

**THE PATENT TRIAL AND APPEAL BOARD AND
THE APPOINTMENTS CLAUSE: IMPLICATIONS OF
RECENT COURT DECISIONS**

HEARING
BEFORE THE
SUBCOMMITTEE ON COURTS,
INTELLECTUAL PROPERTY, AND THE
INTERNET
OF THE
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HOUSE OF REPRESENTATIVES

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THE PATENT TRIAL AND APPEAL BOARD AND THE APPOINTMENTS CLAUSE: IMPLICATIONS OF RECENT COURT DECISIONS

TUESDAY, NOVEMBER 19, 2019

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY,
AND THE INTERNET
COMMITTEE ON THE JUDICIARY
Washington, DC.

The subcommittee met, pursuant to call, at 2:11 p.m., in Room 2141, Rayburn Office Building, Hon. Henry C. “Hank” Johnson, Jr. [chairman of the subcommittee] presiding.

Present: Representatives Johnson of Georgia, Nadler, Stanton, Bass, Correa, Roby, Johnson of Louisiana, and Cline.

Staff present: David Greengrass, Senior Counsel; Madeline Strasser, Chief Clerk; Jamie Simpson, Chief Counsel Subcommittee on Courts, Intellectual Property, and the Internet; Matt Robinson, Counsel; MaryBeth Walker, Detailee Counsel; Rosalind Jackson, Professional Staff Member; Tom Stoll, Minority Counsel; Andrea Woodard, Minority Professional Staff.

Mr. JOHNSON of Georgia. The subcommittee will come to order, and without objection, the Chair is authorized to declare recesses of the subcommittee at any time.

Welcome to this afternoon’s hearing on the Patent Trial and Appeals Board and the Appointments Clause: Implications of Recent Court Decisions. I will now recognize myself for an opening statement.

The Leahy-Smith America Invents Act of 2011 was a sea change in patent law. One of the biggest changes was the creation of a new way for the Patent and Trademark Office to reconsider whether it had properly issued a patent, called inter partes reviews, or IPRs, before the Patent Trial and Appeal Board, or PTAB. Such IPR challenges have become central to the adjudication of patent disputes. There have been almost 10,000 challenges brought since the PTAB was created in 2012, with between 100 and 150 new filings each month.

The IPR process, in its current form, has its critics and its defenders, but that is not why we are here today. Rather, we are here today because of a more fundamental issue, whether the PTAB, as currently configured, is constitutional. A recent court decision, *Arthrex v. Smith & Nephew*, found that it is not that the adminis-

trative patent judges, or APJs, who comprise the PTAB, were appointed to their positions in violation of the Constitution's Appointments Clause. The court further concluded that the constitutional violation could be remedied by removing the civil service protections offered to the APJs. According to the court, this makes the APJs clearly inferior officers in line with the way that they are currently appointed. The court stated that it believed Congress would have preferred this approach had it known about the Appointments Clause issue when it passed the America Invents Act.

Speaking for myself, I find it inconsistent with the idea of creating an adjudicatory body to have judges who have no job security. It goes against the idea of providing independent, impartial justice if a judge is thinking about his or her livelihood while also weighing the facts of a case. Many Article I judges have fixed-year terms, and Article III judges have life tenure, for this reason. I recognize, however, that the Arthrex court was in a difficult position with limited options after identifying a constitutional defect, but that is why I felt that it is crucial that we have a hearing on this topic immediately, so Congress can be in a position and in possession of the facts and ready to act.

We need to learn more about the impact of this decision on existing cases and the likelihood of the decision being upheld or modified by either the en banc Federal circuit or the Supreme Court, and most importantly, we need to begin to consider whether Congress must get involved to provide a sensible solution.

Frankly, I worry that we cannot trust the courts to fix this. We are living through an era where the Supreme Court is taking increasingly extreme positions about the constitutionality of the administrative structures that have existed since the New Deal. These decisions second-guess the legislative process and the solutions Congress has worked hard to pass in order to handle the realities and complexities of a modern society.

Notwithstanding that trend, I believe it is our responsibility to consider a legislative fix to the Appointments Clause problem that preserves both due process and the careful balances struck by the America Invents Act.

I am pleased that we have a panel of legal scholars and distinguished practitioners. Thank you for being here today, and I look forward to your testimony.

It is now my pleasure to recognize the Ranking Member of this Subcommittee, the gentlelady from Alabama, Mrs. Roby, for her opening statement.

Mrs. ROBY. Thank you, Chairman Johnson, and thank you to our panel of distinguished witnesses for being here today, and I apologize for running in. I always like to introduce myself to you prior to the hearing, but I do appreciate your willingness to come here to discuss these really important issues.

In reaction to concerns about patent litigation abuse, Congress, of course, passed the America Invents Act in 2011. This legislation created new proceedings within the Patent Office to allow companies threatened with infringement to challenge the validity of patents. These proceedings are, of course, overseen by the Patent Trial and Appeals Board, or the PTAB. The intent behind creating the PTAB is to have a quick and inexpensive alternative to district

court litigation. The PTAB has been very effective in validating patents and saving companies accused of patent infringement from expense and burdens of a lengthy district court case.

With that success, detractors have argued that PTAB rules strongly favor challengers. Some argue that the—because the PTAB applies lower court standards, the PTAB can be manipulated into invalidating valid patents it should not. Because patents are so important to inventors and to companies, it is important that the PTAB properly balance competing interests to fairly and properly determine a patent's validity.

The Federal circuit's recent decision in *Arthrex, Inc. v. Smith & Nephew, Inc.* concludes that the PTAB administrative patent judges, known as APJs, were not constitutionally appointed and that the current structure of the PTAB violates the Appointments Clause. The court reasoned that because APJs exercise significant authority, they are considered principal officers and should be nominated by the President and confirmed by the Senate. The court concluded that the appointment of APJs could be constitutionally remedied by severing provisions within the American Invents Act that provides APJs with Title 5 protections, making them subject to removal at will of the director.

The subsequent decision of the Federal circuit suggests that the constitutionality of the PTAB is no longer in doubt. However, there are concerns with whether the Federal circuit fix is constitutionally adequate. Unlike many other agency boards, there is no review of PTAB final decisions within the Patent Office. The only review of these decisions is conducted by Article III courts. Because these decisions are so impactful, sometimes meaning tens or hundreds of millions of dollars, or the viability of a small business, it raises doubts that agency officials who are not Senate confirmed should have so much independent authority.

So I really look forward to hearing from you, our expert witnesses, to hear whether the court correctly concluded that PTAB appointments were unconstitutional, that the defect was corrected by making their service at all, and what, if any, steps Congress should take here.

So with that, Mr. Chairman, I yield back the balance of my time.

Mr. JOHNSON of Georgia. I thank the gentlelady and I am now pleased to recognize the Chairman of the Full Committee, the gentleman from New York, Mr. Nadler, for his opening statement.

Chairman NADLER. Thank you, Mr. Chairman, and thank you for holding this important hearing today. I find it remarkable, after the years spent working on the 2011 America Invents Act, which created the Patent Trial and Appeal Board, or PTAB, that the many cases that have gone before the PTAB and then to Federal court, and an earlier constitutional challenge to the PTAB that the Supreme Court rejected, that we should now find ourselves here today with the constitutionality of the PTAB structure in question once again.

This length of time has allowed PTAB proceedings to become the established part of the patent enforcement landscape. That makes the *Arthrex* decision, which found that administrative patent judges, or APJs, performed the duties of a principal office who were

appointed in a manner suitable only for inferior offices, particularly disruptive.

While the Arthrex court tried to limit the disruption by providing its own court-ordered fix of removing the civil service protections for APJs, and by articulating which open cases should be entitled still to raise the issue, it is clear that both of these points will be further litigated. In fact, they already have been. The appellant, in a case heard after Arthrex, also raising an Appointments Clause challenge, contended that the Arthrex court's remedy of removing civil service protections was not sufficient, and that the PTAB is currently configured to be declared unconstitutional in its entirety.

While I take no position on a suitable remedy, I do have concerns with the current so-called remedy of removing APJs' civil service protections. The apparent thinking behind this solution, so-called, to the Appointments Clause problem was that such a change would make APJs clearly subordinate to and incentivized to be aligned with the policy guidance of the only official of the Patent Office who is presidentially appointed and Senate confirmed, and is therefore principal officer, the director.

While this may be true, I question whether this is the right way to achieve the apparent objective behind the Appointments Clause jurisprudence, namely to ensure that there is an official sufficiently accountable to the President who signs off on important Executive branch decisions.

I say this because it makes the director's influence on administrative patent judges indirect. The judges are likely to try to discern what the director wants, particularly if a novel question arises and there is no guidance, and litigants will be left wondering if the decisions they received truly represents the impartial wing of facts and evidence under the law.

