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## Consequences for Patent Owners if a Patent is Unconstitutionally Invalidated by the Patent Trial and Appeal Board

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# CONSEQUENCES FOR PATENT OWNERS IF A PATENT IS UNCONSTITUTIONALLY INVALIDATED BY THE PATENT TRIAL AND APPEAL BOARD

MARK MAGAS\*

## INTRODUCTION

The America Invents Act<sup>1</sup> (“AIA”) of 2011 significantly overhauled post-issuance patent validity proceedings at the United States Patent and Trademark Office (“PTO”). Before the AIA, the PTO had statutory authority to conduct two types of proceedings: *ex parte* reexaminations and *inter partes* reexaminations.<sup>2</sup> The AIA created three new proceedings that allow third-party petitioners to challenge the validity of issued patents, all adjudicated by the PTO’s Patent Trial and Appeal Board (“PTAB”): *inter partes* reviews (“IPRs”), which replaced the existing *inter partes* reexaminations; post-grant reviews; and closed business method reviews.<sup>3</sup>

These new proceedings dramatically increased the rate at which claims under review are held invalid, perhaps more than Congress originally intended.<sup>4</sup> As of March 2017, 6,700 AIA petitions have been filed.<sup>5</sup> IPRs

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1. Pub. L. No. 112–29, 125 Stat. 284 (2011).

2. Greg Reilly, *The Constitutionality of Administrative Patent Cancellation*, 23 B.U. J. SCI. & TECH. 377, 384–86 (2017). “*Ex parte*” indicates that the reexamination involves only the patent owner and the examiner, regardless of who requested the reexamination, while “*inter partes*” indicates that the third party who requested the reexamination is allowed to participate in the proceeding. *Id.*

3. *Id.* The AIA also added derivation proceedings that allow a patent applicant to prove claims from another application or issued patent were derived from the applicant. *Id.* Although derivation proceedings could potentially contest the validity of an issued patent, these proceedings have been seldom used, with only three instituted proceedings as of November 2016. Howard Wisnia & Kevin Amendt, *Why No One is Talking About Derivation Proceedings*, GLOBAL IP MATTERS (Nov. 2, 2016), <https://www.globalipmatters.com/2016/11/02/why-no-one-is-talking-about-derivation-proceedings> [<https://perma.cc/9ZVZ-MDDT>].

4. See Ryan Davis, *Coons Calls for AIA Overhaul to Lower Patent ‘Kill Rate’*, LAW360 (Jun. 3, 2015, 8:19 PM), <https://www.law360.com/articles/662730/print?section=cybersecurity-privacy> [<https://perma.cc/G7HQ-X4NL>].

5. U.S. PATENT & TRADEMARK OFFICE, PATENT TRIAL AND APPEAL BOARD STATISTICS 2 (2017), [https://www.uspto.gov/sites/default/files/documents/AIA%20Statistics\\_March2017.pdf](https://www.uspto.gov/sites/default/files/documents/AIA%20Statistics_March2017.pdf)

are by far the most prevalent, comprising 92 percent of all petitions.<sup>6</sup> Of the IPR petitions where the PTAB reached a final decision, only 19 percent have seen patents emerge with all claims intact, while 81 percent had some or all claims invalidated.<sup>7</sup> Additionally, 86.7 percent of patents involved in IPRs and closed business method reviews have underlying patent infringement litigation in the federal courts.<sup>8</sup> The popularity of these proceedings demonstrates a shift in power from district courts to the PTAB.<sup>9</sup>

Unsurprisingly, this overhaul has proven to be highly controversial. Proponents argue that the new AIA proceedings are working exactly as intended—invalidating weak patents that should never have been granted, providing administrative proceedings that are faster and cheaper than litigating validity in district courts, and improving adjudication by having administrative patent judges (“APJs”), who generally have greater technical proficiency compared to district court judges, preside over the proceedings.<sup>10</sup> In contrast, opponents argue that the PTAB has a strong anti-patent bias and is invalidating patents at too high a rate.<sup>11</sup> Federal Circuit Chief Judge Randall Rader went as far as describing PTAB panels as “death squads . . . killing property rights.”<sup>12</sup>

In addition to attacking how the PTAB proceedings function, opponents have also attempted to challenge the constitutionality of the proceedings.<sup>13</sup> The most recent case challenging the constitutionality of the PTAB

[<https://perma.cc/JW29-CDKL>] (comprising the total of all IPRs, PGRs, and CBMs since the AIA was enacted).

6. *Id.*

7. *Id.* at 10. The invalidation rate for patents has been slightly lower since the first few years after IPRs were introduced. In 2015, only 16 percent of patents emerged from IPR final decisions with all claims intact, and 84 percent had some or all claims invalidated. *See Davis, supra* note 4.

8. Saurabh Vishnubhakat et al., *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. 45, 69 (2016).

9. Reilly, *supra* note 2, at 379.

10. *See* Thomas C. Folsom, *Minority Report: Real Patent Reform, Maybe Later—the America Invents Act and the Quasi-Recodification Solution*, 6 AKRON INTELL. PROP. J. 179, 191 (2012); Reilly, *supra* note 2, at 414–15 (noting that administrative patent judges at the PTAB, unlike most Article III judges, have greater technical understanding); Ellen Schrantz, *5 Years on, the America Invents Act still cleans up our patent system*, THE HILL (Oct. 5, 2016, 3:56 PM), <http://thehill.com/blogs/pundits-blog/finance/299453-5-years-on-the-ct-still-cleans-up-our-patent-system> [<https://perma.cc/BV4X-TJ53>].

11. *See* Samson Vermont, *IPR Statistics Revisited: Yep, It's A Patent Killing Field*, PATENTATTORNEY.COM (Feb. 8, 2017), <https://www.patentattorney.com/ipr-statistics-revisited-yep-its-a-patent-killing-field/> [<https://perma.cc/4S6N-GCH7>].

12. Brian Mahoney, *Software Patent Ruling a Major Judicial Failure, Rader Says*, LAW360 (Oct. 25, 2013, 6:36 PM), <https://www-law360-com.kentlaw-iiit.idm.oclc.org/articles/482264/software-patent-ruling-a-major-judicial-failure-rader-says> [<https://perma.cc/CPN9-DGJ5>].

13. *See generally* Reilly, *supra* note 2; Robert P. Greenspoon, *SCOTUS asked to consider constitutional challenge to post grant patent proceedings*, IPWATCHDOG (Jan. 21, 2016),

proceedings was *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, which was decided by the Supreme Court in April 2018.<sup>14</sup> *Oil States* had the potential to completely upend the PTAB by declaring IPRs, and possibly all post-issuance proceedings, unconstitutional.<sup>15</sup> Although the Court in *Oil States* upheld the constitutionality of IPRs, the narrow decision left several important challenges to the PTAB standing, including (1) the possibility of an Article III challenge similar to *Oil States* but for patents issued before IPRs were created and (2) various due process challenges.<sup>16</sup> This creates a reasonable likelihood that a future court will find patents to have been unconstitutionally invalidated in a PTAB proceeding.<sup>17</sup>

While the merits of these challenges have been widely debated,<sup>18</sup> there has been little analysis of what would happen if one of these constitutional challenges succeeded.<sup>19</sup> The consequences of an unconstitutionality ruling are straightforward for the immediate patent at issue (e.g., the *Oil States* patent in *Oil States*)—the ruling would simply void the PTAB decision, and since the appeal was pending, no judgment would have been entered in any underlying case.<sup>20</sup> However, depending on which constitutional argument prevails and its scope, there may be other PTAB decisions implicated by the ruling.<sup>21</sup>

The consequences for these other patents are far more complex. Although a patent owner might expect to simply have its patent rights auto-

<http://www.ipwatchdog.com/2016/01/21/scotus-asked-consider-constitutional-challenge-post-grant-patent-proceedings/id=65129/> [<https://perma.cc/NPY9-8M73>].

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

15. Dennis Crouch, *Dismantling Inter Partes Review*, PATENTLYO (Aug. 24, 2017), <https://patentlyo.com/patent/2017/08/dismantling-partes-review.html> [<http://perma.cc/C2ZY-XZDX>].

16. See *Oil States*, 138 S. Ct. at 1379.

17. See Transcript of Oral Argument at 64–66, *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018) (No. 16-712). See also Steve Brachmann, *PTAB due process violations raised in brief to federal circuit*, IPWATCHDOG (Oct. 8, 2017) <http://www.ipwatchdog.com/2017/10/08/ptab-due-process-violations-raised-brief-federal-circuit/id=88520/> [<https://perma.cc/3VRK-YXBK>]; Gene Quinn, *Are PTAB Proceedings Fundamentally Unfair to Patent Owners?*, IPWATCHDOG (Mar. 6, 2015), <http://www.ipwatchdog.com/2015/03/06/ptab-proceedings-unfair-to-patent-owners/id=55397/> [<https://perma.cc/E3R9-JJHR>].

