that the PTO would determine that those patents should not have been issued, Allergan has sought to prevent the PTO from reconsidering its original issuance decision. What Allergan seeks is the right to continue to enjoy the considerable benefits of the U.S. patent system without accepting the limits that Congress has placed on those benefits through the administrative mechanism for canceling invalid patents.

If that ploy succeeds, any patentee facing IPR proceedings would presumably be able to defeat those proceedings by employing the same artifice. In short, Allergan's tactic, if successful, could spell the end of the PTO's IPR program, which was a central component of the America Invents Act of 2011. In its brief, Allergan is conspicuously silent about the broader consequences

of the course it has chosen, but it does not suggest that there is anything unusual about its situation that would make Allergan's tactic "a restricted railroad ticket, good for this day and train only." Smith v. Allwright, 321 U.S. 649, 669 (1944) (Roberts, J., dissenting).

Although sovereign immunity has been tempered over the years by statute and court decisions, it survives because there are sound reasons that sovereigns should be protected from at least some kinds of lawsuits. But sovereign immunity should not be treated as a monetizable commodity that can be purchased by private entities as part of a scheme to evade their legal responsibilities. It is not an inexhaustible asset that can be sold to any party that might find it convenient to purchase immunity from suit. Because that is in essence what the agreement between Allergan and the Tribe does, the Court has serious reservations about whether the contract between Allergan and the Tribe should be recognized as valid, rather than being held void as being contrary to public policy. See generally Restatement of the Law (Second) Contracts §§ 178-179, 186.

The defendants point out that the assignment-and-licensing transaction in this case is similar in some respects to other transactions that have been held ineffective, such as abusive tax shelter transactions, in which courts have looked behind the face of the transactions to determine whether the transactions have economic substance or are simply a method of gaming the tax system to generate benefits that were not intended to be available. See, e.g., Salem Fin., Inc. v. United States, 786 F.3d 932 (Fed. Cir. 2015); Coltec Indus., Inc. v. United States, 454 F.3d 1340 (Fed. Cir. 2006).

Allergan argues that the transactions are legitimate because the Tribe has offered consideration in the form of its agreement not to waive its sovereign immunity before the PTO and in exchange has received much-needed revenue from Allergan. But such circumstances are

frequently encountered in sham transactions, such as abusive tax shelters. The straw parties who perform the service of making the transaction appear to have economic substance, when it actually does not, are providing a service, for which they are ordinarily well compensated. Nonetheless, the transaction is disregarded if it is contrary to the policies underlying the relevant laws.

Another roughly analogous example cited by the defendants is People ex rel. Owen v. Miami Nation Enterprises, 386 P.3d 357 (Cal. 2016). In that case, two tribal entities ran payday loan businesses. When the lending entities were sued by the State for improper lending practices, the entities asserted sovereign immunity. The California Supreme Court determined that, despite the formal agreements between the lending entities and the tribes, the tribes had no operational control over the businesses and received only a small percentage of the profits of the businesses. After examining all of the circumstances, the court concluded that the arrangement between the lenders and the Tribes was such that the businesses were not entitled to assert the tribes' sovereign immunity.

The concern of the courts in both of those examples is the same: whether the party invoking a particular legal protection has engaged in a bona fide transaction of the sort for which that legal protection was intended. In both the abusive tax shelter cases and the Owen case, the answer was no. In this case, as indicated, the Court has serious doubts that the transaction in which Allergan has sought to obtain immunity from inter partes review by the PTO in exchange for payments to the Tribe is the kind of transaction to which the Tribe's sovereign immunity was meant to extend.

There is a second significant issue presented by Allergan's motion: whether after the Tribe's grant of an exclusive license in the Restasis patents to Allergan, the Tribe has transferred all substantial rights in the patents back to Allergan, so that Allergan, and not the Tribe, is properly

considered the patentee. See, e.g., Diamond Coating Techs., LLC v. Hyundai Motor Am., 823 F.3d 615, 618 (Fed. Cir. 2016). Even assuming that the initial assignment was valid, the Tribe would not be considered the owner of the patents if, through the exclusive license agreement, it has transferred all substantial rights in the patents except for the right to receive royalties on the sale of Restasis. In that event, Allergan would be entitled to maintain this action on its own, and it would not be necessary to add the Tribe as a co-plaintiff. On the other hand, if the Tribe has retained substantial rights in the patents, even after the grant of the exclusive license to Allergan, the Tribe would be a necessary party to this infringement action.

Allergan argues that the Tribe retained substantial rights, including the right to practice the patents for research, education, and other non-commercial uses, and the first right to sue third parties not related to Restasis bioequivalents. Dkt Nos. 518, at 2; Dkt. No. 510-7, at 17-18. The Court has examined the documents provided by Allergan and regards the question as a close one. Some provisions of the exclusive license, such as the limitations on Allergan's rights to a particular field of use—specifically, to practice the patents in the United States for all FDA-approved uses—give the Tribe at least nominal rights with regard to the Restasis patents. It is, however, questionable whether those rights have any practical value. There is no doubt that at least with respect to the patent rights that protect Restasis against third-party competitors, Allergan has retained all substantial rights in the patents, and the Tribe enjoys only the right to a revenue stream in the form of royalties.

The questions as to the validity of the assignment and exclusive license transaction and whether the Tribe is an owner of the Restasis patents within the meaning of the Patent Act may be dispositive in the IPR proceedings. But those issues do not bear on this Court's power to hear this case. Regardless of whether Allergan's tactic is successful in terminating the pending

IPR proceedings, it is clear that the assignment does not operate as a bar to this Court's continued exercise of its jurisdiction over this matter.