The extent to which the director's views are incorporated into any decision will not be transparent, and that is generally not consistent with the way that adjudicatory tribunals are structured. It may be that under the Constitution, the director must be entitled to have a level of reviewer influence over any case finally decided by PTAB, but it is not clear that this is the best way of allowing that sort of review to happen.

That is why I am grateful that we have with us today experts in patent and administrative law, as well as individuals familiar with the complexities of the PTAB and patent litigation more generally. If the court's ability to fix this constitutional defect turns out to this constrained, I believe it is wise for Congress to begin to think about what we might do in response.

I look forward to hearing from our witnesses, and I yield back the balance of my time.

Mr. JOHNSON of Georgia. I thank the gentleman, and I will now introduce the witnesses for the first panel.

John F. Duffy is the Samuel H. McCoy Professor of Law at the University of Virginia School of Law, where he teaches administrative law and patent law, among other subjects. He was previously a professor at several other law schools, including George Washington University Law School and the New York University School of Law.

Mr. Duffy clerked for the Honorable Justice Antonin Scalia and the Honorable Judge Stephen F. Williams of the D.C. Circuit Court of Appeals, and has a BA in physics from Harvard University and a JD from the University of Chicago School of Law. Welcome, sir.

Mr. Robert A. Armitage is a consultant on IP Strategy and Policy. Previously, he had a long career in the intellectual property departments of two leading life science companies. Mr. Armitage was the past president of the American Intellectual Property Law Association and several other prominent intellectual property organizations. He was a founding member of the Coalition for 21st Century Patent Reform, which was actively involved in the legislative process leading to the passage of the America Invents Act.

Mr. Armitage has a BA in Physics and Mathematics from Albion College, a Master's in Physics from the University of Michigan, and a JD from the University of Michigan Law School. Welcome today, sir.

John M. Whealan is the Intellectual Property Advisory Board Associate Dean for Intellectual Property Law Studies, George Washington Law School, where he oversees and coordinates all aspects of the law school's intellectual property program. He was the Deputy General Counsel for Intellectual Property Law and Solicitor at the U.S. Patent and Trademark Office, responsible for all IP litigation involving the agency.

Mr. Whealan clerked for the Honorable Randall R. Rader, of the Federal Circuit and the Honorable James T. Turner of the Court of Federal Claims, and has a Bachelor's Degree in Electrical Engineering from Villanova University, a Master's Degree in Electrical Engineering from Drexel University, and a JD from Harvard Law School. Welcome, sir.

And last but certainly not least, Arti K. Rai, is the Elvin R. Latty Professor of Law and Faculty Director at the Center for Innovation Policy at Duke University School of Law, and is the recipient of numerous grants to study innovation and technology transfer. She served as the head of the Office of External Affairs at the USPTO. Ms. Rai has taught at several other law schools, including Yale Law School and the University of Pennsylvania School of Law. She clerked for the Honorable Judge Marilyn Hall Patel of the Northern District of California, and has a BA in biochemistry and history from Harvard College and a JD from Harvard Law School. Welcome today.

Before proceeding with testimony I hereby remind the witnesses that all of our written and oral statements made to the Subcommittee in connection with this hearing are subject to penalties of perjury, pursuant to 18 U.S.C. Section 1001, which may result in the imposition of a fine or imprisonment of up to five years, or both, if should one fall victim to conviction.

Please note that your written statements will be entered into the record in its entirety. Accordingly, I ask that you summarize your testimony in five minutes. To help you stay within that time, there is a timing light on your table. When the light switches from green to yellow you have one minute to conclude your testimony, and, of course, when the light turns to red it signals that your time has expired.

Mr. Duffy, you may begin.

STATEMENTS OF JOHN F. DUFFY, SAMUEL H. McCOY II PROFESSOR OF LAW, UNIVERSITY OF VIRGINIA SCHOOL OF LAW; ROBERT A. ARMITAGE, CONSULTANT, IP STRATEGY AND POLICY; JOHN M. WHEALAN, INTELLECTUAL PROPERTY ADVISORY BOARD ASSOCIATE DEAN FOR INTELLECTUAL PROPERTY LAW STUDIES, GEORGE WASHINGTON LAW SCHOOL; ARTI K. RAI, ELVIN R. LATTY PROFESSOR OF LAW AND FACULTY DIRECTOR, THE CENTER FOR INNOVATIVE POLICY, DUKE UNIVERSITY SCHOOL OF LAW

STATEMENT OF JOHN F. DUFFY

Mr. DUFFY. Thank you, Chairman Johnson, and Ranking Member Roby, and distinguished Members of the Subcommittee. I appreciate you inviting me here to appear before you, and I really appreciate you spending time on this important constitutional issue, especially because in light of recent decisions I think it is fairly clear that the constitutional structure is under a cloud of doubt right now. And I think one of the main goals, as referenced in the opening statements we just heard, is to try to find some sort of clear solution that might cut down on litigation.

As things currently stand, I think the Judicial branch would be unable to come up with a final resolution until many months, possibly until 2021 or even beyond, given the pace of litigation in the appellate courts. Given that, I think one of the goals here today, as I understand it, should be to try to understand the problem and perhaps look at legislation that could remedy the problem.

With that basic introduction, I will just give a quick summary of the Appointments Clause. The Appointments Clause is something I have written about before. In fact, I wrote an article about 12 years ago called “Are Administrative Patent Judges Unconstitutional?” and the answer then was yes, and the Congress responded to that constitutional problem. I think the hearing today could be entitled “Are They Unconstitutional Again?” And I think the answer might very well be yes.

The Appointments Clause itself, though, is very, very simple. The first basic principle of the Appointments Clause is that all officers who are not elected officials, as you are, have to go through the Appointments Clause if they are exercising any significant authority under the laws of the United States. The Supreme Court established this nearly a half century ago, and I think it is a fundamental cornerstone of the jurisprudence in the area.

The second principle that we have to understand is there is four, and only four, ways to appoint people to offices in the United States. It is an open set of large number of different appointment mechanisms. There are only four. And the final principle is that if we use—if the Congress wants to use three of those appointment mechanisms—and those three are the President acting alone without the advice and consent of the Senate, or the courts of law, or head of department—then that officer has to be what the Constitution calls an inferior officer. And that is what we are focused on today.

And there is one small point I would have to say, is that both scholarship and judicial statements often counterpoise inferior officer to principal officer, and I have even done that as a shorthand

in my own scholarship. I think that we should stick to inferior officer because that is the only word that is used in the Appointments Clause.

The word “principal officer” is used in another place in the Constitution, but I think it has a different meaning there than what the shorthand that it is used in Appointments Clause scholarship and jurisprudence. So I am going to try my best not to use the word “principal officer.” I am just going to talk about whether these judges are inferior officers.

There is a long history to this, which is summarized in my written testimony, but to summarize that very quickly is that this did not spring unexpected. There were prior decisions, prior constitutional problems with administrative patent judges, and also prior D.C. circuit court rulings on another set of judges who worked in the copyright area, that also declared—who were appointed in a similar way, and were declared unconstitutional some years ago, and their tenure protections were severed as a remedy.

By the way, that litigation that led to that was actually—or the D.C. circuit’s ruling was based on an earlier concurring opinion by then Judge Kavanaugh. So he laid out the constitutional problem in a concurring opinion and then the D.C. circuit, a unanimous panel of the D.C. circuit later adopted that analysis. I mention that just because I think it gives us one insight into whether any justice might think there is a constitutional problem, and I think the answer is probably yes, given now Justice Kavanaugh’s early concurring opinion.

That is an introduction to the basic constitutional issues. What I think the main goal of this hearing is to try to find solutions, and I have set forth three possible solutions.

One solution is to simply have Senate confirmation for all the APJs, all 200-and-so APJs. I think that is possible. In the past, many officers in the Executive branch, hundreds, were confirmed by the Senate in one fell swoop, but I think that might be considered administratively difficult these days.

The two other remedies which I think are more in play is to establish a small number of additional officers in the Patent Office who are confirmed by the Senate, and have those few officers review decisions, or simply to give a clear path of review to the director of the PTO. Those are the solutions that I think are the most obvious ones and that we would spend time on today.

Thank you very much.

[The statement of Mr. Duffy follows:]

8

Testimony of

John F. Duffy

Samuel H. McCoy II Professor of Law

University of Virginia School of Law

On

The Patent Trial and Appeal Board and the Appointments Clause:

Implications of Recent Court Decisions

Before the Subcommittee on Courts, Intellectual Property, and the Internet

of the

Committee on the Judiciary

of the

United States House of Representatives

Tuesday, November 19, 2019

2:00 pm

2141 Rayburn House Office Building

Washington, D.C.

Introduction

Chairman Johnson, Ranking Member Roby, and distinguished members of the Subcommittee, thank you for inviting me to appear before you today to testify concerning the Patent Trial and Appeal Board and the Appointments Clause.