18. See generally Reilly, *supra* note 2; Greenspoon, *supra* note 13.

19. See generally Dennis Crouch, *Post-IPR: What Happens if IPRs are Unconstitutional? (Part I)*, PATENTLYO (Aug. 29, 2017), <https://patentlyo.com/patent/2017/08/post-happens-unconstitutional.html> [<https://perma.cc/5UMY-6ASM>]; Charles W. Shifley, *If Inter Partes Reviews Are Unconstitutional, Will There Be Zombie Patents? Yikes! It Could Happen*, BANNER & WITCOFF (Aug. 31, 2017), <https://bannerwitcoff.com/wp-content/uploads/2017/08/If-Inter-Partes-Reviews-Are-Unconstitutional-Will-There-Be-Zombie-Patents.pdf> [<https://perma.cc/5EDZ-73DJ>].

20. Shifley, *supra* note 19.

21. See *id.* (unconstitutionality ruling could affect other invalidated patents retroactively).

matically revived after the PTAB proceeding that invalidated the patent is declared unconstitutional, there are many hurdles the patent owner is likely to encounter. These hurdles will largely depend on the stage of the patent in the PTAB process. First, before a final determination has been made with all appeals exhausted, the primary issue will be with waiver—whether the patent owner waived the constitutional issue, resulting in no actual violation to the patent owner's rights. Second, even if PTAB proceedings are found unconstitutional, the decision may not be given retroactive effect. Third, after a final determination has been made with all appeals exhausted, the patent owner may not be able to revive the cancelled claims at the PTO because of finality in judgment. And fourth, further assuming that finality in a PTAB decision can be overcome, separate finality issues with district court judgments may yet preclude the patent owner from relitigating infringement cases that were already dismissed.

In the event that PTAB proceedings are held unconstitutional, the many hurdles facing patent owners will likely substantially limit the number of patent owners that will be able to obtain meaningful relief by having their patents both revived and enforceable. Although issues with waiver will probably be resolved in favor of patent owners, there is a reasonable chance that the scope of the decision holding PTAB proceedings unconstitutional will only be applied prospectively. Further, the holding is unlikely to overturn PTAB proceedings which reached a final decision holding a patent invalid with all appeals exhausted. Outside of some longshot attempts to void final judgments, these proceedings will probably stay final. Patent owners may be further limited if they are unable to reopen dismissed infringement cases. But, interestingly, patent owners may have more success on all of these issues if the PTAB proceedings are held unconstitutional under one of the due process challenges, although the holding may only apply to a much smaller number of patents.

The purpose of this note is to provide patent owners and other interested parties with a roadmap of the gauntlet of issues likely to arise if a constitutional challenge to a PTAB proceeding is successful. For this reason, and because each of the issues on its own will likely require substantial litigation, this note does not always reach definitive conclusions on how these issues should be decided. Likewise, this note does not make any judgments on whether the constitutional challenges should succeed but does assume that courts will decide these constitutional challenges against the PTAB.

Being an Article I tribunal, the PTAB shares many similarities with other Article I tribunals, such as bankruptcy courts and tax courts.<sup>22</sup> This note looks to relevant cases involving these other Article I tribunals, where courts grappled with tremendous uncertainty in the law after landmark cases determined at least part of their proceedings to be unconstitutional. These cases provide important context necessary to evaluate the issues that patent owners will face if PTAB proceedings are found unconstitutional.

Part I of this note provides background information detailing the PTO's current post-issuance patent validity proceedings, the relationship between PTAB proceedings and patent litigation, and the current constitutional challenges to the PTAB proceedings. Part II discusses issues with waiver occurring before the PTAB reaches a final decision with all appeals exhausted, including the doctrine of waiver, how constitutional rights may be waived, and whether there could be an exception to a waiver due to an intervening change in law or structural interests. Part III discusses whether a decision finding PTAB proceedings unconstitutional should be applied retroactively. Lastly, Part IV discusses the doctrine of finality, including how finality could prevent a patent owner from reviving its patent after a final decision by the PTAB, and turning to the district court perspective, how finality could preclude the patent owner from relitigating dismissed patent infringement cases.

## I. BACKGROUND

### *A. Current Post-Issuance Validity Proceedings at the PTO.*

The PTO is the administrative agency tasked with applying the country's patent statutes to determine whether inventions, filed as applications, should be granted as patents.<sup>23</sup> There are various conditions defined by law for an application to be patentable, highlighted by requirements for novelty (under 35 U.S.C. § 102) and non-obviousness (under 35 U.S.C. § 103).<sup>24</sup> A patent is a property right that gives its owner a monopoly over "making, using, offering for sale, or selling the invention" for a set period of time (the "patent term") before the invention becomes freely available to the

22. See generally James E. Pfander, *Article I Tribunals, Article III Courts, and the Judicial Power of the United States*, 118 HARV. L. REV. 643 (2004); Michael Rothwell, *Patents and Public Rights: The Questionable Constitutionality of Patents Before Article I Tribunals After Stern v. Marshall*, 13 N.C. J.L. & TECH. 287 (2012).

23. 35 U.S.C. §§ 1, 3 (2012).

24. See generally 35 U.S.C. § 102 (2012) (novelty); 35 U.S.C. § 103 (2011) (non-obviousness).

public.<sup>25</sup> Once granted, a patent can only be revoked through a lawsuit in federal court or a post-issuance validity proceeding at the PTO upon a finding that the conditions for patentability were not properly satisfied.<sup>26</sup>

The PTO has authority to conduct four types of post-issuance validity proceedings: IPRs, post-grant reviews, closed business method reviews, and ex parte reexaminations.<sup>27</sup> IPRs are by far the most popular of the proceedings.<sup>28</sup> An IPR is an adversarial proceeding presided over by a panel of administrative law judges at the PTAB.<sup>29</sup> It can only be filed by a third-party petitioner nine months after a patent is granted and can only argue anticipation (under section 102) or obviousness (under section 103) of the challenged patent using printed prior art.<sup>30</sup> A trial will be instituted if the petitioner demonstrates a reasonable likelihood that at least one of the challenged claims will be found invalid.<sup>31</sup> If instituted, the petitioner and the patent owner are able to submit briefs, conduct limited discovery, submit expert declarations, and make oral arguments before the board.<sup>32</sup> The board will issue a final determination upholding the claims or declaring them invalid within 18 months,<sup>33</sup> but either party may appeal the decision to the Federal Circuit.<sup>34</sup> Post-grant reviews can only be filed within nine months after a patent is granted and can be based on any ground of unpatentabil-

25. U.S. Patent & Trademark Office, *General information concerning patents* (Oct. 2015), <https://www.uspto.gov/patents-getting-started/general-information-concerning-patents#heading-2> [<https://perma.cc/W4GD-3LLG>].

26. Paul R. Gugliuzza, *(In)valid Patents*, 92 NOTRE DAME L. REV. 271, 272 (2016).

27. Reilly, *supra* note 2, at 384–86.

28. U.S. PATENT & TRADEMARK OFFICE, *supra* note 5.

29. Reilly, *supra* note 2, at 385–86 (noting IPRs are an adversarial proceeding); Jennifer R. Bush, *Administrative Patent Judges: Not Your Typical Federal Judge*, FENWICK & WEST LLP (July 10, 2014), <https://www.fenwick.com/publications/pages/administrative-patent-judges-not-your-typical-federal-judge.aspx> [<https://perma.cc/E8BA-7YPP>] (noting PTAB board members are administrative patent judges).

30. 35 U.S.C. § 311 (2013).

31. 35 U.S.C. § 314(a) (2012).

32. David R. Bailey et al., *A Guide to Inter Partes Review*, LAW360 (Aug. 10, 2012), <https://www.law360.com/articles/365324/a-guide-to-inter-partes-review> [<https://perma.cc/AL2N-ETGZ>].

33. Inter Partes Review Procedure, 37 C.F.R. § 42.100(c) (2016). A patent owner can also file a petition to amend the claims in an IPR, but this motion is rarely filed, and even more rarely granted. As of April 2016, patent owners only filed a motion to amend in 8 percent of completed IPRs, and 95 percent of these motions were denied. U.S. PATENT & TRADEMARK OFFICE, PATENT TRIAL AND APPEAL BOARD MOTION TO AMEND STUDY 5, 6 (Apr. 30, 2016), <https://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf> [<https://perma.cc/JS8C-MEQZ>].

