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U.S. Supreme Court Ruling Limits Government's Options for Challenging Patents

By Kevin R. Casey

The U.S. Supreme Court continued its clarification of intellectual property law on June 10. Its latest decision, in *Return Mail, Inc. v. U.S. Postal Service*, No. 17-1594 (6-3 majority opinion written by Justice Sotomayor) (https://www.supremecourt.gov/opinions/18pdf/17-1594_1an2.pdf), held that a federal agency is not a “person” who may petition for post-issuance review of patent claims under the Leahy-Smith America Invents Act (AIA). Passed in 2011, the AIA made several changes to the patent system. Among its major changes was the introduction of three post-issuance review proceedings – inter partes review, post-grant review and covered-business review – each allowing a “person who is not the owner of a patent” to challenge the validity of one or more claims of a patent that has been granted by the U.S. Patent and Trademark Office (PTO).

Return Mail owns a patent directed to the processing of mail items that are undeliverable due to an inaccurate or obsolete address of the intended recipient. Return Mail sought to license the patent to the U.S. Postal Service (USPS) and, when it was unsuccessful, filed a lawsuit against the USPS alleging infringement of the patent. Specifically, in 2011, Return Mail sued the United States in the U.S. Court of Federal Claims under 28 U.S.C. § 1498(a). In 2014, the USPS filed a petition with the PTO's Patent Trial and Appeal Board (Board) asking that the patent be declared invalid on several grounds, invoking covered business method review. The USPS argued that Return Mail's processing system claims were invalid because they involved an ineligible subject matter under 35 U.S.C. § 101, were anticipated under 35 U.S.C. § 102 and would have been obvious under 35 U.S.C. § 103. In response, Return Mail addressed the invalidity arguments and further argued that the USPS lacked statutory standing to institute review proceedings under the AIA.

The Board held that the USPS was not statutorily barred from filing the petition for review, and on the merits determined that all the challenged patent claims were unpatentable under Section 101. The U.S. Court of Appeals for the Federal Circuit affirmed. The following question was addressed by the U.S. Supreme Court: “Is the government a ‘person’ who may institute review proceedings under the Leahy-Smith America Invents Act?”

The Court reasoned that because the patent statute does not define the term “person,” the Court must apply the long-standing interpretive presumption that the term does not include the sovereign. Further, the Court noted that this presumption reflects common usage, that the Dictionary Act's definition of “person” does not include the federal government and that the presumption may be disregarded only if there is an “affirmative showing of statutory intent to the contrary.” The USPS failed to rebut

the presumption. Still further, the Court found it reasonable to believe that Congress offered nongovernmental actors an expedient option to counter potential infringement suits while denying this same option to the government because federal agencies “face lower risks” (no injunction, no jury trial and no punitive damages) as compared with nongovernmental actors.

The Court supported its decision by noting that the decision avoided both an “awkward situation” and an “anomaly.” Allowing one federal agency (e.g., the USPS) to participate in the adjudications of another federal agency (the PTO) might contradict Congress’ intent to give the PTO primary responsibility to administrate patentability. The Court stated that its decision “avoids the awkward situation” of a patent owner having to defend its patent against a challenge by one government agency adjudicated by a different government agency (the PTO).

The anomaly is created by the AIA estoppel provisions. Such provisions bar a person from challenging a patent’s validity during related litigation before a federal district court or the International Trade Commission on any ground that the person had already raised during the PTO’s review proceedings. The sole forum where a patent owner may sue the government for patent infringement is the U.S. Court of Federal Claims, however, and in that forum litigants are not precluded from re-litigating issues that had already been subject to AIA review. Therefore, if the government were to be considered a “person” under the AIA – and thus eligible to seek AIA review – it would be able to pursue duplicative patent challenges unabated by estoppel, giving it a unique advantage over private patent owners. The Court’s decision avoided the “asymmetry” of this anomaly.

Justice Breyer’s dissenting opinion (joined by Justices Ginsburg and Kagan) argued that the purpose, subject matter, context and legislative history of the patent statute overcame the presumption that the term “person” does not include the federal government.

Practical ramifications: When government agencies are accused of patent infringement, their main option for challenging the patent will be to persuade a federal judge that under the stringent “clear and convincing” evidence standard, the patent claims are invalid. Unlike other “persons” accused of patent infringement, the government cannot invoke the option of petitioning the PTO to institute a new post-issuance



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review proceeding under the more lenient “preponderance of the evidence” standard. Thus, the government’s options are more limited than are those of other accused patent infringers, which might prompt the government to be more amenable to settlement. On the other hand, the government had filed a total of only 20 AIA petitions as of last February – so the practical ramifications of the *Return Mail* decision are similarly limited.

Open questions remain after the *Return Mail* decision. Since 1981, the PTO has allowed government agencies to file ex parte reexamination proceedings – although the statute governing them refers to filing by “any person.” In those proceedings, parties can bring information to the attention of the PTO, which can then decide whether to reexamine the validity of the challenged patent claims. Importantly, after filing, the challenger is not involved in the proceeding. The U.S. Supreme Court did not decide, because it had “no direct relevance” to the *Return Mail* case, whether the government can continue to file ex parte reexamination proceedings. If the government does file, you can bet that the patent owner will contest the filing based on the *Return Mail* analysis.

The *Return Mail* decision addressed federal government agencies. Are state governments (another “sovereign”) also precluded from filing AIA reviews?

Especially because the Court’s decision focused on what Congress intended when it passed the AIA, Congress could overturn the decision and permit the government to file AIA challenges. Will Congress act? Congress might soon have an easy opportunity to clarify that “person” in the AIA includes federal government agencies, because Congress is currently considering legislation that would expand the definition of what subject matter is eligible for a patent.

Stay tuned as these questions are addressed in future legislation and judicial rulings.