At the outset, I would like to compliment the Committee for devoting time and attention to the Appointments Clause issues associated with the current legal structure of the Patent Trial and Appeal Board or “PTAB.” The Federal Circuit’s recent decision in *Arthrex v. Smith & Nephew*, No. 18-2140 (Fed. Cir. Oct. 31, 2019), shows that the current structure of the PTAB is of doubtful constitutionality. Moreover, even if the doubts about the constitutionality were ultimately resolved in favor of the legality of the current structure, the judicial process to reach a final conclusion on the matter is likely to extend for many months. In all likelihood, definitive word from the Supreme Court would be hard to obtain prior to 2021. In the meantime, every PTAB decision would be subject to substantial doubt. I therefore think that one major goal of today’s hearing is to see whether a legislative solution is available that can remove the constitutional doubt currently clouding the present and future. I believe that legislative solutions are possible, and I will suggest several in the final portion of my testimony.

I. The General Structure of the Appointments Clause.

Because there is a high degree of uncertainty governing many of specific points of law concerning the constitutionality of the PTAB and its judges under the Appointments Clause, I think it best to begin with the overall purpose of the Clause and then turn to three doctrinal propositions about the Clause that are, under current caselaw, uncontroversial.

The overarching purpose of the Appointments Clause is, as Supreme Court has explained, “to limit the distribution of the power of appointment” so as “ensure that those who wield[] [the power are] accountable to political force and the will of the people.” *Freytag v. Commissioner*, 501 U.S. 868, 884 (1991). That overarching purpose, coupled with the text and structure of the Clause, has resulted in the following three doctrinal principles.

First, excepting elected officials whose methods of selection are expressly provided in the U.S. Constitution (e.g., the President and the members of both Houses of Congress), all persons exercising “significant authority” pursuant to the laws of the United States must have a valid appointment under the Appointments Clause of Article II, Section 2, clause 2 of the Constitution.

This first proposition is foundational, and the specific “significant authority” language traces back to the Supreme Court’s decision in *Buckley v. Valeo* nearly a half century ago. *See Buckley v. Valeo*, 424 U.S. 1, 126 (1976). In that case, the United States Court of Appeals for the D.C. Circuit had taken a quite different view, rejecting as “strikingly syllogistic” the private parties’ argument that the Appointments Clause was the exclusive method for choosing anyone charged with executing the laws of the United States. *Id.* at 119. The Supreme Court, however, reversed the D.C. Circuit and held that “the term ‘Officers of the United States’ as used in Art. II

... is a term intended to have substantive meaning.” *Id.* at 125-26. In a much-quoted passage, the Court then supplied that substantive meaning:

We think its fair import is that any appointee exercising significant authority pursuant to the laws of the United States is an “Officer of the United States,” and must, therefore, be appointed in the manner prescribed by [the Appointments Clause].

Id. at 126. That holding means that every unelected official wielding any significant legal authority absolutely must have a constitutionally valid appointment.

Second, the Appointments Clause provides four, and only four, methods for appointing any officer. Those four methods are appointment by:

- (i) the President with the Advice and Consent of the Senate;
- (ii) the President alone;
- (iii) the Courts of Law; and
- (iv) the Heads of Departments.

Third, those last three appointment mechanisms can be applied only to such “inferior Officers” that Congress has, by law, identified as being subject to one of those three alternative appointment methods. This does not mean, it must be emphasized, that inferior officers cannot be appointed through the first method listed about—*i.e.*, by the President with the advice and consent of the Senate. To the contrary, appointment by the President with the advice and consent of the Senate is the default rule and, in the absence of a statute providing otherwise, that appointment method applies to every officer in the government. Congress can move officers out of that default appointment method, but only if the officers qualify as “inferior Officers.”

It is this third proposition that is important to understanding the current controversy over whether the judges of the PTAB have constitutionally valid appointments. Because of the importance of this issue, I am going to be careful in describing it with precision. In particular, I am going to refrain from using the term “principal officer” in my analysis even though that phrase has been used in some of the case law as well as in some of the scholarship (including my own).

The most compelling reason to avoid using “principal officer” is the phrase does not appear in the Appointments Clause. Furthermore, the Supreme Court has not always used the term “principal officer” as the relevant counterpoint to “inferior officer.” In *Myers v. United States*, for example, the Court described the Appointments Clause as governing the appointment of “all officers, whether superior or inferior.” 272 U.S. 52, 126 (1926). The phrase also suggests a false dichotomy—specifically, that all officers are either “inferior” or “principal.” Yet that categorization seems wrong given that the Supreme Court in *Edmond v. United States* has instructed that even a “lesser officer”—one who has lower rank or lesser responsibilities than other officers—may still fail to qualify as an “inferior Officer” for purpose of the Appointments Clause. 520 U.S. 651, 663 (1997).

Indeed, in the one place where the Constitution does use the phrase “principal officer,” it is used to suggest that there is one and only one principal officer in each Department. See U.S. Const., art. II, sec. 2, cl. 1 (giving the President the power to “require the Opinion, in writing, of *the principal Officer* in each of the executive Departments”) (emphasis added). If “principal officer” were given that meaning, and the phrase “inferior officers” were defined to mean all officers other than principal officers, then the Heads of Executive Departments could appoint every officer in their departments without regard to any other considerations. That conclusion is inconsistent with the analysis in *Edmond v. United States*, 520 U.S. 651, 661-666 (1997), and *Morrison v. Olson*, 487 U. S. 654 (1988), both of which did not require merely that an officer not be a head of department in order to reach a conclusion that the officer was “inferior.”

Thus, for the remainder of this testimony, I will refer to the relevant constitutional issue in the current controversy as being whether the PTAB judges are “inferior” officers who can constitutionally have their appointments made by a department head such as the Secretary of Commerce.

II. Similar Controversies in the Recent Past.

Appreciating the current controversy over the appointment of administrative patent judges requires an understanding of two prior controversies, the first of which involved a previous constitutional flaw in the appointment process for administrative patent judges, and the second of which involved a constitutional problem with the appointment of copyright royal judges.

A. The Prior Constitutional Defect in Appointing Administrative Patent Judges.

The position of “administrative patent judge” was created initially by the Patent and Trademark Office (PTO) as a mere administrative practice in the early 1990s. See *In re Alappat*, 33 F. 3d 1526, 1584 n.2 (Fed. Cir. 1994) (Schall, J.) (noting that the PTO had recently taken administrative action to grant the title of “administrative patent judge” to certain members of the Board of Patent Appeals and Interferences, which was the predecessor of the current PTAB). At that time, all officers and employees in the PTO were appointed by the Secretary of Commerce. See 35 U.S.C. § 3(a) (1994).

In 1999, Congress first gave statutory recognition to the position of “administrative patent judge” or “APJ,” but also, unfortunately, provided that such APJs were to be appointed by the Director of the PTO. See Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No. 106-113, §§ 4717, 113 Stat. 1501, 1501A-521, 1501A-580 to -581. Because the Director of the PTO is also known as the “Under Secretary of Commerce for Intellectual Property,” it should have been quite obvious that the Director, who as an *Under Secretary* clearly could not claim to be a constitutional “Head of Department,” could not appoint APJs if they were exercising any significant authority under the laws of the United States (as they surely do).

Even though vesting in the PTO Director authority to appointment APJs was obviously unconstitutional, the flaw escaped notice until I wrote a short article on the problem in 2007. See John F. Duffy, *Are Administrative Patent Judges Unconstitutional?*, 2007 PATENTLY-0 PAT.

L.J. 21 (July 23, 2007) (<https://patentlyo.com/lawjournal/2007/07/are-administrat.html>), reprinted with subsequent developments at 77 G.W. L. Rev. 904 (2009).¹ That short article led to subsequent media attention, including stories about the constitutional flaw in the *National Law Journal*, the *New York Times* and *NPR's Weekend Edition*. See, e.g., Adam Liptak, *In One Flaw, Questions on Validity of 46 Judges*, N.Y. TIMES, May 6, 2008, at A18 (<https://www.nytimes.com/2008/05/06/washington/06bar.html>). On August 12 of 2008, just over one year after my article was first published, Congress modified the appointment process to vest (or really, to re-vest) in the Secretary of Commerce the authority to appoint administrative patent judges. See Pub. L. No. 110-313, § 1(a)(1), 122 Stat. 3014, 3014 (2008).

That change solved one constitutional problem—it vested the appointment of administrative patent judges in an officer (the Secretary of Commerce) who clearly may appoint officers under the Appointment Clause. Yet appointment by the Secretary works as a constitutional fix only if APJs are inferior officers. Given that the overarching purpose of the Clause is “to preserve political accountability relative to important Government assignments,” the APJs can be “inferior officers” only if their “work is *directed and supervised* at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.” *Edmond v. United States*, 520 U.S. 651, 663 (1997).