34. 35 U.S.C. § 319 (2011).

ity,<sup>35</sup> while closed business method reviews pertain only to business method patents and function similar to IPRs.<sup>36</sup>

Ex parte reexaminations, on the other hand, can be filed by anyone, including the patent owner.<sup>37</sup> The PTO will institute the proceeding if there is “a substantial new question of patentability.”<sup>38</sup> In addition, the Director of the PTO may decide to institute an ex parte reexamination under this “substantial new question of patentability” threshold “[o]n his own initiative, and [at] any time.”<sup>39</sup> Once instituted, the only parties involved are the patent owner and a patent examiner, with no participation from third parties, regardless of whether a third party filed the request.<sup>40</sup> Reexamination can result in the claims of the patent confirmed, cancelled, or amended, but a patent owner can appeal adverse decisions to the PTAB and the Court of Appeals for the Federal Circuit.<sup>41</sup>

### B. PTAB Proceedings and Patent Litigation

Because most patents involved in IPRs have corresponding litigation in federal court,<sup>42</sup> it is important to understand the relationship between the PTAB proceedings and patent infringement litigation. Patent infringement actions are strictly in the jurisdiction of federal courts rather than state courts.<sup>43</sup> A patent owner can sue in district court for patent infringement when someone “makes, uses, offers to sell, or sells any patented invention” in the United States.<sup>44</sup> Notably, a defendant served with a complaint for patent infringement has up to one year to file an IPR.<sup>45</sup> While an IPR and district court case could proceed in parallel, a stay in the district court case may, depending on the district, be granted if the PTAB institutes the IPR on

35. 35 U.S.C. § 321 (2012). Additionally, post-grant reviews can be instituted if a “petition raises a novel or unsettled legal question” relevant to other patents or applications. 35 U.S.C. § 324(b) (2012).

36. Reilly, *supra* note 2. A business method patent covers “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” *Id.* (quoting Sarah Tran, *Patent Powers*, 25 HARV. J.L. & TECH. 609, 636–37 (2012)).

37. 35 U.S.C. § 302 (2012).

38. 35 U.S.C. § 303(a) (2012).

39. *Id.*

40. Ron A. Sassano, Note, *The Rise and Fall of Patent Reexamination Under the America Invents Act: The Burdens and Unconstitutional Aspects of Congress’ Latest Attempt at Patent Reform*, 21 J. INTELL. PROP. L. 165, 169 (2013).

41. 35 U.S.C. §§ 141, 306–07 (2012).

42. Vishnubhakat et al., *supra* note 8, at 69.

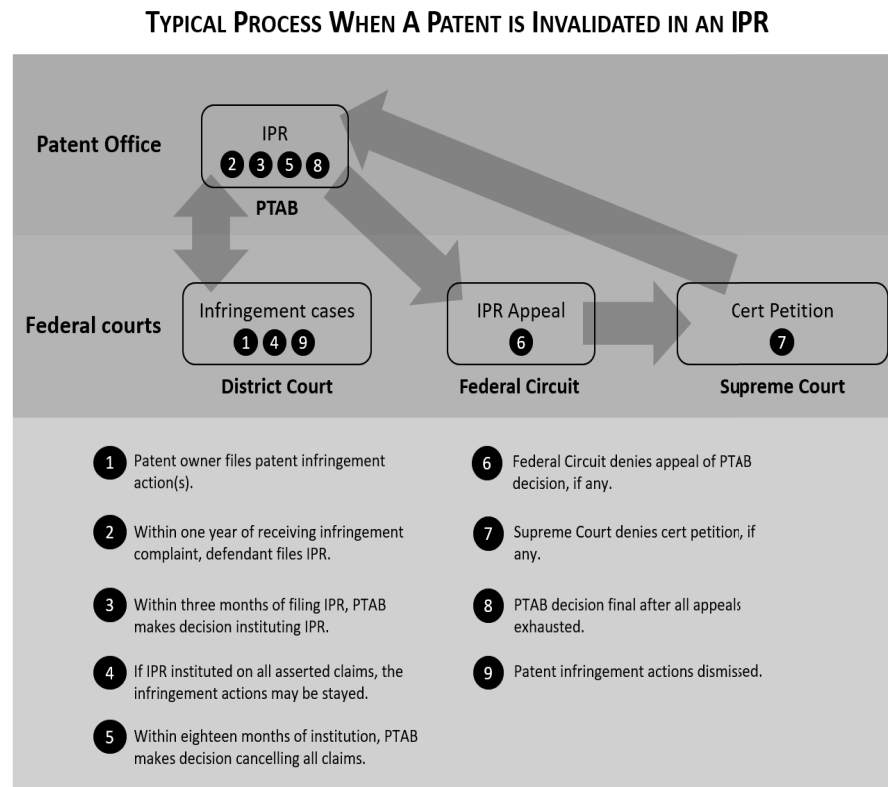
43. 28 U.S.C. § 1400 (2012).

44. 35 U.S.C. § 271 (2012).

45. 35 U.S.C. § 315 (2012).



all asserted claims.<sup>46</sup> Finally, when a PTAB proceeding invalidates a patent that is the entire subject of an underlying patent infringement action, and after the patent owner exhausts all appeals, the patent owner effectively loses the property right to the cancelled claims, and the infringement action is generally dismissed shortly thereafter.<sup>47</sup> The typical interaction between the PTAB and the federal courts is depicted in the following chart.



46. Jim Warriner, *Measuring the Success of Motions to Stay Pending IPR*, LAW360 (Jun. 6, 2017, 11:39 AM), <https://www-law360-com.kentlaw-iit.idm.oclc.org/articles/928654/measuring-the-success-of-motions-to-stay-pending-ipr> [<https://perma.cc/C2SN-CYTW>].

47. See Crouch, *supra* note 19.

There are important differences between the legal standards used in PTAB proceedings and the federal courts. In federal courts, patents are presumed valid, and must be proven invalid by clear and convincing evidence, a high burden of proof.<sup>48</sup> Unlike federal courts, the PTAB does not presume patents are valid and only requires claims to be proven invalid by a preponderance of the evidence, a substantially lower burden.<sup>49</sup> Further, federal courts and the PTAB use different claim construction standards, where the federal courts apply the “Phillips” standard, while the PTAB uses the “broadest reasonable construction” standard.<sup>50</sup> These differences in the applied legal standards give petitioners significant advantages in PTAB proceedings compared to litigation in federal courts.

### C. Constitutional Challenges to the Proceedings.

The most prominent and recent constitutional challenge to PTAB proceedings was *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, decided in April 2018.<sup>51</sup> The main issue in *Oil States* was whether IPRs violate the Constitution by revoking patents in a non-Article III court without a jury.<sup>52</sup> Even though the Court ultimately held that cancelling patent rights through IPRs was constitutional, Justice Thomas stressed in his majority opinion that the holding was narrow—it did not address retroactive application of IPRs to patents issued before the IPR procedure was in place nor any of the due process challenges.<sup>53</sup> Therefore, an Article III challenge similar to *Oil States* may be successful for patents that issued before IPRs were created.<sup>54</sup>

The due process challenges to the proceedings dispute the fundamental fairness of the PTAB. For example, in *Cascades Projection, LLC v. Epson America, Inc.*, Cascades Projection (“Cascades”) argues that PTAB

48. Michael J. Flibbert & Maureen D. Queler, *5 Distinctions Between IPRs and District Court Patent Litigation*, FINNEGAN (Dec. 16, 2015), <https://www.finnegan.com/en/insights/5-distinctions-between-iprs-and-district-court-patent-litigation.html> [<https://perma.cc/4B94-KG86>]. This article also lists other distinctions between federal courts and the PTAB, including differences in standing requirements, procedures, discovery, trials, and appellate standard of review. *Id.*

49. *Id.*

50. *Id.*

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

52. *Id.* at 1372.

53. *Id.* at 1379.

54. See Athul Acharya et al., *SCOTUS Upholds IPRs as Constitutional, May Leave Opening for Challenges to Certain IPRs*, FENWICK & WEST LLP (Apr. 26, 2018), <https://www.fenwick.com/publications/Pages/SCOTUS-Upholds-IPRs-as-Constitutional-May-Leave-Opening-for-Challenges-to-Certain-IPRs.aspx> [<https://perma.cc/9N8Y-X6BA>] (noting that *Oil States* left uncertainty for patents issued before the AIA was enacted, although the authors caution that a better reading of the *Oil States* decision is that it precludes all Article III challenges against IPRs).

trials create a reasonable probability of bias that violates Cascades' due process rights.<sup>55</sup> In support of its position, Cascades cites two reasons for this probability of bias. First, Cascades argues that the PTAB is subject to "anchoring" bias because the same panel of administrative judges that decides to institute the proceeding makes the final decision.<sup>56</sup> Second, Cascades argues that the administrative judges might be biased because they are paid and employed by the PTO, who, based on the relatively high invalidation rates in PTAB proceedings, does not seem like a neutral institution.<sup>57</sup> In another instance, raising even more due process concerns, the PTAB admitted to stacking expanded board panels to obtain a ruling desired by the agency.<sup>58</sup>

The existence of all these constitutional challenges raises a substantial possibility that a patent may be invalidated in a PTAB proceeding, where the proceeding is later found unconstitutional. The number of patents that could be affected ultimately depends on which challenge is successful. If the Court rules in favor of one of these petitions and finds, for example, that IPRs by and large are unconstitutional, the scope of this ruling may implicate all patents involved in PTO post-issuance proceedings. But if one of the narrower due process challenges is successful, only a subset of these patents affected by the specific due process violation may be implicated.<sup>59</sup> The following parts of this note examine issues with waiver, retroactive application, and finality that parties are likely to encounter if such a situation were to arise.

## II. WAIVER

Issues with waiver are most relevant before the PTAB reaches a final decision invalidating a patent with all appeals expired. If a patent owner is deemed to have waived the constitutional right implicated by a decision

55. Opening Brief of Plaintiff-Appellant at 60–61, *Cascades Projection LLC v. Epson Am., Inc.*, 864 F.3d 1309 (Fed. Cir. 2017) (No. 2017-1517).

