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Patents and the AIA in a US Supreme Court With Gorsuch

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Special to the Legal

Patents have had unusual attention from the U.S. Supreme Court recently. In addition to high-profile cases like *Alice v. CLS Bank International*, 134 S. Ct. 2347 (2014), that dramatically changes the landscape for technology-based patents, *Samsung v. Apple,* 137 S. Ct. 429, 431 (2016), that has the potential to dramatically change the landscape for damages in design patent infringement, and *Life Technologies v. Promega*, 2017 U.S. LEXIS 1428 (U.S. Feb. 22, 2017), which tests the limits of liability under U.S. law for infringement abroad, the court is poised to consider whether the post-grant procedures of the America Invents Act (AIA) are constitutional.

By way of background, Article 1, Section 8 of the Constitution vests in Congress the power to secure for a limited time to inventors the exclusive rights to their invention. Title 35 of the U.S. Code addresses this protection by establishing the statutory basis for patents. The nature of patents as property is codified in 35 U.S.C. Section 261, which states: "Subject to the provisions of this title, patents shall have the attributes of personal property. The Patent and Trademark Office shall maintain a register of interests in patents and applications for patents and shall record any document related thereto upon request, and may require a fee therefor."

Like a real property owner has the rights to prohibit a trespass, a patent owner has the right to exclude others from trespass on the claimed invention. Patents are transferrable and the U.S. Patent and Trademark Office (USPTO) will record the assignment on a register, not unlike a real property deed recording office, and provide a record location for the assignment. Patents can be licensed, which is akin to being rented, and they can be encumbered, which is akin to being pledged.

Since its establishment by Congress, the USPTO has promulgated regulations for the examination of patent applications and the issuance of a patent. The USPTO had post-grant re-examination procedures available prior the AIA. If the patent owner or a third party requested a re-examination, the patent owner did not have to surrender

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the issued patent. In essence, the patent remained enforceable during the USPTO re-examination proceeding and the patent owner retained the full property right in the patent.

The Supreme Court, over a 100 years ago, held that the result of requiring the surrender of the patent before issuance of a reissue patent would be, at least in the absence of a statutory authorization to do so, "to 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," as in *McCormick Harvesting Machine v. Aultman*, 169 U.S. 606, 612 (1898). This recognized the fact that invalidating an issued patent, i.e., stripping the patent owner of a property right, required action by an Article III court where there are procedural and evidentiary processes that guarantee due process.

A divergence from 'Chevron' deference may impact all USPTO post-issuance proceedings and spill over to invalid findings in ITC proceedings.

In the AIA, Congress authorized the reorganization of the USPTO appeal board, now known as the Patent Trial and Appeal Board (PTAB) composed of administrative law judges (ALJ), into a tribunal for determining the patentability of issued patent claims. The reorganization resulted in the process known as an inter partes review (IPR) to determine the patentability validity of an issued patent claims. An IPR is unlike any previously existing USPTO proceeding and is more akin to an Article III litigation because a PTAB panel can authorize discovery, rule on motion, take testimony, and declare one or more patent claims unpatentable. However, the IPR is more limited than a district court proceeding, although it can have some of the same estoppel consequences with respect to future enforcement of the patent right. The result of an IPR can be a narrowing of previously granted rights or a total loss of patent rights. Accordingly, an IPR determination of unpatentability is akin to, if not the equivalent of, a district court finding of invalidity.

In *MCM Portfolio v. Hewlett-Packard,* 812 F.3d 1284 (Fed. Cir. 2015), cert. denied 137 S. Ct. 292 (2016), the U.S. Court of Appeals for the Federal Circuit considered the constitutionality of IPRs under the Seventh Amendment right to a jury trial, and under Article III, which grants the judicial power to the judicial branch, and requires that adjudication take place before judges who are appointed by the president, confirmed by the Senate, and enjoy life tenure and salary protection. The Federal Circuit held that a patent is a "public right," and that "public rights" are an exception to the rule that adjudication must take place before courts organized under the judicial branch. "That is, Congress is empowered to delegate the adjudication of public rights to a non-Article III court." (Although not expressed, this may be a sub silento reading of Article 1, Section 8 [9] that "Congress shall have the power ... to constitute tribunals inferior to the Supreme Court.")