While it is not clear whether administrative patent judges were inferior officers in 2008, two subsequent developments have undermined the notion that APJs can still qualify for that designation. First, in 2011, the Congress expanded the powers of APJs with the enactment of the America Invents Act (AIA), 125 Stat. 284. That statute made the proceedings adjudicated by APJs more like private litigation and, importantly, eliminated the PTO as a party in the many of the administrative adjudications supervised by the Board. That change removed an important level of control by the PTO Director because, prior to the AIA, the PTO administration (the PTO Solicitor, acting as the agency’s counsel and subordinate to the Director) could refuse to defend Board decisions with which the Director disagreed. Under standard principles of administrative law, such a confession of error on behalf of the agency, coupled with a request to remand the case, would typically require the court to remand the matter to the agency. See *Ethyl Corp. v. Browner*, 989 F.2d 522 (D.C. Cir. 1993). Thus, prior to the enactment of the AIA, the Director typically had a *de facto* veto power over the work of the APJs.

Under the AIA, however, the Director is now often only an intervenor in appeals to the Federal Circuit (see 35 U.S.C. § 143), and so it is unclear whether the Director as a mere intervenor could force a remand where the actual party prevailing at the PTAB would likely be perfectly willing to defend the judgment. In other words, the decisions of APJs have been moved further out from the control of the PTO Director, thus weakening the case for viewing them as “inferior” to the Director.

Another change concerns the tenure of APJs. The Patent Act on its face does not explicitly grant any tenure protection to APJs. The Patent Act does, however, state that “[o]fficers and employees” of the Patent Office generally “shall be subject to the provisions of

¹ A copy of that article is attached hereto.

title 5, relating to Federal employees.” That provision does not necessarily mean that judges—who inherently shape policy—have any substantial tenure protection. Many federal workers fall within the provisions of title 5 as a general matter, but still lack any substantial tenure protection because they fall within certain special categories of what is known as the “excepted service.” *See, e.g.*, 5 U.S.C. 7111(b)(2) (excluding from tenure protections federal employees “whose position has been determined to be of a confidential, policy-determining, policy-making or policy-advocating character by— ... (B)the Office of Personnel Management for a position that the Office has excepted from the competitive service”).

Despite the absence of any statutory command that APJs must have tenure protections, the PTO adopted the view, in its opening brief to the Federal Circuit in the *Arthrex v. Smith & Nephew* litigation, that all APJs do have tenure protection under 5 U.S.C. § 7513. *See* Brief for the United States at 3 & 34, in *Arthrex v. Smith & Nephew*, No. 18-2140 (filed 3/12/2019). In subsequent briefing, the PTO changed that position slightly, stating that some APJs were subject to different tenure protections. *See* Supplemental Brief for the United States at 3-4 n.1, in *Arthrex v. Smith & Nephew*, No. 18-2140 (filed 10/29/2019). Despite the modification, the PTO has maintained that most APJs are subject to tenure protection because the statutory definitions in 5 U.S.C. § 7511(a)(1)(C) include individuals in the “excepted service”). The PTO has not explained why the exception in § 7511 cannot be applied to APJs. Nonetheless, as long as the PTO holds to the position that APJs have statutory tenure protections, it is understandable that a federal court would accept the agency’s representation on the point.

In any event, the new constitutional issue over the constitutionality of APJ appointments arose because of the combination of (i) the increased power of APJs brought about by the America Invents Act, and (ii) the government’s litigation stance that APJs do have statutory tenure protections. Those two factors in combination make it harder to maintain that APJs are “inferior” officers within the meaning of the Appointments Clause.

B. The Constitutional Problem with Copyright Royalty Judges.

The case closest to the recent Federal Circuit decision in *Arthrex* is *Intercollegiate Broadcasting System v. Copyright Royalty Board*, 684 F.3d 1332 (2012). In that case, copyright royalty judges were appointed by the Librarian of Congress, which the court deemed to be a head of a department for purposes of the Appointments Clause. Such an appointment method could be constitutional only if the judges were “inferior” officers, but the D.C. Circuit held that they were not because they could render final decisions not reviewable by any other officer in the Executive Branch and they had significant tenure protection against removal. *Id.* at 1340. That conclusion was consistent with the views of then-Judge Kavanaugh in *SoundExchange, Inc. v. Librarian of Congress*, 571 F.3d 1220, 1226-27 (D.C.Cir.2009) (Kavanaugh, J., concurring). To remedy the constitutional defect, the D.C. Circuit severed the tenure protection of the copyright royalty judges and remanded the case for re-adjudication by copyright royalty judges who would now know that they could be removed without cause by the Librarian of Congress.

The D.C. Circuit’s decision in *Intercollegiate Broadcasting* is highly similar to the Federal Circuit’s decision in *Arthrex*, with one difference. In *Intercollegiate Broadcasting*, the

tenure of the copyright royalty judges was plainly set forth in the statute, which provided that copyright royalty judges could be removed for “violation of the standards of conduct . . . , misconduct, neglect of duty, or any disqualifying physical or mental disability.” With respect to the APJs at issue in *Arthrex*, Congress has not included any tenure protection standard specifically applicable to APJs, and the application of the civil-service statutes in title 5 may not necessarily require any tenure protection. That single difference may be important in determining the issues of waiver and remedy, but it probably does not make a significant difference in deciding the basic constitutional issue whether the concept of an “inferior” officer in the Appointments Clause extends to judges who have tenure protection for their jobs and are subject to only limited supervision by any non-inferior officer.

III. Likely Outcomes in *Arthrex v. Smith & Nephew* and Similar Cases.

In the recent decision in *Arthrex v. Smith & Nephew*, a unanimous panel of the Federal Circuit: (i) held unconstitutional the current appointment structure of the PTAB judges; (ii) ruled that the removal restrictions found in title 5 of the U.S. Code “are unconstitutional as applied to APJs;” and (iii) granted as a remedy that *Arthrex*, the appellant in the case, was entitled to a remand to the PTAB where “a new panel of APJs must be designated and a new hearing granted.” *Arthrex v. Smith & Nephew*, slip op. at 24, 29 (Oct. 31, 2019). Each of these three components of the Federal Circuit decision has been subject to criticism, including criticism level in a concurring opinion issued by two Federal Circuit judges a few days later in *Bedgear LLC v. Fredman Bros. Furniture Co. Inc.*, No. 2018-2082 (Fed. Cir. Nov. 7, 2019) (Dyk, J., joined by Newman, J., concurring in the judgment). Despite those criticisms, I think that the most likely ultimate outcome in *Arthrex* and similar cases is that at least some portion of the current legal structure governing the PTAB and its judges will be held unconstitutional and that parties properly raising the issue will be able to obtain to a remedy equal to, or greater than, that imposed by the Federal Circuit panel in *Arthrex*.

I will here only summarize my views as to why I think such an ultimate outcome likely. The more important points are that the chances for such an outcome have to be seen as substantial, and that any ultimate outcome from the judiciary is probably more than a year into the future. During that time, at least dozens and likely hundreds of cases will be subject to significant uncertainty and delay. Thus, I believe that this Subcommittee is likely to be less interested in educated guesses about what the courts might ultimately do, and more interested in what the Congress can do now to resolve the uncertainty. Options for congressional action will be covered in the final part of my testimony.

The most basic reason for the constitutional difficulty here is that the current statutory structure is trying to vest in inferior officers the final power to bind the entire Executive Branch. An analogy to the judiciary helps to underscore the problem. Like the Executive Branch, the Judicial Branch also contains inferior officers, such as the clerk of a particular court or a magistrate judge. For such judicial inferior officers, Congress typically vests the appointment power in the Courts of Law. *See, e.g.*, 28 U.S.C. § 631(a) (authorizing the judges of each district

court to appoint magistrate judges); 28 U.S.C. § 671(a) (authorizing the Supreme Court to appoint a clerk of court). Inferior judicial officers can have statutory tenure, as magistrate judges do, or no statutory tenure, as appears to be the case for the Clerk of the Supreme Court. *See* 28 U.S.C. § 631(i) (providing that magistrate judges may be removed “only for incompetency, misconduct, neglect of duty, or physical or mental disability”); *compare* 28 U.S.C. § 671(a) (providing that the clerk of the Supreme Court “shall be subject to removal by the Court” with no restrictions on the exercise of that removal power).