56. *Id.* at 62.

57. *See id.* (arguing that board judges are "prone to being perceived as biased . . . as any elected appellate judge receiving party-specific campaign contributions").

58. Gene Quinn, *USPTO Admits to stacking PTAB panels to achieve desired outcomes*, IPWATCHDOG (Aug. 23, 2017), <http://www.ipwatchdog.com/2017/08/23/uspto-admits-stacking-ptab-panels-achieve-desired-outcomes/id=87206/> [<https://perma.cc/X5JX-VTEH>].

59. For example, the due process violation for anchoring bias may affect a large number of patents involved in PTAB proceedings where the same judge makes both the initial decision instituting an IPR and final decision ruling the patent invalid. But a due process violation for panel stacking may only affect a much smaller number of patents—from the oral argument in *Oil States*, Greene's counsel Christopher Kise notes that there were only a few cases where panels were improperly expanded. *See* Transcript of Oral Argument at 33, *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018) (No. 16-712).

finding PTAB proceedings unconstitutional, the patent owner will not be able to assert the right, which would prevent the patent owner from reviving its patent if the final decision is against the patent owner. This Part analyzes the doctrine of waiver, how waiver applies to the constitutional rights at stake in challenges against the PTAB, whether the right might be unwaivable due to structural interests, and whether there might be valid exceptions to a waiver due to an intervening change in law.

### A. Waiver of Constitutional Rights

A waiver is “[t]he voluntary relinquishment or abandonment—express or implied—of a legal right or advantage.”<sup>60</sup> In general, personal constitutional rights are subject to waiver in both civil and criminal matters.<sup>61</sup> And “[c]ourts indulge every reasonable presumption against waiver of fundamental constitutional rights.”<sup>62</sup> The effect of a waiver of a constitutional right is to prevent a party from later asserting that right.<sup>63</sup> If a patent owner waives its constitutional right, such as its right to an Article III court, the patent owner will then be precluded from asserting that right.

The waiver of a constitutional right must generally be knowing, intelligent, and voluntary “with sufficient awareness of the relevant circumstances and likely consequences.”<sup>64</sup> However, these stringent requirements may be relaxed in civil cases, where courts have held that, for example, a waiver of the right to an Article III court may only require that the waiver be knowing and voluntary.<sup>65</sup> Long established precedent teaches that a constitutional right may be waived “by the failure to make timely assertion of the right.”<sup>66</sup> While the PTAB attempts to make clear that arguments not raised will be considered waived by specifically including in its scheduling orders, “The patent owner is cautioned that any arguments for patentability not raised and fully briefed will be deemed waived,” this disclaimer only specifies patentability arguments, not constitutional arguments.<sup>67</sup>

60. *Waiver*, BLACK’S LAW DICTIONARY (10th ed. 2014).

61. *Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1943–44 (2015).

62. *Coll. Sav. Bank v. Fla. Prepaid Postsecondary Educ. Expense Bd.*, 119 S. Ct. 2219, 2229 (1999) (quoting *Aetna Ins. Co. v. Kennedy ex rel. Bogash*, 301 U.S. 389, 393 (1937)).

63. *Wellness Int’l Network, Ltd. v. Sharif*, 617 F.App’x 589, 590–91 (7th Cir. 2015) (holding Sharif not able to assert constitutional right to Article III court because he waived the right).

64. *Brady v. United States*, 397 U.S. 742, 748 (1970).

65. *See, e.g., Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1948 (2015).

66. *Yakus v. United States*, 321 U.S. 414, 444 (1944) (collecting authorities).

67. Scheduling Order at 2–3, *Ricoh Ams. Corp. v. MPHJ Tech. Invs.*, No. IPR2013-00302 (P.T.A.B. Nov. 21, 2013).

*B. Waiver of Article III and Due Process Rights*

*Commodity Futures Trading Commission v. Schor* is a foundational case which established that the right to an Article III court, the same right implicated and left open for challenge by *Oil States*, is a personal right and is subject to waiver.<sup>68</sup> *Schor* involved an Article I tribunal, the Commodity Futures Trading Commission (“CFTC”), which was created to hear cases involving fraudulent and manipulative conduct in commodity futures transactions.<sup>69</sup> But the CFTC also had the power to decide all counterclaims arising out of a commodity futures complaint.<sup>70</sup> *Schor* was decided in light of the Supreme Court’s ruling in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, which called into question the constitutionality of the CFTC’s power to decide the counterclaims.<sup>71</sup>

In *Schor*, William Schor (“Schor”) and Mortgage Services of America, Inc. filed a reparations proceeding at the CFTC against ContiCommodity Services, Inc. (“Conti”).<sup>72</sup> Conti subsequently filed a counterclaim in the CFTC to recover a debit balance, a counterclaim arising out of the original complaint.<sup>73</sup> The Supreme Court found evidence that Schor expressly waived his right to an Article III court when he demanded Conti proceed on its counterclaim in the reparations proceeding but only contested this right after receiving an adverse judgment.<sup>74</sup> Furthermore, because Schor had the ability to file his original reparations complaint in state court, but chose not to despite knowing of the CFTC’s power to adjudicate counterclaims, the Supreme Court held that the waiver can also be implied.<sup>75</sup>

A recent case involving bankruptcy courts, *Wellness International Network, Ltd. v. Sharif*, evaluated similar waiver issues to those that would be presented if an Article III challenge to IPRs is successful. The bankruptcy court is an Article I tribunal that was reconfigured after *Northern Pipeline* to decide core bankruptcy claims, but it also entered final judgments in non-core claims with the consent of all parties.<sup>76</sup> *Wellness* stemmed from another bankruptcy case, *Stern v. Marshall*, in which the Supreme Court held the bankruptcy court “lacked the constitutional authority to enter a

68. *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 848–49 (1986).

69. *Id.* at 836.

70. *Id.* at 837 (citing 17 C.F.R. § 12.23(b)(2) (1983)).

71. *Id.* at 839.

72. *Id.*

73. *Id.*

74. *See id.* at 849.

75. *Id.* at 849–50.

76. *See Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1939–40 (2015).

final judgment on a state law counterclaim that is not resolved in the process of ruling on a creditor's proof of claim" (i.e., it was unconstitutional for the bankruptcy court to enter final judgment on certain state law counterclaims).<sup>77</sup> In *Wellness*, the Supreme Court built off its earlier decision in *Schor* and held that bankruptcy courts could enter final judgment on a *Stern* claim because the constitutional right to an Article III court is waivable and, therefore, parties could consent to a judgment in bankruptcy court.<sup>78</sup> Importantly, the Supreme Court specified that the key inquiry to determine consent (the "*Roell* standard") is "whether the litigant or counsel was made aware of the need for consent and the right to refuse it, and still voluntarily appeared to try the case before the non-Article III adjudicator."<sup>79</sup>

On remand, the Court of Appeals for the Seventh Circuit ultimately held that defendant Richard Sharif ("Sharif") forfeited his right to an Article III court by failing to timely assert the right.<sup>80</sup> Wellness International Network ("Wellness"), a creditor, "initiated an adversary proceeding against Sharif in bankruptcy court" after Sharif filed for Chapter 7 bankruptcy.<sup>81</sup> The bankruptcy court entered a final judgment against Sharif on all counts, including the state law counterclaims.<sup>82</sup> The *Stern* decision was made before Sharif filed his opening brief in the district court on appeal, yet Sharif did not raise any objection under *Stern* in the opening appeal brief and only attempted to raise the objection in a supplemental brief five months later.<sup>83</sup> Because Sharif knew of the *Stern* decision and failed to timely raise the objection, the court ruled he waived the right.<sup>84</sup> However, because the court decided the case based on Sharif's failure to timely raise the objection, the court did not need to reach a conclusion on whether a waiver would have been found, and thus whether there was consent, if the right was asserted promptly after the *Stern* decision.<sup>85</sup>

The *Schor* and *Wellness* matters both involved proceedings at Article I tribunals dealing with prior rulings that at least questioned the constitutionality of their power to enter final judgment on certain claims. In both cases,

77. See *Stern v. Marshall*, 564 U.S. 462, 503 (2011).

78. *Wellness Int'l Network*, 135 S. Ct. at 1943.

79. *Id.* at 1947–48 (quoting *Roell v. Withrow*, 538 U.S. 580, 596 (2003)).

80. See *Wellness Int'l Network, Ltd. v. Sharif*, 617 F.App'x 589, 590–91 (2015). This note uses the terms "forfeit" and "waive" interchangeably, as courts commonly do, but the terms do present some distinctions. See *Freytag v. Comm'r*, 501 U.S. 868, 894 n.2 (1991) (Scalia, J., concurring in part and concurring in judgment).

81. See *Sharif*, 617 F.App'x at 590.

82. *Id.*

83. *Id.*

84. *Id.* at 590–91.