The Supreme Court has noted that a public right is one that is created by Congress and "is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution," as in *Thomas v. Union Carbide Agricultural Products*, 473 U.S. 568, 593-94(1985). "What makes a right 'public,' rather than private, is that the right is integrally related to particular federal government action," as in *Stern v. Marshall*, 131 S. Ct. 2594, 2613 (2011) (holding that an Article I bankruptcy court could not resolve an underlying tort claim because the right to recover under tort law is not a public right).

Under our federal statutory scheme, administrative tribunals or ALJs hear disputes ranging from environmental regulations to importation practices. However, these regulatory schemes typically affect rights that affect the public at large rather than disputes between two private individuals, and do not typically affect rights that are explicitly by granted by a federal statute and given the status of "property," which is an attribute of patents. From this background, there may be reason to question the constitutionality of IPR proceedings.

The Fifth Amendment guarantees that "no person shall ... be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation." Under both clauses, a threshold question is whether the right is a property right. "In order to establish a procedural due

process claim, a plaintiff must show that he had a life, liberty, or property interest protected by the due process clause; he was deprived of this protected interest; and the state did not afford him adequate procedural rights prior to depriving him of the property interest," as in *Waeschle v. Dragovic*, 576 F.3d 539, 544 (6th Cir. 2009) (relating to the due process clause of the 14th Amendment).

The first two inquiries appear to be easily answered. Congress explicitly said that patents shall have the attributes of personal property, and an IPR can declare them unpatentable, which is the equivalent of invalid, with the associate loss of the right to exclude on the part of the patent owner. Because the right in question is a property right, and the result is to deprive the owner of the right, this answers the question: "is process due?" in the affirmative.

The second question, "what process is due," is more complicated. Is an Article III court required to decide all matters involving property rights, and, if not, what degree of rigor must the alternative tribunal's procedures have to be to meet due process standards? The Supreme Court, in *Mathews v. Eldridge*, 424 U.S. 319 (1976), considered the propriety of an administrative tribunal determining continued eligibility for Social Security disability benefits. The court held the level of process due is not the same for all types of rights, and that the factors to determine whether a particular procedure comports constitutionally are:

• The private interest that will be affected by the official action.

• The risk of an erroneous deprivation of such interest through the procedures used, and the probable value, if any, of additional or substitute procedural safeguards.

• The government's interest, including the function involved and the fiscal and administrative burdens that the additional or substitute procedural requirement would entail.

Upon consideration of these factors, the court held that the process did not violate the constitutional due process protection.

In considering the second due process factor for IPR proceedings, the court might compare the private interest of a patent owner with the private interest of a Social Security recipient in a continued stream of benefits. Both interests could be worth substantial money and both could be crucial to the survival of the patent owner or the recipient. Or, the court might view the specialized expertise of PTAB ALJ panel as superior to a generalist district judge in weighing the unpatentability/validity of a patent, and that expertise may overcome the procedural shortcuts the IPR process in comparison to the district court process. On the third factor, the court might find that IPR affords a patent owner adequate procedural rights to protect the patent owner's property right and considerations of the overburdened federal bench and the cost of patent litigation are factors that also favor the streamlined review authorized by Congress.

On the other hand, there is a renewed interest in limiting the growth of agency powers and reconsidering the doctrine known as *Chevron* deference, *Chevron U.S.A. v. Natural Resources Defense Council,* 467 U.S. 837 (1984). Judge Neil Gorsuch, the recent nominee to the Supreme Court, is a known critic of *Chevron*, and he may convince the court to reconsider not only *Chevron*, but also the line of cases holding that adversarial administrative proceedings are consistent with due process when dealing with recognized property rights. The court may also take the opportunity to revisit whether the USPTO as the "regulator" of the patent examination system, should have any jurisdiction over an issued patent because it actually a piece of private property; rather than a "public right" bound up in a "regulatory scheme." A divergence from *Chevron* deference may impact all USPTO post-issuance proceedings and spill over to invalid findings in U.S. International Trade Commission (ITC) proceedings.

Although most post-grant proceedings in the USPTO are initiated by a private party against an issued patent, the proceedings are primarily an examination by the USPTO of how well it performed its examination responsibilities and a second look into its own decision to grant a patent. It is notable that USPTO operations come under the executive branch which is an creature of Article II. A Justice Gorsuch might just be the catalyst to ignite a re-evaluation of the scope of agency powers even if they function under Article II. •