What is not seen in any of these statutes, however, is an ability on the part of the inferior officers, acting either singly or in a group, to bind the entire judicial branch in a particular case *even if the highest officers in the branch strongly disagree with the outcome*. Thus, for example, a clerk of a court does exercise some significant authority—he or she can, for example, decide in the first instance whether matters have been timely and properly filed. *See, e.g.*, S. Ct. Rules 13, 14 (delegating certain powers to the Clerk of the Supreme Court). Yet in all instances, the judgment of such an inferior officer can be set aside by a superior officer or officers if those superiors disagree with the inferior officer’s judgment. That fundamental power is what is missing from the current structure of the PTAB. It would be as if a clerk of a court or a panel of magistrate judges could produce a result that could not be overturned by any of the Senate-confirmed officers in the entirety of the judiciary no matter how incorrect the superiors thought the result to be. To continue the analogy, the superior officers could fire these rogue officers, but the judgment of the purportedly inferior officers would continue to bind the entirety of the judicial branch. I am confident that the Justices of Supreme Court would hold that such a result would be unconstitutional. They would correctly think that such a binding power would be constitutionally inconsistent with what it means to be an “inferior” officer within a particular branch of government.

The analogy to inferior officers in the judiciary highlights what I think is the true constitutional flaw in the current statutory structure of the PTAB and its judges—namely, that the power to bind the whole of the Executive Branch rests in panels of purportedly inferior officers. The restrictions on removing the APJs—if those restrictions do in fact exist as a matter of administrative practice—merely exacerbate the problem; they are not alone the source of the problem.

Given that perspective, I think it possible that the Justices of Supreme Court may consider imposing an even more dramatic remedy than the one afforded by the unanimous panel in *Arthrex*. At least some of the Justices might view the constitutional defect in the PTAB structure as admitting of no remedy, so all of the judgments of the Board could be undermined.

IV. Legislative Solutions to Avoid Uncertainty.

While several potential legislative solutions could be imagined, I will focus on the three that I view as the most viable and consistent with administrative practice elsewhere in other agencies. All three share a common feature—they do not vest in inferior officers a decisional responsibility that is final and not subject to any review by Senate-confirmed officers.

A. Make APJs Appointed by the President with the Consent of the Senate.

The most obvious solution to this current problem is to raise the status of APJs by providing for their appointment by the President with the advice and consent of the Senate. This option is not unrealistic. Prior to 2004, all initial appointments in the military down to the grade of second lieutenant were made by the President with the advice and consent of the Senate. *See* 10 U.S.C. § 531(a) (2003). Thus, within living memory, Presidential appointment with Senate confirmation was required for classes of officers numbering in the many hundreds. Nevertheless, the modern trend has been to devolve the appointment of officers where possible, so this choice may not be optimal.

B. Make PTAB Decisions Reviewable by the Director of the PTO.

At the other end of the spectrum, the appointment process for all officers in the PTO could remain as it is now, *provided* that the Director were granted authority to review and revise PTAB judgments that he did not support. The necessary change could be effected by a simple provision conferring on the Director discretionary powers (i) to review PTAB judgments, and (ii) to write the procedural rules necessary to implement such a review power.

The Director would not, I must emphasize, be *required* to review every judgment personally; it would legally sufficient if the statute granted him merely the *opportunity* to review. I suspect that the Director would require parties to make a strong showing that the PTAB panel of judges made some serious mistake. The opportunity for review could be structured in a fashion similar to the reviewing power that district judges have over magistrate judges, and such review includes deferential standards of review. *See, e.g.*, 28 U.S.C. § 628(b)(1)(A) (granting district judges power to review certain actions of the magistrates under a “clearly erroneous” standard of review). Furthermore, much as Supreme Court Justices use their law clerks to winnow petitions for certiorari, the Director could also use staff to sort through petitions for Director review and to identify the cases worth the Director’s attention.

To dispel uncertainty, this new method of review should be made applicable to any parties in cases currently pending on judicial review where the parties have properly raised and preserved a constitutional objection to the appointment of the APJs of the PTAB. Such a process could be swift, with perhaps a couple of weeks allowed for parties to seek Director review and a short time frame within which the Director would have to decide whether to grant further review.

C. Make PTAB Decisions Reviewable by a Special PTAB Panel Composed of Officers Appointed by the President with the Consent of the Senate.

A combination of the above two approaches would create a special PTAB panel composed of three officers—the PTO Director and two other officers whose appointment would have to be made by the President with the consent of the Senate. Like the “Director Review” option detailed above, this new special panel of the PTAB would be given the *opportunity* to review all other PTAB decisions, but it would not be required to engage in such review in every case.

This option differs from the “Director Review” option because the special panel would still use multiple officers to engage in the review function. To the extent that the Congress favors

decisional panels with multiple members, this option preserves the benefits of multi-member panels in all aspects of the PTAB's functions. A downside to this option is that at least two additional officers in the PTO (and possibly another two for the Trademark Trial and Appeal Board, which likely suffers from the same constitutional problem) would have to be appointed by the President with the consent of the Senate. Such an appointment process would impose some additional burden on the President and the Senate, but not as much as the burden imposed by trying to appoint all the administrative patent judges and administrative trademark judges through that process.

* * *

In closing, I once again commend the Subcommittee for devoting time to the important constitutional issues raised by the ongoing litigation about administrative patent judges.

Thank you all for your time and attention to these issues, and thank you again Mr. Chairman for the invitation to speak to the Subcommittee.

Essay

Are Administrative Patent Judges Unconstitutional?

John F. Duffy*

Under 35 U.S.C. § 6,¹ administrative patent judges of the Board of Patent Appeals and Interferences (“BPAI”) are appointed by the Director of the Patent and Trademark Office (“PTO”).² That method

* Professor of Law, The George Washington University Law School. This short Essay was originally published on July 23, 2007. Because the essay covered an important issue that I thought warranted immediate attention, I published it on the Patently-O website, a widely read and influential blog that could provide swift publication and general dissemination of the piece. See John F. Duffy, *Are Administrative Patent Judges Unconstitutional?*, 2007 PATENTLY-O PAT. L.J. 21, <http://www.patentlyo.com/lawjournal/files/Duffy.BPAI.pdf>. The slightly revised version of the essay was subsequently made available on SSRN.com. See John F. Duffy, *Are Administrative Patent Judges Unconstitutional?* (GWU Law Sch. Pub. Law Research, Paper No. 419, 2008), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1128311#. Those early versions of the essay attracted significant attention, including stories about the essay in the *National Law Journal*, the *New York Times* and NPR’s *Weekend Edition*. See *infra* note 68. During the summer of 2008, the Congress changed the law to remedy the constitutional defect identified in the essay. See *infra* notes 71–72 and accompanying text. This version is the same as the original essay except for a few minor cite checking changes and the addition of the “Ongoing Epilogue” section, which details the litigation and legislation resulting from the essay. I thank my research assistants Garth Baer, Jennifer Frey, Beverly Chang, and John Troost for their fine work in cite checking various versions of this essay.

¹ 35 U.S.C. § 6 (2006). As noted above, Congress changed the appointments process in 35 U.S.C. § 6 after earlier versions of this essay became available on the internet. To preserve the original tenor of the essay, the main body of the text maintains the citations to the earlier version of the statute and employs the present tense when discussing the statute. Subsequent changes are mentioned in the footnotes and the Epilogue.

² *Id.* § 6(a).

of appointment is almost certainly unconstitutional, and the administrative patent judges serving under such appointments are likely to be viewed by the courts as having no constitutionally valid governmental authority.

The Appointments Clause of the U.S. Constitution provides:

[The President] by and with the Advice and Consent of the Senate, shall appoint . . . all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.³

The Supreme Court has interpreted this provision as a rather strict limitation on the constitutionally permissible methods of appointment. Under the Court's precedent, any government appointee "exercising significant authority pursuant to the laws of the United States is an 'Officer of the United States,' and must, therefore, be appointed in the manner prescribed by [the Appointments Clause]."⁴ The Clause is properly interpreted as "limit[ing] the universe of eligible recipients of the power to appoint" and thereby "preventing the diffusion of the appointment power."⁵ Thus, if a person in the government exercises "significant authority," the person is at least an "inferior Officer" and can be appointed only through one of the four methods listed in the Appointments Clause: (1) by the President acting with the advice and consent of the Senate; (2) by the President alone; (3) by the "Courts of Law"; or (4) by the "Heads of Departments." So-called "principal" officers—those neither "subordinate" nor "'inferior' in rank and authority" to another constitutional officer⁶—may only be appointed through the first means.⁷

In the case of administrative patent judges, this constitutional doctrine generates two questions. First, do administrative patent judges exercise "significant authority" under the laws of the United States? Second, is the Director of the PTO a "Head of Department" for purposes of the Appointments Clause? If the answer to the first question is "yes," then the judges are at least "inferior Officers" subject to the restrictions of the Appointments Clause. The second ques-

³ U.S. CONST. art. II, § 2, cl. 2.

⁴ *Buckley v. Valeo*, 424 U.S. 1, 126 (1976) (per curiam).

⁵ *Freytag v. Comm'r*, 501 U.S. 868, 880, 878 (1991).

⁶ *Morrison v. Olson*, 487 U.S. 654, 671 (1988).

⁷ *Id.* at 670.

tion then tests whether appointment of the judges by the PTO Director is constitutional. Because the PTO Director is clearly not the President or a Court of Law, he cannot appoint officers unless he qualifies as a Head of Department. Neither of these questions is difficult to answer under current constitutional precedents.

