

# **Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC 138 S. Ct. 1365 (2018)**

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## BACKGROUND

Petitioner, Oil States Energy Services, LLC (“Oil States”), obtained a patent for a technology which protected wellhead equipment employed in oil fracturing. Oil States sued Greene’s Energy Group, LLC (“Greene’s Energy”), for infringing upon said patent. Both companies operate in the oilfield services sector. Greene’s Energy disputed the patent’s validity in the district court contending that two of the patent’s claims were unpatentable. Simultaneously, Greene’s Energy petitioned the US Patent and Trademark Office (“PTO”) for an inter partes review.<sup>1</sup>

An inter partes review is a trial proceeding conducted by the Patent Trial and Appeal Board (“Board”), reviewing the patentability of one or more claims in an issued patent, provided that the petition is brought by a third party.<sup>2</sup> The petitioner must base its request for review on the grounds that prior art eclipses the claim(s) of the issued patent. The Director of the PTO then considers whether the petitioner has a reasonable likelihood of prevailing; further, the patent owner can offer a response to the petition, thus arguing why inter partes review should be denied.<sup>3</sup> The Board proceeds with an examination of the patent’s claims only if the Director makes a final and non-appealable decision to grant the inter partes review.

Inter partes review carries similarities to a judicial proceeding such as discovery, depositions, and witnesses. However, it is an internal adjudication proceeding rather than a judicial proceeding; thus, it does not utilize a jury. The Board must issue a final decision within a year after the inter partes review proceeding is initiated. Either party can seek judicial review of the Board’s decision in the Court of Appeals for the Federal Circuit.<sup>4</sup>

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1. Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC, 138 S. Ct. 1365, 1372 (2018).
2. See 35 U.S.C.A. § 311.
3. 35 U.S.C.A. § 314(a); and 35 U.S.C.A. § 313.
4. 35 U.S.C.A. § 319.

### PROCEDURAL HISTORY

Oil States brought a lawsuit against Greene's Energy in federal district court in 2012. Greene's Energy responded by challenging the validity of the patent in the lawsuit and by simultaneously petitioning for an inter partes review with the PTO.

The district court foreclosed Greene's Energy assertion of prior art, but the PTO, a few months later, decided that Oil States' claims were unpatentable due to prior art. Oil States appealed the PTO's decision to the Federal Circuit asserting that its patent claims were valid. It also maintained that inter partes review should be declared unconstitutional because the reviews are conducted without a jury. Before the Federal Circuit decided Oil States' appeal, it rejected the same argument that inter partes review was unconstitutional in *MCM Portfolio LLC v. Hewlett-Packard Co.*<sup>5</sup> Subsequently, the Federal Circuit also rejected Oil States' unconstitutionality argument. Oil States then requested certiorari, which was granted.

### ISSUE

Oil States did not dispute the PTO's decision in this Court. The question it raised concerned the constitutionality of deciding issues of patent validity through inter partes review despite a party's Seventh Amendment right to a trial by jury.

### DECISION

Patents are granted to a patentee as a public franchise through an adjudication process, designed by Congress, separate from Article III courts. Inter partes review constitutes an extension of the examination a granted patent initially received, which is not subject to an Article III court. Therefore, inter partes review is not barred by Article III or the Seventh Amendment.

### REASONING

Oil States argued that inter partes review violates its right to an Article III court and its Seventh Amendment right to a jury; it, therefore, follows that the review should be subject to a judicial proceeding in the presence of a jury.

The majority gave two reasons as to why inter partes review is constitutional. First, the Supreme Court assessed whether a PTO proceeding is subject to judicial power so as to determine if the rights to an Article III court should apply. This issue hinges on whether the matter in question constitutes a public right or private right. A "public right" is any

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5. *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015).

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matter “between the government and others, which from their nature do not require judicial determination and yet are susceptible to it.”<sup>6</sup> Public rights matters are assignable to entities other than Article III courts. The Supreme Court held that inter partes review is a matter between an individual and the government and therefore constitutes a public right. The PTO, therefore, has the authority to examine patents without violating Article III. In order for this authority to be valid, however, it must have been rightfully assigned such a power.

Under Article I, Congress has the power to assign adjudication powers to entities outside of the courts created by Article III. Granting patents serves the constitutional function created by Article I - for Congress to promote the progress of science.<sup>7</sup> To fulfill this duty, Congress gave the Executive Branch power to grant patents. Therefore, the PTO was assigned such rights that align with the executive power, including the right to adjudicate issues of patentability. Ultimately PTO examinations of patentability are constitutional because Congress assigned it the power to do so.