85. *Id.* at 591.

the Supreme Court held that a party could waive its right to an Article III court so long as it consented, either expressly or impliedly, to the proceeding. If an Article III challenge against the PTAB is ultimately successful, other patent owners involved in PTAB proceedings will be presented with the same situation—patent owners at the PTAB, an Article I tribunal, will need to demonstrate that they did not waive their right to an Article III court in light of the ruling holding the proceedings unconstitutional.

First, regarding *Schor*, it's highly unlikely that a patent owner will make any express waiver given all the disadvantages to patent owners at the PTAB discussed *supra* in Part I. As one commentator stated, "[N]o sane patent owner would now consent to an IPR."<sup>86</sup> Second, it's not possible for a patent owner to make the same type of implied waiver as *Schor* because the PTAB operates fundamentally different than the CFTC. *Schor* had the option to file his reparations claim in state court, which would have prevented the CFTC from ever considering the counterclaim.<sup>87</sup> Unlike *Schor*, patent owners have no option which would keep a trial on patent validity away from the PTAB.<sup>88</sup> Only parties adverse to patent owners can determine whether patent validity is tried in a district court or at the PTAB. If the adverse party desires patent validity to be tried in district court, it can either file for declaratory judgment if a patent owner has not yet initiated an infringement action, or it can elect to litigate validity as part of the infringement action.<sup>89</sup> Alternatively, if the adverse party desires validity to be tried in the PTAB, it can file an IPR at any time prior to one year after an infringement action is filed against it.<sup>90</sup> Therefore, a patent owner will most likely not be able to waive the right to an Article III court under the rationale in *Schor*.

86. Edward Heller, Comment to *Supreme Court to decide if Inter Partes Review is Unconstitutional*, IPWATCHDOG (June 12, 2017), <http://www.ipwatchdog.com/2017/06/12/supreme-court-interpartes-review-unconstitutional/id=84430/> [<https://perma.cc/S4HD-482Z>].

87. See *Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833, 848–49 (1986).

88. An interesting counterargument can be made that a patent owner's consent to a stay of district court litigation pending the outcome of an IPR should constitute either an express or implied waiver. However, the IPR process will proceed regardless of whether a stay is granted. See *Unifi Sci. Batteries, LLC v. Sony Mobile Commc'ns AB*, No. 6:12CV221 LED-JDL, 2014 WL 4494479, at \*3 (E.D. Tex. Jan. 14, 2014) (denying motion to stay pending IPRs); *Texas Instruments Inc. v. Unifi Sci. Batteries, LLC*, IPR2013-00213 (P.T.A.B. Jun. 13, 2014) (IPR proceeded to final decision despite motion to stay in district court being denied). Furthermore, because the PTAB is not bound by a district court decision upholding the validity of a patent, see *Novartis AG v. Noven Pharm. Inc.*, 853 F.3d 1289, 1294 (Fed. Cir. 2017), there is generally little incentive for a patent owner to concurrently litigate patent validity in both the district court and at the PTAB.

89. See Maria Luisa Palmese, *Patent Litigation in the United States: Overview*, *Practical Law Country Q&A 6-623-0657*, THOMSON REUTERS PRACTICAL LAW (Feb. 1, 2015).

90. 35 U.S.C. § 315 (2012).

Turning to *Wellness*, a patent owner who fails to timely assert its Article III right will certainly be deemed to have waived the right. In *Wellness*, Sharif had the opportunity to raise the objection in his opening appeal brief after the *Stern* unconstitutionality decision, which the court implies would have been timely.<sup>91</sup> Likewise, the patent owner must promptly assert the right at the earliest possible point after the unconstitutionality ruling. Depending on where the patent is in the PTAB process when the ruling is made, this could be in the patent owner's response, in a separate motion to the board, or in an opening brief on appeal.<sup>92</sup>

Even though the Seventh Circuit Court in *Wellness* did not conclude whether a timely waiver would have been a valid waiver, the Supreme Court articulated the *Roell* standard, the "key inquiry" by which such a waiver should be evaluated.<sup>93</sup> Applying this standard to a patent owner after a successful Article III challenge to the PTAB, for a waiver to be found, the patent owner must (1) have been made aware of the need for consent, (2) have been made aware of its right to refuse consent, and (3) still have voluntarily appeared in the PTAB proceeding. As discussed above, a patent owner has no choice on whether patent validity is adjudicated in the district court or the PTAB, and thus, there is no need for consent or right to refuse consent. Other than giving up on the patent, the patent owner has no choice but to argue patent validity at the PTAB. Based on this standard, it is incredibly difficult to see how a patent owner could ever be deemed to waive a constitutional right in a PTAB proceeding.<sup>94</sup>

Separately, if PTAB proceedings are proved unconstitutional by one of the due process challenges described *supra* in Part I rather than by an Article III challenge, it is even less likely that a patent owner could be

91. See *Wellness Int'l Network, Ltd. v. Sharif*, 617 F.App'x 589, 590–91 (2015).

92. See generally Charles R. Macedo & Jung S. Hahm, *Understanding PTAB Trials: Key Milestones in IPR, PGR and CBM Proceedings*, PRACTICAL LAW (2014), <https://us.practicalaw.thomsonreuters.com/3-578-8846> [<https://perma.cc/VM4B-XCU6>] (providing a timeline of IPRs and the appeal process); CHRISTOPHER MORTEN, MOTION PRACTICE IN INTER PARTES REVIEW (2014), <https://s3.amazonaws.com/documents.lexology.com/f2ff93f1-7a10-45b0-bb17-3a80ecdb80fd.pdf> [<https://perma.cc/UEJ9-NBML>] (listing possible motions in IPRs).

93. See *Wellness Int'l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1948 (2015).

94. In several bankruptcy cases since *Wellness*, courts seem to be liberally applying the *Roell* standard to find implied consent. See, e.g., *Cole v. Strauss*, No. 2:16-CV-04143-NKL, 2017 WL 26906, at \*9 (W.D. Mo. Jan. 3, 2017) (finding implied consent where the parties "appeared before a bankruptcy court without objection"); *In re Saenz*, No. 13-70423, 2016 WL 9021733, at \*6 (Bankr. S.D. Tex. Dec. 19, 2016) (finding implied consent in part because the appellant's counsel were experienced bankruptcy attorneys and should have known of its right to object). However, there is a critical difference between these cases and the issue of waiver at the PTAB—these cases were conducted *after* the *Stern* decision, so the parties actually had an option of whether or not to litigate the non-core claims in a bankruptcy court. Patent owners would not have a similar option until after, for example, the *Oil States* decision is entered holding that the PTAB proceedings are unconstitutional.



found to have waived the implicated due process right. In *Schneckloth v. Bustamonte*, the Supreme Court teaches that a waiver of a criminal defendant's constitutional rights to a fair trial and a reliable truth-determining process requires the more stringent knowing and intelligent standard.<sup>95</sup> Although a PTAB proceeding is a civil trial, the due process rights invoked by these challenges concern a patent owner's right to a fair trial and are far closer to the defendant's constitutional rights described in *Schneckloth* than the right to an Article III court. Waiving the right to have an Article III court adjudicate patent validity does not necessarily mean the trial in an Article I court will be unfair. But what sane person would ever intelligently agree to an unfair trial? It might not be possible to validly waive these due process rights under the knowing and intelligent standard.

### C. Exceptions to Waiver

There are two exceptions to finding a waiver relevant to an Article III challenge: a party may not waive (1) a right gained through an intervening change in law, and (2) a constitutional right involving structural interests. The intervening change in law exception was recently illuminated by the Court of Appeals for the Federal Circuit's interpretation of the patent venue case, *TC Heartland LLC v. Kraft Foods Group Brands LLC*. In *TC Heartland*, the Supreme Court held that amendments to the general federal venue statute did not modify the meaning of the patent venue statute, abrogating the Federal Circuit decision, *VE Holding Corp. v. Johnson Gas Appliance Co.*, which was generally viewed as controlling.<sup>96</sup>

The intervening law exception to the general rule that the failure to raise an issue timely in the district court waives review of that issue on appeal applies when there was strong precedent prior to the change . . . such that the failure to raise the issue was not unreasonable and the opposing party was not prejudiced by the failure to raise the issue sooner [i.e., the argument was not reasonably available].<sup>97</sup>

In *In re Micron Technology, Inc.*, the Court of Appeals for the Federal Circuit cleared up competing holdings by district courts, finding that because there was controlling precedent, the objection to venue was not available, and waiver of the issue was thereby precluded.<sup>98</sup>

95. *Schneckloth v. Bustamonte*, 412 U.S. 218, 235–36 (1973).

96. See *TC Heartland LLC v. Kraft Foods Grp. Brands LLC*, 137 S. Ct. 1514, 1519–20 (2017).

97. See *Holland v. Big River Minerals Corp.*, 181 F.3d 597, 605–06 (4th Cir. 1999) (quoting *Curtis Publ'g Co. v. Butts*, 388 U.S. 143, 145 (1967) (plurality opinion)).