On the first issue, it seems pretty plain that administrative patent judges exercise significant authority within the meaning of the Supreme Court's Appointments Clause jurisprudence. As the Supreme Court explained in *Freytag v. Commissioner*,⁸ the relevant distinction is between "inferior Officers"—who perform significant functions pursuant to law and who are subject to the Appointments Clause—and mere "employees," who are "lesser functionaries" lacking substantial powers.⁹ The appointees at issue in *Freytag* were special trial judges of the Tax Court, and the government argued that those judges were not officers because such a judge "acts only as an aide to the Tax Court judge responsible for deciding the case," "does no more than assist the Tax Court judge in taking the evidence and preparing the proposed findings and opinion," and in almost all cases "lack[s] authority to enter a final decision."¹⁰ Yet despite these limitations on the authority of the special trial judges, the Court held them to be officers because their offices are "established by Law" and they "perform more than ministerial tasks," including "tak[ing] testimony, conduct[ing] trials, rul[ing] on the admissibility of evidence, and . . . enforc[ing] compliance with discovery orders."¹¹ These were "important functions" in which the judges exercised "significant discretion," and thus the judges could not be considered mere functionaries.¹²

Furthermore, the *Freytag* Court noted that the special trial judges could be assigned by the Chief Judge of the Tax Court to render final decisions of the court "in declaratory judgment proceedings and limited-amount tax cases."¹³ Even the government conceded that in those cases, which were not before the Court in *Freytag*, "special trial judges act as inferior officers who exercise independent authority."¹⁴ Yet the Court held that the judges could not be "inferior officers for purposes of some of their duties . . . but mere employees with respect

⁸ *Freytag v. Comm'r*, 501 U.S. 868 (1991).

⁹ *Id.* at 880.

¹⁰ *Id.* at 880–81.

¹¹ *Id.* at 881–82.

¹² *Id.* at 882.

¹³ *Id.*

¹⁴ *Id.*

to other responsibilities.”¹⁵ Thus, even though the special trial judge had not been responsible for rendering the final decision in the case before it, the Court still held that the authority to render such decisions in other cases provided another basis for concluding that the special trial judges must be considered officers.

Administrative patent judges have much more authority than the judges at issue in *Freytag*. Like the special trial judges, administrative patent judges are officers “established by Law,” and they have more than ministerial duties under the statute, 35 U.S.C. § 6. Indeed, they are not mere adjuncts or advisors to another set of adjudicators, as in *Freytag*. Rather, they are full members of the BPAI. Their powers include the ability to run trials, take evidence, rule on admissibility, and compel compliance with discovery orders.¹⁶

A panel of three administrative patent judges may sit as the BPAI and is authorized by law to render final decisions for the PTO.¹⁷ Indeed, in interference cases, the statute expressly states that any BPAI decision adverse to an applicant shall constitute the “final refusal” by the PTO as to the claims involved.¹⁸ The finality of the BPAI’s decisions in ex parte appeals is implicit in the statutory scheme, which provides a right of appeal from any decision of the BPAI to the Article III courts.¹⁹ Furthermore, during judicial review of the BPAI’s decisions, Article III courts are required to afford the decisions of the BPAI a substantial degree of deference under the Administrative Procedure Act.²⁰ The power to reach a final administrative decision—one that the courts are required to respect with deference—surely means that the members of the BPAI are exercising significant authority under the law and are thus officers for purposes of the Appointments Clause.

¹⁵ *Id.*

¹⁶ See 37 C.F.R. § 41.125 (2009) (BPAI’s power to rule on motions); *id.* §§ 41.150–151 (BPAI’s powers to order discovery); *id.* § 41.152 (making applicable the Federal Rules of Evidence, with the powers of district courts being lodged in the BPAI).

¹⁷ See 35 U.S.C. § 6(b).

¹⁸ *Id.* § 135(a).

¹⁹ See *id.* §§ 141, 145; see also BD. OF PATENT APPEALS & INTERFERENCES, PATENT & TRADEMARK OFFICE, STANDARD OPERATING PROCEDURE 2 (REVISION 7): PUBLICATION OF OPINIONS AND BINDING PRECEDENT (2008), <http://www.uspto.gov/web/offices/dcom/bpai/sop2.pdf> (noting that the Director of the PTO may review BPAI decisions to determine whether they should be made precedential but that such review “is not for the purpose of reviewing or affecting the outcome of any given appeal”).

²⁰ Administrative Procedure Act, ch. 324, 60 Stat. 237 (1946) (codified as amended in scattered sections of 5 U.S.C.); see *Dickinson v. Zurko*, 527 U.S. 150, 165 (1999).

It is true that the Director of the PTO retains a substantial supervisory role over the BPAI and can, for example, use his power to designate BPAI panels that he "hopes will render the decision he desires, even upon rehearing."²¹ Nevertheless, the BPAI judges retain substantial authority. They are not mere "alter ego[s] or agent[s]" of the PTO Director because the Director's powers afford only "limited control . . . over the Board and the decisions it issues."²² Moreover, the BPAI's adjudicatory power "does not rest on the [PTO Director's] own authority."²³ It is instead an "independent grant" of statutory adjudicatory power.²⁴

The Federal Circuit's decision in *In re Alappat*²⁵ also states that, even after the BPAI has rendered a decision, the PTO Director has a further power to refuse to issue a patent, at least in circumstances where "he believes that [issuing the patent] would be contrary to law."²⁶ *Alappat* does not suggest, however, that the Director must, or indeed even could, re-adjudicate de novo all issues decided in every BPAI proceeding. Such re-adjudication would seem to have no statutory basis and would seem to be in tension with the Supreme Court's statement in *Brenner v. Manson* that the "Commissioner [now renamed PTO Director] may be appropriately considered as bound by Board determinations."²⁷ Re-adjudication by the PTO Director would also, at least with respect to individual factual issues, raise difficult issues of due process. The decisional function in an administrative adjudication "cannot be performed by one who has not considered evidence or argument. . . . The one who decides must hear."²⁸ Thus, if the Director were to re-adjudicate the basis for BPAI decisions as part of a decision whether to issue or to deny a patent, he would at a minimum have to consider the record developed in the administrative proceedings before the BPAI. There is no evidence

²¹ *In re Alappat*, 33 F.3d 1526, 1535 (Fed. Cir. 1994). The PTO Director's powers to select BPAI panels and to designate certain BPAI opinions as precedential help to explain why administrative patent judges may be considered "inferior" and not principal officers, for the judges are inferior and subordinate in significant ways to the PTO Director. See *Morrison v. Olson*, 487 U.S. 654, 671-73 (1988). These limitations on the judges' authority do not detract from their power to render decisions in individual cases concerning important and valuable patent rights. That decisional power is the key to deciding that the judges are more than mere functionaries.

²² *In re Alappat*, 33 F.3d 1526, 1535-36 (Fed. Cir. 1994).

²³ *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 929 (Fed. Cir. 1991).

²⁴ *Id.* at 928-29.

²⁵ *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

²⁶ *Id.* at 1535.

²⁷ *Brenner v. Manson*, 383 U.S. 519, 523 n.6 (1966).

²⁸ *Morgan v. United States*, 298 U.S. 468, 481 (1936).

that the Director is undertaking such an independent, de novo review and thus, as a legal and practical matter, substantial decisional power seems to be lodged precisely where statutory law suggests it lies—with the members of the BPAI.²⁹

Lower court case law also supports the view that administrative patent judges are officers for constitutional purposes. In *Pennsylvania Department of Public Welfare v. United States Department of Health and Human Services*,³⁰ the Third Circuit held that members of the Appeals Board of the Department of Health and Human Services were “clearly” officers, not mere employees, because they had the broad discretion and authority to conduct hearings and to rule on matters (such as claims to federal funds from various health and welfare programs) assigned to the Appeals Board by statute or by administrative delegation.³¹ Similarly, in other cases where administrative adjudicators render either final agency decisions or decisions that are entitled to deference at the next stage of administrative review, the government has consistently conceded that the adjudicators are officers subject to the Appointments Clause.³²

In the lone lower court case holding administrative adjudicators to be mere employees, *Landry v. FDIC*,³³ the court stressed that the relevant adjudicators were incapable of rendering final decisions for the agency and instead generated only recommended decisions that were subject to de novo review within the agency.³⁴ The *Landry* court believed that *Freytag* had rested “exceptional stress on the [special trial judges’] final decisionmaking power,” and that without such a power, “purely recommendatory powers” could not qualify adminis-

²⁹ Under *Freytag*, the Court considered special trial judges to be officers because, *inter alia*, the Chief Judge of the Tax Court *could* assign special trial judges the power to render final decisions on behalf of the Tax Court. *Freytag v. Comm’r*, 501 U.S. 868, 882 (1991). Thus, if the PTO Director has statutory power to *permit* panels of administrative patent judges to render final decisions in particular cases, the judges would still be officers for purposes of the Appointments Clause.