Second, the Supreme Court sought to determine whether inter partes review falls under the PTO’s vested power. Inter partes review represents the same examination a patent undergoes before it can be granted. The Board of the PTO makes the same considerations when reviewing an issued patent. Because the PTO has the right to review, there is no reason a re-examination entailing the same review would be outside of its scope. The only difference between inter partes review and the standard examination process a patent undergoes is that the former takes place following the issuance of a patent, through a request by someone other than the patent owner. However, all patents are subject to the authority of the PTO, even after they have been issued. Therefore, like a patent examination, inter partes review is a properly assigned function of the PTO. Because inter partes review falls under the PTO’s assigned powers, it thus does not violate the Seventh Amendment, which is only applicable in judicial proceedings.

The majority specified that this ruling only applies to inter partes review, and that patents remain subject to issues of due process through judicial courts.<sup>8</sup> *Oil States* crafted three separate challenges to the Court’s reasoning. First, it cited three decisions which reaffirmed that patent rights are private property and that only U.S. courts can correct a patent, as opposed to the department which issued the patent.<sup>9</sup> The Court concluded that patent rights are derived from statutes that subjugate the patent to all laws under the Patent Act, therefore making it a public franchise. The Court also stated that these cases, which assert that all corrections were to be made by Article III courts, were made prior to the enactment of the most recent Patent Act.

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6. *Oil States*, 138 S. Ct. at 1373.

7. U.S. Const. art. I, § 8, cl. 8.

8. *Oil States*, 138 S. Ct. at 1379.

9. *Id.* at 1375.

Oil States' second argument indicated that traditionally, patent validity was tried at common law between private parties. Justice Thomas writing for the Court states in response, that in 18th century England, the Privy Council, composed of advisers, revoked patents.<sup>10</sup> Relying on this precedent, the United States created its Constitution. It was, therefore, the implied intent of the Framers to construct a similar system in which patents were tried by a separate council. Tradition, moreover, should not forever bind courts to validate patents; thus, the argument is set on a faulty premise.

Finally, Oil States argued that because inter partes review is identical to a judicial proceeding, it violates Article III. The Court's response underscored that because an adjudication process is identical to a judicial proceeding, it does not constitute a judicial exercise; nor has this ever been the case.

#### DISSENT: JUSTICE GORSUCH

Justice Gorsuch and the Chief Justice believe the timely process of filing a patent should not be deniable by a political appointee and administrative agents; rather, a judge should decide its validity. The dissent felt the majority's decision conflicted with the idea of separation of powers.

Judges and the judicial branch have as their purpose, the maintenance of an independent body within the government. Primarily, judges were created as a countervailing influence on the other branches and administrative bodies of government. Yet, the Director of the PTO, who makes a final and non-appealable decision to grant inter partes review is appointed by the President. Furthermore, the Director determines PTO board members' salaries, decides on projects, and can order cases be reheard. There exists a considerable amount of untouchable power retained within the executive branch, and there is nothing that checks the work of the PTO. Considering the timely investment inventors must go through, they should be awarded the right of independent review. Separate assessment of the validity of a patent is the fairest treatment to an inventor and is one example of the judicial branch's utility.

The dissent's second argument addressed the majority's interpretation of patents in 18th century England. Industrialization created the paradigm that patents should encourage innovation, and England was adapting its process to accommodate this change. However, the majority's opinion ignored this bit of history when examining the traditional treatment of patents in England. Patents were first tried by courts; the challenger of the patent required a writ from the court to reach the Privy Council, but by 1746, the Privy Council ceased invalidating patents retaining limited power in the matter.

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10. *Id.* at 1377.

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The Framers of the Constitution intended to recreate the system that supported this philosophy, which was shifting from review by the council to review by the courts. This stance is reflected in the language of Article I of the Constitution, which encourages innovation. Justice Gorsuch cites to several 19<sup>th</sup> century cases acknowledging that protecting patent owners was crucial to support the Framers' intent of replicating the English system and that this protection was subject to the courts.<sup>11</sup> Therefore, the system that the majority believes to be traditional is not well-founded.

Finally, Justice Gorsuch argues, although patents are public franchises, they are distinct from other public franchises in that they were never to be treated as monopolies, which other public franchises have become. Patent owners should not be tied to the scrutiny of a single branch by such broad classification.

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11. *Id.* at 1384.