98. *In re Micron Tech., Inc.*, 875 F.3d 1091, 1099–100 (Fed. Cir. 2017). See also *Fox Factory, Inc. v. SRAM, LLC*, No. 3:16-CV-00506-WHO, 2017 WL 4325737, at \*1 (N.D. Cal. July 18, 2017) (holding that *TC Heartland* merely reaffirmed existing patent law, and thus was not an intervening

Concerning a possible waiver of the right to an Article III court, the issue is whether the future decision will represent an intervening change in law such that courts should find an exception to the waiver. Although the AIA was only enacted in 2011, it is clearly the established law and should be reasonable to rely on. Unlike *TC Heartland*, there is no previous law that may be reaffirmed to have been the law all along. However, though the PTAB proceedings are generally thought to be low-cost, if a PTAB proceeding is far along in the process, the petitioner may be prejudiced by the failure to raise the objection sooner because it may have invested time and money in litigating the proceeding. Based on these factors, if an Article III challenge is successful, it should reasonably be found to be an intervening change in law, resulting in an exception to any waiver of right.

The other possible exception to waiver may be found if the right involves structural interests. Article III, § 1 of the Constitution “serves as an inseparable element of the constitutional system of checks and balances.”<sup>99</sup> The structural purpose prevents “congressional attempts to transfer jurisdiction to [non-Article III tribunals] for the purpose of emasculating constitutional courts and thereby prevent[ing] the encroachment or aggrandizement of one branch at the expense of the other.”<sup>100</sup> In *Wellness*, the Supreme Court listed several factors to decide whether a right implicates structural interests:

The court must weigh the extent to which the essential attributes of judicial power are reserved to Article III courts, and, conversely, the extent to which the non-Article III forum exercises the range of jurisdiction and powers normally vested only in Article III courts, the origins and importance of the right to be adjudicated, and the concerns that drove Congress to depart from the requirements of Article III.<sup>101</sup>

Further, the Court noted that “allowing Article I adjudicators to decide claims submitted to them by consent does not offend the separation of powers so long as Article III courts retain supervisory authority over the process.”<sup>102</sup> And “[s]eparation of powers concerns are diminished when . . . the decision to invoke [a non-Article III] forum is left entirely to

change in law, so the exception to waiver did not apply); *Westech Aerosol Corp. v. 3M Co.*, No. C17-5067-RBL, 2017 WL 2671297, at \*2 (W.D. Wash. June 21, 2017) (holding that *TC Heartland* overturned twenty-seven years of precedent, thereby allowing defendants to credibly argue that venue is improper).

99. *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 849 (1986) (quoting *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 58 (1982)).

100. *Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1944 (2015) (quoting *Schor*, 478 U.S. at 849).

101. *Id.* at 1944 (quoting *Schor*, 478 U.S. at 852).

102. *Id.*

the parties and the power of the federal judiciary to take jurisdiction remains in place.”<sup>103</sup> Regarding a waiver, “[t]o the extent that this structural principle is implicated in a given case, the parties cannot by consent cure the constitutional” defect.<sup>104</sup>

There are several cases which provide guidance on structural interests. In *Wellness*, the Court ruled that even though *Stern* held it was unconstitutional for bankruptcy courts to enter final judgments on non-core claims, the right to have an Article III court enter judgment on the non-core claims was waivable because structural interests were not implicated. The Court reasoned that: (1) bankruptcy judges are appointed and capable of being removed by Article III judges, (2) the decision of whether to refer or withdraw a case from the district court lies with the district court, (3) the bankruptcy court (after being reconfigured due to Northern Pipeline) had no “free-floating authority to decide claims traditionally heard by Article III courts,” and (4) Congress did not give bankruptcy courts the power in an attempt to diminish the Article III courts.<sup>105</sup> And in *Schor*, the Court similarly held that the right to an Article III court to hear counterclaims arising out of a reparations complaint could be waived because the CFTC had a narrow scope and left the “essential attributes of judicial power to Article III” courts and was also subject to Article III supervision.

But in *Freytag v. Commissioner*, the Court held that, despite consenting to a special trial judge, taxpayers did not waive a challenge under the Appointments Clause that the Chief Judge of the Tax Court did not have the authority to appoint special trial judges to preside over a Tax Court case.<sup>106</sup> The Court stated that the challenge to “the appointment of the Special Trial Judge goes to the validity of the Tax Court proceeding that is the basis for this litigation” and does not overcome the strong constitutional interest in separation of powers.<sup>107</sup> The Court specifically noted that the Appointments Clause guards against “the danger of one branch’s aggrandizing its power at the expense of another” and “prevent[s] the diffusion of the appointment power.”<sup>108</sup>

An Article III challenge in the vein of *Oil States* (but for patents issued before the AIA was enacted) is substantially more similar to the jurisdictional right to an Article III court in *Wellness* and *Schor* than to the

103. *Id.* at 1945 (quoting *Schor*, 478 U.S. at 856).

104. *Id.* at 1943 (quoting *Schor*, 478 U.S. at 849–50).

105. *See id.* at 1944–45.

106. 501 U.S. 868, 880 (1991). The Appointments Clause provides the President the power to appoint certain officials with the advice and consent of the Senate. *Id.*

107. *Id.* at 878–80.

108. *Id.* at 878.

challenge to the Appointments Clause in *Freytag*. Even if PTAB proceedings are rendered unconstitutional, the holding will probably not implicate structural interests, and therefore the exception to waiver for a structural interest should not apply. Most importantly, as in *Wellness and Schor*, Article III courts retain supervisory authority over the process. All PTAB decisions are subject to Article III review by the Court of Appeals for the Federal Circuit, thereby diminishing structural concerns.<sup>109</sup> Additionally, the PTAB has a narrow scope—it only adjudicates claims of patent validity and cannot hear any claims outside of this scope.<sup>110</sup> Although the PTAB is staffed by administrative law judges who are not appointed by Article III judges, *Schor* also had administrative law judges,<sup>111</sup> and the court still found that the right to an Article III court could be waived. Therefore, it will likely be tough for patent owners to make the argument that the right to an Article III court involves structural interests.<sup>112</sup>

Looking at waiver as a whole, a court will probably not be able to hold that a patent owner waived its constitutional right to an Article III court or its due process rights, absent consent. In the context of the right to an Article III court, the *Roell* standard articulated in *Wellness* places a high bar to finding either express or implied consent. And even if a waiver could be found under the standard, an exception to the waiver for an intervening change in law would likely be found.

### III. RETROACTIVE APPLICATION

If PTAB proceedings are held unconstitutional and a patent owner can survive a challenge to waiver, the decision holding the proceedings unconstitutional would obviously be applied prospectively for future proceedings. But it is less certain whether the decision should be applied retroactively to existing proceedings.

#### *A. The Doctrine of Retroactivity*

The doctrine of retroactivity concerns whether decisions should have retrospective operation in other cases. As articulated by the Supreme Court in *Harper v. Virginia Department of Taxation*, “[B]oth the common law and [the Court’s] own decisions have recognized a general rule of retro-

109. 35 U.S.C. §§ 141, 306 (2012).

110. 35 U.S.C. § 311 (2013).

111. *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 837 (1986).

112. *See generally* Reilly, *supra* note 2, at 428–29 (concluding that structural interests are not implicated in *Oil States*).

spective effect for the constitutional decisions of this Court.”<sup>113</sup> Importantly, the Court held that

[w]hen this Court applies a rule of federal law to the parties before it, that rule . . . must be given full retroactive effect in all cases still open on direct review and as to all events, regardless of whether such events predate or postdate our announcement of the rule.<sup>114</sup>

However, retroactive effect may be denied in civil cases where “such a limitation would avoid injustice or hardship without unduly undermining the purpose and effect of the new rule.”<sup>115</sup> In *Harper*, the Court held that its decision in *Davis v. Michigan Department of Treasury* should apply retroactively, granting state tax refunds to retired federal employees.<sup>116</sup> Though the Court did not specify in *Davis* that the decision should have retroactive effect, the Court in *Harper* noted that the “normal” rule is that its decisions apply retroactively.<sup>117</sup>

But *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.* reached an outcome opposite to *Harper*. In *Northern Pipeline*, the Supreme Court held that Congress’s broad grant of jurisdiction to bankruptcy courts of all claims arising under or related to Title 11 was unconstitutional.<sup>118</sup> The Court decided to apply this holding only prospectively, basing its decision on the three-factor test from *Chevron Oil Co. v. Huson*.<sup>119</sup> The factors of the *Chevron* test include: (1) whether the holding in question decided an issue of first impression whose resolution was not clearly foreshadowed by earlier cases, (2) whether retrospective operation will further or retard the operation of the holding in question, and (3) whether retroactive application could produce substantial inequitable results in individual cases.<sup>120</sup> The Court found that each factor weighed against a retrospective holding, noting that the decision was an “unprecedented question of interpretation of [Article] III,” “retroactive application would not further the operation of [the] holding,” and retroactive application would cause “injustice and hardship upon those litigants who relied upon . . . jurisdiction in the bankruptcy courts.”<sup>121</sup> Thus, in deciding whether a decision should be retroactively

113. *Harper v. Va. Dep’t. of Taxation*, 509 U.S. 86, 94 (1993) (quoting *Robinson v. Neil*, 409 U.S. 505, 508 (1973)).