³⁰ *Pa. Dep’t of Pub. Welfare v. U.S. Dep’t of Health & Human Servs.*, 80 F.3d 796 (3d Cir. 1996).

³¹ *Id.* at 802.

³² See, e.g., *Ryder v. United States*, 515 U.S. 177, 180, 186–88 (1995) (noting the lower court’s conclusion that judges on the Coast Guard Court of Military Review were officers and holding that the inclusion of such invalidly appointed judges in a panel could not be considered harmless error); *Willy v. Admin. Review Bd.*, 423 F.3d 483, 491 (5th Cir. 2005) (noting the government’s concession that members of the Administrative Review Board, which adjudicates whistleblower claims inside the Department of Labor, are officers for purposes of the Appointments Clause).

³³ See *Landry v. FDIC*, 204 F.3d 1125 (D.C. Cir. 2000).

³⁴ See *id.* at 1133.

trative adjudicators as officers.³⁵ The reasoning of *Landry* also strongly suggests that administrative adjudicators with final decision-making powers, like administrative patent judges, do exercise significant authority and therefore qualify as officers under the Appointments Clause.

The conclusion that administrative patent judges are inferior officers subject to the Appointments Clause is supported also by a recent opinion by the Department of Justice's Office of Legal Counsel ("OLC"). In April of 2007, the OLC issued an opinion stressing that the concept of "Officers of the United States" in the Appointments Clause has generally been interpreted to include "many particular officers who had authority but little if any discretion in administering the laws; these included officers such as registers of the land offices, masters and mates of revenue cutters, inspectors of customs, deputy collectors of customs, deputy postmasters, and district court clerks."³⁶ The OLC opinion also concluded that the Appointments Clause applies where the relevant officers have "authority to act in the first instance, whether or not that act may be subject to direction or review by superior officers."³⁷ As an example, the OLC opinion notes that inferior revenue officers were long considered to be subject to the Appointments Clause because they had authority to make tax classification decisions, even though "those decisions could be subjected to two layers of appeal, the second being the Treasury Secretary himself."³⁸

This brings us to the question of whether administrative patent judges are being validly appointed within the limitations of the Appointments Clause. Because the PTO Director is not the President or a court of law, the validity of the appointment process turns on whether the Director can be viewed as a "Head of Department." Once again, *Freytag* is the leading case on the subject, and it pretty clearly forecloses any argument that the Director could be considered a department head. Under the majority reasoning in *Freytag*, "Heads of Departments" for purposes of the Appointments Clause are confined "to executive divisions like the Cabinet-level departments,"

³⁵ *Id.* at 1134.

³⁶ Officers of the United States Within the Meaning of the Appointments Clause, 2007 OLC Lexis 3, at *58-59 (Apr. 16, 2007), available at http://www.usdoj.gov/olc/2007/appointments_clausev10.pdf.

³⁷ *Id.* at *60.

³⁸ *Id.* at *61 (noting also that the officer's decision "could" decide the rights of another "even though by law [it was] readily 'subject to revision and correction' on the initiative of the taxpayer").

which the Court held to be “limited in number and easily identified.”³⁹ The PTO Director is subordinate to the Secretary of Commerce and therefore cannot qualify as a Cabinet-level department head. The official title of the PTO Director is “*Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office*.”⁴⁰ Moreover, the PTO itself is statutorily “established as an agency of the United States, within the Department of Commerce” and is “subject to the policy direction of the Secretary of Commerce.”⁴¹ Thus, the PTO Director’s primary duty—to “provid[e] policy direction and management supervision for the [PTO]”⁴²—is subject to the oversight of the Secretary of Commerce. Indeed, even under the more capacious view of “Heads of Departments” articulated in Justice Scalia’s concurring opinion in *Freytag*, an Under Secretary fails to qualify because heads of departments encompass only “the heads of all agencies immediately below the President in the organizational structure of the Executive Branch.”⁴³ Thus, an Under Secretary of Commerce is not a constitutionally acceptable appointing authority for officers of the United States like administrative patent judges.

If, as seems clear, the current appointment process for administrative patent judges is unconstitutional, the next obvious question is whether the unconstitutional appointment process will lead to the invalidation of a significant number of BPAI decisions. In other words, the question is whether, as a practical matter, the problem is a serious one for the agency. The short answer is that it is serious, though precisely how serious is hard to determine. There are three relevant considerations here. One consideration, which tends to exacerbate the problem, is that the courts have articulated very broad standing rules for challenging constitutionally invalid appointments to adjudicatory bodies. Under this case law, a party challenging the composition of an administrative agency must prove only that the agency has rendered an adverse decision against the party (thus establishing “injury” for purposes of standing law) and that the party has “been ‘directly subject to the authority of the agency.’”⁴⁴ Thus, any party that loses an

³⁹ *Freytag v. Comm’r*, 501 U.S. 868, 886 (1990).

⁴⁰ 35 U.S.C. § 3(a) (2006) (emphasis added).

⁴¹ *Id.* § 1(a); see also 15 U.S.C. § 1511(4) (2006) (listing the PTO as one of the bureaus “under the jurisdiction and subject to the control of the Secretary of Commerce”).

⁴² 35 U.S.C. § 3(a)(2)(A).

⁴³ *Freytag*, 501 U.S. at 918 (Scalia, J., concurring); see also *id.* at 915 (noting that “a subdivision of the Department of the Treasury . . . would not qualify” as a Department).

⁴⁴ *FEC v. NRA Political Victory Fund*, 6 F.3d 821, 824 (D.C. Cir. 1993) (quoting *Comm.*

appeal or an interference before the BPAI has standing to challenge the legality of the BPAI's composition even if the party cannot demonstrate "that he has received less favorable treatment than he would have if the agency were lawfully constituted and otherwise authorized to discharge its functions."⁴⁵ *FEC v. NRA Political Victory Fund* shows just how far the courts have extended this logic. In that case, the party was challenging the constitutionality of including certain nonvoting "ex officio" members within the Federal Election Commission ("FEC").⁴⁶ In its decision holding the FEC's appointment structure unconstitutional (and therefore vacating the agency decision in the case), the D.C. Circuit reasoned that even nonvoting members of an adjudicatory body may exert "some influence" during deliberations by "their mere presence."⁴⁷ The Supreme Court has also indicated that objections to the appointment of an adjudicator may be raised for the first time on appeal, so the Appointments Clause objection may be raised in cases now pending in the courts where parties are seeking judicial review of BPAI decisions.⁴⁸

Two other considerations tend to restrict the scope of the problem created by the unconstitutional appointment of administrative patent judges. First, the unconstitutional appointment process is a relatively recent change, and many of the judges on the BPAI were appointed under prior statutory law, which had given the appointment power to the Secretary of Commerce.⁴⁹ The legislation establishing the new appointment process was enacted on November 29, 1999, and took effect on March 29, 2000.⁵⁰ Administrative patent judges appointed to the BPAI before that last date should have a constitutionally valid appointment from a Secretary of Commerce. The BPAI does not post on its website any convenient list of its judges and their dates of appointments, but it appears that a substantial number of the judges serving on the BPAI were appointed prior to March 29, 2000 (though many were appointed since then).

for Monetary Reform v. Bd. of Governors of Fed. Reserve Sys., 766 F.2d 538, 543 (D.C. Cir. 1985)).

⁴⁵ *Id.* (quoting *Comm. for Monetary Reform*, 766 F.2d at 543).

⁴⁶ See *FEC v. NRA Political Victory Fund*, 6 F.3d 821, 822 (D.C. Cir. 1993).

⁴⁷ *Id.* at 826.

⁴⁸ See *Freytag v. Comm'r*, 501 U.S. 868, 878-79 (1991); see also *Nguyen v. United States*, 539 U.S. 69, 77-81 (2003).

⁴⁹ See 35 U.S.C. § 3(a) (1994) (conferring power on the Secretary of Commerce to appoint all officers and employees of the PTO).

⁵⁰ See Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No. 106-113, §§ 4717, 4731, 113 Stat. 1501, 1501A-521, 1501A-580 to -582.

The second mitigating factor is that the BPAI generally operates in panels *without deliberative participation by nonpanel members*. Although the standing requirements for challenging invalidly constituted adjudicatory bodies generally allow “radically attenuated” connections between the claimed injury and the invalid appointment,⁵¹ it seems unlikely that courts would permit a party to raise an Appointments Clause challenge where none of the body’s invalidly appointed members participated in the decisionmaking process. Though the matter is not free from doubt, the BPAI’s internal operating procedures appear to foreclose the participation of nonpanel judges in the decisionmaking process of a particular panel.⁵² One BPAI judge—the Chief Judge of the BPAI—does exercise some authority with respect to all the cases that come before the BPAI because the Chief Judge maintains an assignment power over all panels.⁵³ However, the current Chief Judge was appointed to the Board in 1994⁵⁴ and therefore almost certainly has a constitutionally valid appointment.