This case was brought by Allergan, the Tribe's predecessor in interest, seeking affirmative relief, and thus any possible immunity from suit that might be applicable to avoid litigation brought against the Tribe has no application to this action. See Competitive Techs., Inc. v. Fujitsu Ltd., 374 F.3d 1098, 1102-03 (Fed. Cir. 2004) ("[W]hen a state files suit in federal court to enforce its claims to certain patents, the state shall be considered to have consented to have litigated in the same forum all compulsory counterclaims, *i.e.*, those arising from the same transaction or occurrence that gave rise to the state's asserted claims." (quoting Regents of the Univ. of N.M. v. Knight, 321 F.3d 1111, 1126 (Fed. Cir. 2003))); see also Texas v. Caremark, Inc., 584 F.3d 655, 659 (5th Cir. 2009) ("When a state initiates a lawsuit, it waives its sovereign immunity to the extent required for the lawsuit's complete determination." (citing Clark v. Barnard, 108 U.S. 436, 448 (1883))); United States v. Oregon, 657 F.2d 1009, 1014-16 (9th Cir. 1981) (holding that tribe waives sovereign immunity by intervening in lawsuit).

While the sovereign immunity issue is not presented in this case, the question whether Allergan's assignment of its patent rights to the Tribe is valid nonetheless has a bearing on this case, because the validity of the assignment contract between Allergan and the Tribe affects whether the Court should grant Allergan's motion to add the Tribe as a co-plaintiff. If the assignment to the Tribe is valid, the Tribe should be added as a co-plaintiff. If the assignment to the Tribe is invalid, it would not be necessary to add the Tribe as a co-plaintiff.

This is more than a housekeeping matter of determining which names belong in the caption. If the Court declines to join the Tribe as a co-plaintiff and it is later determined that the Tribe is a valid owner of the patents, any judgment entered by the Court could be subject to

challenge on the ground that the owner of the patents was not a party to the action. See Indep. Wireless Tel. Co. v. Radio Corp. of Am., 269 U.S. 459, 468 (1926); Diamond Coating Techs., 823 F.3d at 618-19; Propat Int'l Corp. v. RPost, Inc., 473 F.3d 1187, 1189 (Fed. Cir. 2007); Abbott Labs. v. Diamedix Corp., 47 F.3d 1128, 1131 (Fed. Cir. 1995).

While it is important to ensure that any judgment in this case will not be subject to challenge based on the omission of a necessary party, the Court is not required to decide whether the assignment of the patent rights from Allergan to the Tribe was valid in order to resolve the question whether to add the Tribe as a co-plaintiff. Instead, the Court will adopt the safer course of joining the Tribe as a co-plaintiff, while leaving the question of the validity of the assignment to be decided in the IPR proceedings, where it is directly presented.

Allergan has moved for the Court to add the Tribe as a co-plaintiff under Rule 25(c) of the Federal Rules of Civil Procedure. That Rule provides that “[i]f an interest is transferred” during the course of litigation, “the action may be continued by or against the original party unless the court, on motion, orders the transferee to be substituted in the action or joined with the original party.” Because the Tribe is at least the nominal transferee of the Restasis patents, and because failure to join the Tribe could render any judgment rendered by this Court invalid, the Court invokes its discretion under Rule 25(c) to order the Tribe joined as a co-plaintiff. Importantly, the Court’s decision to permit joinder of the Tribe does not constitute a ruling on the validity of the assignment of the Restasis patents or the Tribe’s status as a “patentee” for purposes of the Patent Act, 35 U.S.C. § 281. Instead, it is “merely a discretionary determination by the trial court that the transferee’s presence would facilitate the conduct of the litigation.” 7C Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, Federal Practice and Procedure § 1958, at 196-98 (2007).

Although the defendants have filed a lengthy and thorough brief in opposition to Allergan's motion to have the Tribe joined as a co-plaintiff in this action, they have not argued that they would be prejudiced in any way by the joinder of the Tribe. The Tribe has consented to joinder, Dkt. No. 513, at 6 n.1; id. at 7, and in light of the fact that the trial and the post-trial briefing in the case has been completed, the presence of the Tribe as a co-plaintiff will not interfere with the prompt entry of the Court's findings of fact and conclusions of law, and the Court's the final judgment in this case. Allergan has represented that "the joinder will not otherwise impact the substantive issues in the litigation. Id. at 6. And, as the successor-in-interest to Allergan, the Tribe would be bound by any judgment. See Kloster Speedsteel AB v. Crucible Inc., 793 F.2d 1565, 1582 (Fed. Cir. 1986). For that reason, substitution of a successor-in-interest is appropriate even when the substitution occurs after trial. Panther Pumps & Equip. Co. v. Hydrocraft, Inc., 566 F.2d 8 (7th Cir. 1977).

Accordingly, in order to ensure that any judgment entered in this case will be protected against challenge on the ground that the proper parties were not all joined as plaintiffs, the Court hereby orders the joinder of the Tribe as a co-plaintiff in this action under Federal Rule of Civil Procedure 25(c). In so doing, the Court does not hold that the assignment of the patent rights to the Tribe is valid, but instead proceeds on the ground that the assignment may at some point be held valid, and that joining the Tribe as a party in this action is necessary to ensure that the judgment in this case is not rendered invalid because of the absence of a necessary party.

IT IS SO ORDERED.

SIGNED this 16th day of October, 2017.



William C. Bryson  
WILLIAM C. BRYSON  
UNITED STATES CIRCUIT JUDGE