114. *Id.* at 97.

115. *Id.* at 94 (citing *Chevron Oil Co. v. Huson*, 404 U.S. 97, 107 (1971)).

116. *Id.* at 97.

117. *Id.*

118. *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 87 (1982).

119. *Id.*

120. *Id.*

121. *Id.*

applied, the decision will either be retroactive, covering all pending PTAB proceedings in addition to future proceedings, as in *Harper*; or prospective, applying only to future PTAB proceedings, as in *Northern Pipeline*.

### *B. Retroactive Application of Challenges to the PTAB*

Applying *Harper* and *Northern Pipeline* to a future Article III challenge to the PTAB, a retroactive application of the decision seems most appropriate, but this is far from clear. The starting point should be the “normal” retroactive approach from *Harper*. Compared to *Northern Pipeline*, where the court ruled against retroactivity, there are weaker arguments for at least two of the three *Chevron* factors. First, it is debatable whether the issue of the right to an Article III court will be considered one of first impression. While the holding could be novel in patent law, the ruling could be substantially similar to cases like *Northern Pipeline* or *Stern*, both of which developed case law concerning rights to an Article III court. Second, weighing against retroactivity, overturning all PTAB cases that have not reached a final decision with all appeals exhausted will hinder, rather than further, the operation of the statute in question. Congress’s apparent purpose in creating the PTAB proceedings was to provide a quick, low-cost alternative to litigating patent validity in the Federal Courts—retroactively prohibiting the PTAB from deciding cases parties invested time and effort in works against this purpose. And third, there is less of a chance for inequitable results because the PTAB proceedings only directly impact patent owners. Unlike *Northern Pipeline*, where creditors and debtors would have settled payments between each other after resolution of their case, which would be difficult to remedy, PTAB proceedings only directly involve the cancellation of a patent owned by the patent owner. While it could be argued that other parties may have relied on the invalidation and willfully used the technology after the claims were cancelled, these parties were likely already using the technology in a broad capacity because most PTAB proceedings arise from underlying infringement cases. Therefore, while retroactivity is the rule by default, because of the arguable nature of the *Chevron* factors and how similar an Article III challenge would be to *Northern Pipeline*, there remains a substantial possibility that the Court could make the decision prospective only.

If, instead of the Article III challenge, one of the due process challenges to PTAB proceedings is successful, this would only weigh further in favor of a retroactive application of the holding. It would be even harder to find “substantial inequitable results” in the third factor of the *Chevron* test

because a due process defect would inherently involve substantial inequity towards the affected patent owners.

Additionally, if the Court holds that a decision finding PTAB proceedings unconstitutional should only apply prospectively, that would necessarily eliminate any chance a patent owner has at getting around a final judgment, discussed *infra* in Part IV.

#### IV. FINALITY

Even if a patent owner can overcome a challenge to waiver and if a decision holding PTAB proceedings unconstitutional can be applied retroactively, the doctrine of finality may prevent a patent owner from reviving its patent if the PTAB has entered a final decision with all appeals exhausted. And further assuming that the patent can be revived, the patent owner may be precluded from reasserting the patent if underlying district court cases that were dismissed.

##### *A. The Doctrine of Finality*

There are two related doctrines in law based on finality: res judicata (claim preclusion) “prohibits relitigation of an entire ‘cause of action’ between the same parties or their privies, once a valid final judgment has been rendered in an earlier suit on the same cause of action,” while collateral estoppel (issue preclusion) “prevents the reopening in a second action of an issue of fact actually litigated and decided in an earlier case.”<sup>122</sup> These doctrines protect parties “from the expense and vexation attending multiple lawsuits, conserve[] judicial resources, and foster[] reliance on judicial action by minimizing the possibility of inconsistent decisions.”<sup>123</sup>

Since PTAB proceedings that have reached a final decision with all appeals exhausted are final judgments, consideration of res judicata is appropriate. Citing *Chicot County Drainage District v. Baxter State Bank*, the Supreme Court bluntly noted that “retroactivity in civil cases must be limited by the need for finality” and “once suit is barred by res judicata . . . a new rule cannot reopen the door already closed.”<sup>124</sup> In *Chicot*, the Court held that a bank was barred by res judicata from recovering on bonds it owned that were readjusted under a federal statute, even though the statute

122. *Beegan v. Schmidt*, 451 A.2d 642, 644 (Me. 1982).

123. *Montana v. United States*, 44 U.S. 147, 153–54 (1979).

124. *James B. Beam Distilling Co. v. Georgia*, 501 U.S. 529, 540 (1991) (citing *Chicot Cty. Drainage Dist. v. Baxter State Bank*, 308 U.S. 371 (1940)).

was later found unconstitutional in a separate case.<sup>125</sup> The Court reasoned that “[a lower court] has the authority to pass upon its own jurisdiction and its decree sustaining jurisdiction against attack, while open to direct review, is res judicata in a collateral action.”<sup>126</sup> Thus, the Court found that because the bank had “the opportunity to raise the question of invalidity,” it was bound by res judicata because it failed to raise the question.<sup>127</sup>

Additionally, the Supreme Court recently noted in a major trademark case, *B & B Hardware, Inc. v. Hargis Industries, Inc.*, that res judicata is commonly applied to administrative tribunals, such as the PTAB. Writing for the majority, Justice Alito noted, “[W]hen an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate opportunity to litigate, the courts have not hesitated to apply res judicata to enforce repose.”<sup>128</sup> Justice Alito also cited the Restatement (Second) of Judgments § 83(1), which “explain[s] that, with some limits, a valid and final adjudicative determination by an administrative tribunal has the same effects under the rules of res judicata, subject to the same exceptions and qualifications, as a judgment of a court.”<sup>129</sup>

### B. Finality of PTAB Decisions

The application of res judicata to PTAB proceedings should be relatively straightforward for most patent owners. Concerning an Article III challenge to the PTAB, most patent owners likely did not raise their right to an Article III court, so these proceedings should be considered final under *Chicot* where the PTAB entered a final decision and all appeals have been exhausted. But this begs the question of whether res judicata should also apply to patent owners who *did* assert the right.<sup>130</sup> A possible counterargument to this point is that, although the other patent owners who unsuccessfully asserted the right made the same broad assertion of the right, the

125. *Chicot*, 308 U.S. at 375.

126. *Id.*

127. *Id.* at 375. While the analysis of res judicata in *Chicot* seems to mirror the analysis of waiver discussed *supra* in Part II, the crucial distinction is that res judicata was found in *Chicot* by failing to raise an issue in a *prior case*, while waiver only looks to the case at hand.

128. *B & B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1303 (2015). *But see id.* at 1311–14 (Thomas, J., dissenting) (arguing against the majority’s conclusion that collateral estoppel and res judicata generally apply to determinations by administrative bodies).

129. *B & B Hardware*, 135 S. Ct. at 1303 (citing RESTATEMENT (SECOND) OF JUDGMENTS § 83(1) (AM. LAW INST. 1982)).

130. *See, e.g.*, *Cooper v. Lee*, 86 F. Supp. 3d 480 (E.D. Va. 2015), *aff’d*, No. 15-1483 (Fed. Cir. Jan. 14, 2016); *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015).



arguments they made were different, and therefore *res judicata* should apply.<sup>131</sup>

None the less, patent owners will naturally want to raise other arguments that *res judicata* should not apply. In view of a successful Article III challenge to the PTAB, patent owners can make at least two credible arguments, although these arguments will probably have long odds. First, patent owners can argue that because the PTAB lacked any jurisdiction to enter final judgment on the validity of a patent, any judgments holding patents invalid are void by default, and therefore should have no effect. Second, patent owners may try to file Rule 60(b) motions in Federal Court for relief from judgment.

Regarding the first possible exception for patent owners, *McCormick Harvesting Machine Co. v. C. Aultman & Co.* provides the best support that the PTAB unequivocally lacks jurisdiction to decide patent validity. From *McCormick*, “It has been settled by repeated decisions of this court that when a patent [issues], it has passed beyond the control and jurisdiction of [the PTO], and is not subject to be revoked or canceled by the president, or any other officer of the government.”<sup>132</sup>

“A void judgment is a legal nullity” and “is one so affected by a fundamental infirmity that the infirmity may be raised even after the judgment becomes final.”<sup>133</sup> But the Supreme Court has only “recognized rare situations in which subject-matter jurisdiction is subject to collateral attack.”<sup>134</sup> Citing the Restatement (Second) of Judgments § 12, the Court described one possible situation as “where the subject matter of the action was so plainly beyond the court’s jurisdiction that its entertaining the action was a manifest abuse of authority.”<sup>135</sup>

Even though *McCormick* appears to be a strong authority that the PTAB lacks jurisdiction to hear and decide patent validity cases, it is difficult to see how the Court could find that the subject matter was “so plainly beyond” the PTAB’s jurisdiction that it was “a manifest abuse of authority.” Importantly, the PTO had already been conducting patent reexamina-

131. *See generally* Brief for Petitioner, *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365 (2018) (No. 16-712).

132. *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 608–09 (1898).

