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Can the bankruptcy model salvage inter partes review?

Baker Donelson - USA
Adam S Baldridge, Nicole Berkowitz

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Adam S Baldridge

Nicole Berkowitz

As the Supreme Court prepares to hear oral argument in *Oil States Energy Services LLC v Greene's Energy Group LLC*, the constitutionality and structure of *inter partes* review hangs in the balance. In 2011 Congress enacted the Leahy-Smith America Invents Act, which established the existence of *inter partes* review proceedings. *Inter partes* reviews allow private third parties to challenge certain patent validity issues before the US Patent and Trademark Office's (USPTO) Patent Trial and Appeal Board (PTAB). A panel of at least three PTAB judges presides over the proceedings, decides whether to institute the *inter partes* review due to a reasonable likelihood that the petitioner will prevail on at least one of the challenged claims and ultimately issues a final written decision regarding the validity of the challenged claims (35 USC Sections 6(c), 314(a), 318(a)). The decision may be appealed to the Federal Circuit (35 USC Sections 141(c), 319). Currently, the Federal Circuit reviews the PTAB's "compliance with governing legal standards *de novo* and its underlying factual determinations for substantial evidence" (*Randall Mfg v Rea*, 733 F3d 1355, 1362 (Fed Cir 2013)).

Case history

In 2012 Oil States filed a patent infringement action against Greene's Energy Group in the Eastern District of Texas. Before the one-year deadline for filing *inter partes* review petitions expired, Greene's Energy Group filed an *inter partes* review petition before the USPTO for the patent-in-suit (see *Greene's Energy Group, LLC v Oil States Energy Services, LLC*, IPR2014-00216, Paper 1 (PTAB Dec 3 2013)). The PTAB instituted the *inter partes* review and subsequently held that the challenged claims in Oil States's patent were invalid (see *Greene's Energy Group, LLC v Oil States Energy Services, LLC,* IPR2014-00216, Paper 12 (PTAB June 10 2014); *id* Paper 53 (PTAB May 1 2015)). Oil States appealed to the Federal Circuit, arguing that *inter partes* review proceedings violate Article III and the right to a jury trial under the Seventh Amendment. While Oil States's appeal was pending, the Federal Circuit issued an opinion in *MCM Portfolio LLC v Hewlett-Packard-Co* (812 F3d 1284 (Fed Cir 2015)) and held that *inter partes* review proceedings are constitutional. Subsequently, the Federal Circuit rejected Oil States's arguments and summarily affirmed the PTAB's decision in a *per curiam* opinion (*Oil States Energy Services, LLC v Greene's Energy Group, LLC*, 639 F Appendix 639 (Fed Cir 2016) (*per curiam*)).

On November 23 2016 Oil States petitioned the Supreme Court for a writ of *certiorari*. The Supreme Court granted the petition on June 12 2017 and limited the review to Question 1 of the petition, which related to:

> "*Whether* inter partes *review – an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents – violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury*" (*Oil States Energy Services, LLC v Greene's Energy Group, LLC*, 137 S Ct 2239 (2017); petition for writ of *certiorari* at i, No 16-712 (S Ct)).

The matter has been set for argument on November 27 2017.

Oil States's position is that *inter partes* review proceedings violate Article III and the Seventh Amendment. According to Oil State, only Article III courts can adjudicate patent disputes because they involve a common law, private property right and because the Seventh Amendment preserves the right to a jury trial for such suits. However, Greene's Energy Group argued that:

- patent rights are public rights derived from a federal regulatory scheme;
- the re-examination of patentability determinations is closely intertwined with this scheme; and
- re-examinations have been occurring in re-examination proceedings for decades.

Greene's Energy Group further argues that *inter partes* review proceedings are consistent with the Seventh Amendment because:

- Congress may decline to provide jury trials for actions involving public rights; and
- there was no counterpart to an *inter partes* review proceeding in common law.

Bankruptcy system

The evolution of the bankruptcy court system suggests that the Supreme Court could find *inter partes* review proceedings unconstitutional and may provide a workable roadmap for new legislation in the event that *inter partes* reviews are declared unconstitutional. Bankruptcy and patent proceedings share several

commonalities. Article I Section 8 of the Constitution explicitly grants Congress the right to establish laws "on the subject of Bankruptcies throughout the United States" and to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries" (Constitution, Article I Section 8). Both bankruptcy and patent law have unique histories deeply rooted in economic policy. While bankruptcy was developed to protect creditors from debtors that could not or did not want to satisfy their obligations, patents were developed to protect the inventor and encourage innovation.

