

Patents/Patent and Trademark Office

## Patent 'Death Squad' System Upheld by U.S. Supreme Court (3)

### BNA Snapshot

- Justices vote 7-2 to back system used by Google, Apple
- Drugmakers opposed system as improperly taking away rights



By Greg Stohr and Susan Decker

The U.S. Supreme Court upheld an administrative review system that has helped Google Inc., Apple Inc. and other companies invalidate hundreds of issued patents.

The justices, [voting](#) 7-2, said April 24 a U.S. Patent and Trademark Office review board that critics call a patent “death squad” wasn't unconstitutionally wielding powers that belong to the courts.

Silicon Valley companies have used the system as a less-expensive way to ward off demands for royalties, particularly from patent owners derided as “trolls” because they don't use their patents to make products. Drugmakers and independent inventors complain that it unfairly upends what they thought were established property rights.

“It came down to this: Is the patent office fixing its own mistakes or is the government taking property?” said Wayne Stacy, a patent lawyer with Baker Botts. “They came down on the side of the patent office fixing its own mistakes.”

The ruling caused shares to drop in companies whose main source of revenue — their patents — are under threat from challenges. VirnetX Holding Corp., which is trying to protect almost \$1 billion in damages it won against Apple, dropped as much as 12 percent and closed down 8.5 percent. The patent office has said its patents are invalid in a case currently before an appeals court.

The court's ruling “will reassure, if not embolden, patent challengers,” said Christopher Bruno, a patent lawyer with Schiff Hardin. Patent owners are likely to turn their focus to asking courts to scrutinize some of the procedures used by the board, he said.

### 'Public Rights'

Drugmakers, research companies and independent inventors criticized the Patent Trial and Appeal Board, saying its rules unfairly lean toward challengers and make it harder to fend off competitors and protect their ideas from copycats. Congress set up the system in 2011.

Justice Clarence Thomas wrote the court's majority opinion, rejecting contentions that issued patents are the type of rights that must be adjudicated only in the federal courts.

“The decision to grant a patent is a matter involving public rights — specifically, the grant of a public franchise,” Thomas wrote. The review system “is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO's authority to conduct that reconsideration.”

The ruling addressed only whether the reviews are constitutional and doesn't limit arguments in other contexts that patents are property, Thomas wrote.

"It's common sense — we trust them to make these decisions in the first place," said lawyer Andrew Pincus of Mayer Brown, who submitted legal arguments on behalf of BSA — The Software Alliance. "There are costs to having patents that are overbroad or shouldn't have been granted. We want to do as much as we can to make sure the experts got it right."

#### **'Give a Gift'**

Chief Justice John Roberts and Justice Neil Gorsuch dissented. "Just because you give a gift doesn't mean you forever enjoy the right to reclaim it," Gorsuch wrote for the two.

The Supreme Court also issued a ruling April 24 in a separate case involving proceedings at the patent review board. In that 5-4 [decision](#), Gorsuch wrote for the court that the board must issue final written decisions on all parts of a patent that are questioned in a challenge, even if the board decides to review only some of them. The effect will force patent owners' challenges filed at the agency to be more targeted, because they aren't allowed to raise issues decided by the review board if they go to court later.

Since the reviews began in 2012, more than 7,000 petitions have been filed, primarily on computer and high-tech patents. Former patent office Director Michelle Lee said changes have been made to the process to make it more fair and clear, and more are being considered by the agency.

She said the reviews were "never a death squad" that critics called it, and were set up as a lower-cost alternative to litigation.

The review system was created in response to business complaints about what they considered abusive patent litigation. Other court rulings and changes in how lawsuits are filed have made it easier for accused infringers to fend off lawsuits and demand payment for legal costs when they win.

#### **'All a Balance'**

"People could disagree about the numbers or the cost, but it was an issue clearly faced by a number of companies," Lee said. "Most abusive patent litigation, that there was a lot of concern about, has been mitigated. At the same time, we want to make sure patent owners and inventors have enough incentive. It's all a balance."

The Oil States decision was called a "disgrace" by members of U.S. Inventor, a group of independent inventors that protested outside the Supreme Court when arguments were heard in November.

"Inventors, aspiring inventors, and patriots of all kinds are devastated by today's Supreme Court ruling," said Josh Malone, inventor of the Bunch O Balloons toy who has seen his patents challenged at the agency and upheld in court. "Now if a big corporation wants your patents or your land, they only need to convince their friends in the administrative tribunal or city council to do the job. No judge, no jury, no America."

Paul Fucito, a spokesman for the patent office, said it is "carefully considering the Supreme Court's decisions and determining their impact on various proceedings at the PTAB."

Pharmaceutical Research and Manufacturers of America, which represents the biggest drugmakers, said the two decisions show that the system needs refinement, either through the agency or Congress.

The trade group for biotechnology firms said some aspects of the decision upholding the review system are "encouraging."

"The Supreme Court did not accept the government's devaluing theory that patents are little more than government benefits that can be awarded and reclaimed by administrators," said Hans Sauer, deputy general counsel for the Biotechnology Innovation Organization. "The court signals that a patent owner's settled, investment-backed expectations continue to be important, and that it is not irrelevant if patent owners have built businesses, and staked their livelihoods, in reliance on a patent that was examined and issued by the Patent Office."

United for Patent Reform, which represents retailers, automakers like Ford Motor Co. and General Motors Co. and some tech companies including Google and Facebook Inc., said the review procedures "strengthen our patent system and improve overall patent quality."

"This ruling will help ensure that American inventors and businesses can focus on building products and creating jobs rather than paying to fend off abusive litigation," the group said in a [statement](#).

IEEE-USA, a trade group for engineers, computer and technology professionals, said the reviews hurt small businesses and start-ups.

"This decision highlights the need for Congress to repair damage done to our intellectual property system," Maura Moran, former vice president of government relations for the group, said in a [statement](#).

The cases are Oil States v. Greene's Energy Group, 16-712, and SAS Institute Inc. v. Iancu, 16-969.

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