133. *United Student Aid Funds, Inc. v. Espinosa*, 559 U.S. 260, 270 (2010) (citing *Void Judgment*, BLACK’S LAW DICTIONARY (3d ed. 1933)). *See also* RESTATEMENT (SECOND) OF JUDGMENTS § 22 (AM. LAW INST. 1980).

134. *Travelers Indem. Co. v. Bailey*, 557 U.S. 137, 153 n.6 (2009).

135. *Id.* (citing RESTATEMENT (SECOND) OF JUDGMENTS § 12 (AM. LAW INST. 1980)).

tions for a long time before the new PTAB proceedings were created, so it should be at least arguable that the PTAB had jurisdiction.<sup>136</sup>

The second possible exception for patent owners concerns whether they can obtain relief from final PTAB decision by filing a Rule 60(b) motion in Federal Court. Rule 60(b) provides two applicable grounds for relief: 60(b)(4), for when the judgment is void; and 60(b)(6), for any other reason that justifies relief.<sup>137</sup> However, courts have held that “[d]istrict courts cannot use Rule 60(b)(6) to apply new decisions retroactively to closed civil cases,” which leaves only Rule 60(b)(4) as a possibility.<sup>138</sup>

“Rule 60(b)(4) applies only in the rare instance where a judgment is premised either on a certain type of jurisdictional error or on a violation of due process that deprives a party of notice or the opportunity to be heard.”<sup>139</sup> “Federal courts considering Rule 60(b)(4) motions that assert a judgment is void because of a jurisdictional defect generally have reserved relief only for the exceptional case in which the court that rendered judgment lacked even an ‘arguable basis’ for jurisdiction.”<sup>140</sup>

Unfortunately for patent owners, cases involving Article III challenges which have applied these rules for 60(b)(4) motions have not found a judgment void because of a jurisdictional defect.<sup>141</sup> In *Lee v. Christenson*, the Court of Appeals for the 7th Circuit denied a 60(b)(4) motion by Lee, who had filed for bankruptcy, to reopen the case.<sup>142</sup> After Lee’s case was closed in 2010, the Supreme Court’s decision in *Stern* ruled that bankruptcy courts did not have jurisdiction to hear non-core claims.<sup>143</sup> More than two years later, Lee filed the 60(b)(4) motion to reopen the case in light of *Stern*, arguing the judgment was void.<sup>144</sup> However, the court found that the bankruptcy court had at least an arguable basis for jurisdiction, noting that the bankruptcy court’s exercise of jurisdiction was correct at the time of its decision.<sup>145</sup>

Based on the analysis from *Lee*, there is little doubt a court would hold that the PTAB had at least an arguable basis for jurisdiction because, like

136. See Reilly, *supra* note 2.

137. Fed. R. Civ. P. 60(b).

138. See, e.g., *Shah v. Holder*, 736 F.3d 1125, 1127 (7th Cir. 2013).

139. *United Student Aid Funds, Inc. v. Espinosa*, 559 U.S. 260, 270–71 (2010).

140. *Id.* (citing *Nemaizer v. Baker*, 793 F.2d 58, 65 (2d Cir. 1986)).

141. See, e.g., *Lee v. Christenson*, 558 F.App’x 674 (7th Cir. 2014); *C. Vt. Pub. Serv. Corp. v. Herbert*, 341 F.3d 186, 189 (2d Cir. 2003).

142. *Lee*, 558 F.App’x at 674.

143. *Id.*

144. *Id.*

145. *Id.*

*Lee*, its assertion of jurisdiction would have been correct at the time. Thus, a 60(b)(4) motion for lack of jurisdiction would probably not be successful. But patent owners may be in a better position if one of the due process challenges is successful. Because 60(b)(4) motions may be granted where the due process violation deprived a party of the opportunity to be heard, a patent owner may be able to argue, depending on the specific due process violation, that some blatant unfairness, such as from anchoring bias, prevented the patent owner from having a fair or meaningful opportunity to be heard.<sup>146</sup>

### C. Finality of District Court Infringement Cases

Res judicata may also apply to district court patent infringement cases that were dismissed after a patent was invalidated by the PTAB. Whether an infringement case can be reopened or refiled will likely be determined by how the case was dismissed. Ordinarily, most of these cases are dismissed for a lack of standing because the patent owner has no rights in a cancelled claim.<sup>147</sup> In many instances, the cases are dismissed with prejudice.<sup>148</sup> However, there are also some instances where the cases are dismissed without prejudice.<sup>149</sup> In *Semtek International Inc. v. Lockheed Martin Corp.*, the Supreme Court noted that a dismissal “without prejudice” “does not prevent the plaintiff from returning later, to the same court, with the same underlying claim” and therefore any case dismissed “without prejudice” certainly does not raise any issue with res judicata.

Separately, the Court noted that the term “with prejudice” was considered “shorthand for ‘an adjudication on the merits.’” However, the Court cautioned that while judgment on the merits is an indication of a judge’s intention, and though this was historically given res judicata effect, it does not necessarily mean that the judgment should be entitled to res judicata.<sup>150</sup> Rather, the Court found that “judgment on the merits . . . has come to be applied to some judgments that do not pass upon the substantive merits of a claim and hence do not entail” res judicata effect.<sup>151</sup> And in *University of Pittsburgh v. Varian Medical Systems, Inc.*, the Court of Appeals for the

146. See also *Matthews v. Eldridge*, 424 U.S. 319, 333 (1976) (“The fundamental requirement of due process is the opportunity to be heard at a meaningful time and in a meaningful manner.”).

147. See *Crouch*, *supra* note 19.

148. See, e.g., Order Dismissing Case at \*3–4, *Surfcast, Inc. v. Microsoft Corp.*, 2017 U.S. Dist. LEXIS 133183 (D. Me. Aug. 21, 2017) (No. 2:12-cv-00333-JDL).

149. See, e.g., Order Dismissing Claims and Counterclaims Without Prejudice at 1, *eCharge Licensing, LLC v. Square, Inc.*, No. 1:13-cv-06445 (N.D. Ill. June 1, 2015).

150. *Semtek Int’l Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 503 (2001).

151. *Id.*

Federal Circuit held that in a patent infringement case, “[a] dismissal for lack of standing is jurisdictional and is not an adjudication on the merits.”<sup>152</sup> Thus, the *Semtek* and *Varian* holdings present an interesting angle for a patent owner whose case was dismissed for a lack of standing with prejudice to argue that that the dismissal should not be entitled to res judicata effect.

### CONCLUSION

Even assuming a high probability that all of the issues concerning waiver, retroactivity, and finality will be resolved in favor of patent owners, the fact that any one of the issues can prevent a patent owner from obtaining meaningful relief leads to the following conclusion: there is a substantial likelihood that, in the event an Article III challenge to the PTAB is successful, only a limited number of patent owners, if any, will be able to both revive and fully enforce their patents.<sup>153</sup>

While waiver and retroactivity will probably be resolved in favor of patent owners, finality of judgment will probably restrict most patent owners from obtaining relief. First, under the *Roell* standard applied in *Wellness*, a patent owner will probably not be held to have waived a constitutional right to an Article III court. Even if a waiver is found, there probably will be an exception to the waiver for an intervening change in law. Second, while a decision on an Article III challenge will probably follow the “normal” rule and apply retroactively to cases open or pending appeal, as in *Harper*, there is still a reasonable chance that the decision could apply only prospectively, as in *Northern Pipeline*, which would prevent any patent owners involved in existing proceedings from obtaining relief. Third, aside from longshot attempts to hold all PTAB judgments void by default or get relief through Rule 60(b) motions, proceedings where the PTAB has entered a final decision with all appeals exhausted will probably stay final based on *Chicot*. This precludes relief for most patent owners, although patent owners who raised the issue in the prior case may have an argument to avoid the final judgment. And fourth, a patent owner may be precluded from refiling infringement cases that were dismissed with prejudice, but patent owners may be able to overcome the issue if the dismissal was for a lack of standing. In sum, because each of

152. *Univ. of Pittsburgh v. Varian Med. Sys., Inc.*, 569 F.3d 1328, 1332 (Fed. Cir. 2009).

153. Assume that a patent owner only has an extremely conservative 80 percent chance to prevail on each of the four issues regarding waiver, retroactivity, finality of the PTAB decision, and finality of the underlying infringement cases. Despite the high chance for prevailing on each individual issue, the patent owner’s chance to prevail on all issues is only 41 percent.

these issues presents at least some degree of risk to patent owners, there is a high probability that at least one or more of these issues will be decided adversely to patent owners.

However, a surprising conclusion emerged with regards to the various due process challenges. A due process violation that was substantially unfair to the patent owner would have three important differences: (1) waiver would be more difficult to find under the “knowing and intelligent” standard, (2) the inequities balanced in the *Chevron* test for determining whether a decision should be retroactive would weigh more strongly in favor of retroactive application, and (3) patent owners may find more success with Rule 60(b)(4) motions for relief from judgment. Therefore, patent owners may have more success in obtaining meaningful relief if one of the due process challenges is successful, although this would only apply to patent owners who were actually affected by the due process violation.