While the US bankruptcy system has been restructured several times, the foundation for the existing model was established by the Bankruptcy Reform Act 1978 (Pub L 95-598, 92 Stat 2549 (Nov 6 1978)). The Bankruptcy Reform Act created a new non-Article III bankruptcy court system to exercise jurisdiction over all "civil proceedings arising under title 11 [the bankruptcy title] or arising in or related to cases under title 11" (28 USC Section 1471(b) (1976 ed Supp IV)). These judges were to be nominated by the president and confirmed by the Senate (28 USC Section 152 (1978)). With respect to appeals, the circuit council could direct the chief judge of the circuit to designate a panel of three bankruptcy judges (Pub L No 95-598, Section 160, 92 Stat 2659 (1978)). If no such appeals panel was designated, the district court would have appellate jurisdiction (*Id* Section 1334(a), 92 Stat 2549, 2668). The court of appeals would then have jurisdiction over appeals from the district court and appellate panels (*Id* Section 1293(a), 92 Stat 2549, 2667).

Four years later, the Supreme Court found this system to be unconstitutional and in violation of Article III (*Northern Pipeline Construction v Marathon Pipe Line*, 458 US 50 (1982)). In a plurality opinion, Justice Brennan held that:

> "*28 U.S.C. § 1471 (1976 ed. Supp. IV), as added by § 241(a) of the Bankruptcy Act of 1978, has impermissibly removed most, if not all, of 'the essential attributes of the judicial power' from the Art. III district court, and has vested those attributes in a non-Art. III adjunct. Such a grant of jurisdiction cannot be sustained as an exercise of Congress's power to create adjuncts to Art. III courts*" (*Northern Pipeline*, 458 US at 87).

However, Brennan suggested that non-Article III judges could be assigned "the restructuring of debtor-creditor relations, which is at the core of the federal bankruptcy power" and which "may well be a 'public right'" (*Id* at 71).

In response, Congress passed the Bankruptcy Amendments and Federal Judgeship Act 1984 (Pub L 98-353, 98 Stat 333 (July 10 1984)), which designated the bankruptcy courts as units of the district court (28 USC Section 151 (1982 ed Supp V)). These new bankruptcy judges were appointed by the courts of appeals for the circuits in which their districts were located (28 USC Section 152 (1982 ed Supp V). The Bankruptcy Amendments and Federal Judgeship Act provided that bankruptcy judges could enter final orders in certain core matters, but could only issue proposed findings of fact and conclusions of law, reviewable *de novo* by the district court, in non-core matters (28 USC Section 157 (1982 ed Supp V)).

More recently, in *Stern v Marshall* the Supreme Court held that a debtor's state-law counterclaim for tortious interference, although enumerated as a core matter under 28 USC Section 157, must be decided by an Article III court and not a bankruptcy court (564 US 462, 499 (2011)): "*Stern* made clear that some claims labeled by Congress as 'core' may not be adjudicated by a bankruptcy court in the manner designated by § 157 (b)." (*Executive Benefits Ins Agency v Arkison*, 134 S Ct 2165, 2172 (2014).)

Under 28 USC Section 158, a party seeking to appeal a bankruptcy court decision may choose to appeal either to a district court or, if the relevant circuit provides for one, to a bankruptcy appellate panel, as well as possible further appeals from these decisions under either appeal avenue (28 USC Section 158 (1982 ed Supp V)). At every level of appeal, the reviewing court reviews issues of law *de novo* and findings of fact for clear error (see *in re ABC-Naco, Inc*, 483 F3d 470, 472 (7th Cir 2007); *in re Senior Cottages of America* 482 F3d 997, 1000-1001 (8th Cir 2002); and Fed R Bankr P 9033(d)). Procedural issues are generally reviewed under an abuse of discretion standard (see *In re Harris*, 464 F3d 263, 268 (2d Cir 2006).

Seventh Amendment

In 1989 the Supreme Court held that, although 11 USC Section 548 does not explicitly mention the right to a jury trial, creditors in fraudulent conveyance and preference actions have a right to trial by jury under the Seventh Amendment (*Granfinanciera, SA v Nordberg*, 492 US 33, 64 (1989)). To determine whether a party is entitled to a jury trial, a court must:

- compare the statutory action to 18th-century actions brought in the courts of England before the

merger of courts of law and equity; and
- examine the nature of the remedy sought and determine whether it is legal or equitable in nature.

If, on balance, these two factors indicate that a party is entitled to a jury trial under the Seventh Amendment, the court must decide whether Congress may assign and has assigned resolution of the relevant claim to a non-Article III adjudicative body that does not use a jury as factfinder (*Id* at 42 (citations omitted)). Even if the claim is one historically decided by courts of law, if it involves a public right, then the Seventh Amendment does not entitle the parties to a jury trial. (*Id* at 51-52). The Supreme Court determined that an action to recover a fraudulent transfer involves a private right, and therefore, the defendant is entitled to a jury trial (*Id* at 56).

Thereafter, Congress clarified the availability of jury trials in bankruptcy courts in the Bankruptcy Reform Act 1994. Title 28 USC Section 157(e) provides that:

> "*[i]f the right to a jury trial applies in a proceeding that may be heard… by a bankruptcy judge, the bankruptcy judge may conduct the jury trial if specifically designated to exercise such jurisdiction by the district court and with the express consent of all the parties.*"

Further, a litigant otherwise entitled to a jury trial can forfeit that right by filing a proof of claim (see *Langenkamp v Culp*, 498 US 42, 44-45 (1990)).

Patents

With respect to IP rights, the law regarding what constitutes a public versus a private right does not appear to be well developed. Although the Federal Circuit has held that patents are public rights (*MCM Portfolio LLC v Hewlett-Packard Company* 812 F3d 1284, 1293 (Fed Cir 2015)), the Supreme Court has suggested otherwise. In *McCormick Harvesting Machine Co v Aultman-Miller Co* the Supreme Court held that the only authority competent to set aside, annul or correct a patent for any reason whatsoever is vested in the US courts and not in the department which issued the patent (169 US 606, 609 (1898)). More recently, in *B & B Hardware, Inc v Hargis Industries, Inc*, Justice Thomas, dissenting, noted that:

> "*the right to adopt and exclusively use a trademark appears to be a private property right that 'has been long recognized by the common law and the chancery courts of England and of this country*'" (135 S Ct 1293, 1317 (2015); quoting *In re Trade-Mark Cases*, 100 US 82, 92 (1879)).

Comment

If the Supreme Court holds that patents involve private rights, then *inter partes* review proceedings as currently designed may be unconstitutional. Any ruling on the constitutionality of *inter partes* review proceedings would impact post-grant review proceedings as well. In such an event, Congress might look to the evolution of bankruptcy law for guidance. For example, instead of providing a right of appeal to the Federal Circuit, the new *inter partes* review proceeding might provide a first right to appeal to the district courts. In addition, a revamped *inter partes* review statute based on a bankruptcy model would likely characterise the PTAB as a 'unit' of the district court that could issue proposed findings of fact and conclusions of law on validity, reviewable *de novo*. Even with *de novo* review of PTAB's validity determinations and the inherent loss of efficiency, *inter partes* reviews might still have value in cases where there is a significant validity issue, providing for streamlined determinations in such situations. Due to the lost efficiencies with such a revised *inter partes* review system, litigants must consider whether it makes sense for the patent claims in question. As in bankruptcy law, Congress could also provide various mechanisms to provide for a jury trial before the PTAB where authorised by the district court and consented to by the parties, or provide that filing an *inter partes* review petition forfeits the right to a jury trial by the petitioner and the patent owner can then decide whether to consent.

Such statutory provisions would seem to ensure that *inter partes* review proceedings, although before non-Article III judges, comply with Article III and the Seventh Amendment in the future. A sensible alternative to curing any *inter partes* review deficiencies might also be for Congress to reallocate PTAB resources within the USPTO to more closely scrutinise applications on the front end and seek to eliminate the need for a post-issuance review by the patent office. In light of the long evolution of bankruptcy law, it would be unsurprising if changes to *inter partes* review proceedings are necessitated by the Supreme Court's forthcoming ruling in *Oil States Energy Services, LLC v Greene's Energy Group, LLC*.

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For further information please contact:

Adam S Baldridge
Baker Donelson
www.bakerdonelson.com
Email: abaldridge@bakerdonelson.com
Tel: +1 901 526 2000

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