In sum, a party appearing before a panel composed solely of pre-2000 judges would not have standing to raise the constitutional objection to the post-2000 judges. A constitutional challenge is, however, almost certainly available to parties litigating before BPAI panels having at least one administrative patent judge who was appointed on or after March 29, 2000.⁵⁵ Because the BPAI does not post a list of its judges and their appointment dates on its website, it is not easy to determine what fraction of BPAI panels include at least one such member. A quick look at a few recent high profile BPAI cases, however, suggests many panels are invalidly constituted. The problem seems to be quite serious.

The solutions to this constitutional problem are really quite few. The Secretary of Commerce cannot simply appoint the existing cadre of administrative patent judges because appointment by a “Head of Department” can occur only where Congress has conferred the ap-

⁵¹ *Landry v. FDIC*, 204 F.3d 1125, 1131 (D.C. Cir. 2000).

⁵² For the BPAI’s procedures, see Bd. of Patent Appeals & Interferences, Patent & Trademark Office, STANDARD OPERATING PROCEDURE 1 (REVISION 13): ASSIGNMENT OF JUDGES TO MERIT PANELS, MOTION PANELS, AND EXPANDED PANELS (2008), <http://www.uspto.gov/web/offices/dcom/bpai/sop1.pdf>.

⁵³ *See id.*

⁵⁴ *See* United States Patent and Trademark Office, Office of the General Counsel Bios, <http://www.uspto.gov/web/offices/dcom/gcounsel/bios.htm#fleming> (last visited Mar. 4, 2009).

⁵⁵ *See Nguyen v. United States*, 539 U.S. 69, 82 (2003) (holding that the presence of only a single invalidly appointed judge is sufficient to vacate the judgment of a panel containing a quorum of validly appointed judges).

pointment power by law. Yet the Secretary's power to appoint PTO officers generally, and BPAI members in particular, was specifically removed by Congress in 1999.⁵⁶ In the short term, the BPAI's business can be handled by judges appointed prior to 2000.

Finally, it is worth asking how this constitutional problem arose. There are two answers here. First, there is the hasty and unusual method by which the 1999 statute was enacted. The statute responsible for changing the appointments process of BPAI members, the "Intellectual Property and Communications Omnibus Reform Act of 1999," was enacted as one of nine bills that were "incorporated by reference" into the District of Columbia Appropriations Act of 2000. In other words, the text of the legislation voted on by Congress includes only the following language:

Sec. 1000.(a) The provisions of the following bills are hereby enacted into law:

⁵⁶ Cf. *Edmond v. United States*, 520 U.S. 651, 654, 666 (1997) (permitting the Secretary of Transportation to ratify the appointment of officers who previously lacked a valid appointment where the Secretary possessed a general power to appoint all officers in the Department and no statute conferred the power to appoint the relevant officials in any other person).

There is a line of precedent establishing that an appointment will be considered to be made by a "Head of Department" if, by law, the appointment was subject to approval or approbation by the Head of the relevant Department (e.g., by the Secretary of Commerce). But in *United States v. Mouat*, 124 U.S. 303 (1888), the Supreme Court held that this theory could not be extended to justify the appointment of an officer where no statute required the concurrence of the Department Head:

If there were any statute which authorized the head of the Navy Department to appoint a paymaster's clerk, the technical argument, that the appointment in this case, although actually made by Paymaster Whitehouse and only approved by Harmony as Acting Secretary in a formal way . . . might still be considered sufficient to call this an appointment by the head of that Department. But there is no statute authorizing the Secretary of the Navy to appoint a paymaster's clerk, nor is there any act requiring his approval of such an appointment, and the regulations of the navy do not seem to require any such appointment or approval for the holding of that position.

Id. at 307-08. Nevertheless, it is possible that the Department of Commerce has recognized the constitutional problem with the statutory appointment structure and found some avenue by which, despite the apparent terms of 35 U.S.C. § 6, the Secretary of Commerce and not the PTO Director can bear responsibility for appointing administrative patent judges. Despite an extensive search, however, I have uncovered no evidence that this has occurred or indeed could occur under existing statutory law. The PTO's publicly available materials give no hint that anyone other than the PTO Director is appointing administrative patent judges. See, e.g., *MANUAL OF PATENT EXAMINING PROCEDURE* § 1202 (8th ed. 2001, July 2008 revision) (reproducing 35 U.S.C. § 6(a) in the Manual's section on "Composition of the Board" without any suggestion that administrative patent judges are appointed by someone other than the PTO Director). If the agency believes that it has found some way to push responsibility back to the Secretary without a statutory fix, it should be candid about the true location of the appointing power and the legal basis for shifting it.

....

(9) S. 1948 of the 106th Congress, as introduced on November 17, 1999.⁵⁷

The Appropriations Act then instructs the Archivist of the United States to find the nine bills referenced by the legislation and to publish those bills as “appendixes” to the U.S. Statutes at Large.⁵⁸

Such an incorporation-by-reference method of enacting law may very well be constitutional, but to put it mildly, the technique certainly does not foster full consideration of the legislation by the Members of Congress and the President. The normal legislative process typically includes multiple reviews of legislative language by different components of the government, including various divisions in the Department of Justice, such as the Office of Legal Counsel, that seek to identify constitutional problems in pending bills. It is thus quite possible, though difficult to know with certainty, that the incorporation-by-reference method of enacting the 1999 legislation helped the constitutionally infirm appointment structure to slip through the legislative process unnoticed.

A second difficulty with the 1999 statute goes directly to Congress’s intent in restructuring the PTO. The overarching intent of the statute is to confer on the PTO head more authority and status, and yet keep the Office firmly within the Department of Commerce. That schizophrenic intent goes to the very heart of the constitutional problem. The Appointments Clause is designed to prevent the diffusion of appointment power precisely so that the individual with primary responsibility for a governmental department is both at a high level (subordinate only to the President) and readily identifiable. This wise requirement makes the lines of responsibility more visible. If something is amiss in a department of government, responsibility—and blame—cannot be deflected to a lower level of government than the department head because he, or the President himself, is directly responsible not only for managing the department but also for appointing officials who exercise any significant authority within it. Yet the precise effect of the 1999 statute is to push responsibility to someone below the department head and generally to muddle the lines of authority. Who is to blame if the BPAI is producing unwise decisions?

⁵⁷ District of Columbia Appropriations Act of 2000, Pub. L. No. 106-113, § 1000(a), 113 Stat. 1501, 1535–36 (1999).

⁵⁸ *Id.* § 1000(b), 113 Stat. at 1536. The Intellectual Property and Communications Omnibus Reform Act, which was S. 1948, appears on page 1501A-521 of volume 113 of the Statutes at Large.

The Secretary of Commerce can disclaim responsibility because, after all, he does not have power to select individuals to serve on the BPAI.

The ultimate reason this constitutional problem arose is therefore an innate conflict between a traditional reluctance to change lines of governmental authority and a growing recognition by Congress of the increased importance of intellectual property to the national economy. The latter point counsels toward increasing the power, prestige, and status of the PTO head, but tradition pushes against creating a separate governmental department, like the Environmental Protection Agency, that is subordinate only to the President. And so Congress took half a step in 1999, but it is precisely such half steps that generate constitutional difficulty.

Ongoing Epilogue

On September 7, 2007, approximately six weeks after the original publication of this essay, the U.S. House of Representatives passed a bill that would have supplied a constitutional remedy to the Appointments Clause problem.⁵⁹ That amendment was part of the general patent reform legislation that, as mentioned in the original essay, was pending in Congress at the time. Similar patent reform legislation, however, failed to pass the Senate.

On October 26, 2007, a party named Translogic Technology, Inc., which was seeking judicial review of an adverse BPAI decision, raised the Appointments Clause issue in papers before the United States Court of Appeals for the Federal Circuit.⁶⁰ That filing relied heavily on the legal analysis in a prior version of this article.⁶¹

On December 27, 2007, the PTO and the U.S. Department of Justice responded to Translogic's filing.⁶² The government raised various procedural objections to adjudicating the merits of the constitutional issue but declined to mount any defense of the constitutionality of the process by which administrative patent judges are appointed. Rather, the government's filing concluded with a footnote stating that the

⁵⁹ See H.R. 1908, 110th Cong. § 7 (2007) (amending 35 U.S.C. § 6 to provide that "administrative patent judges shall be persons of competent legal knowledge and scientific ability who are appointed by the Secretary of Commerce").

⁶⁰ See Combined Petition for Panel Rehearing and Rehearing *En Banc* at 8–15, *In re Translogic Tech., Inc.*, 504 F.3d 1249 (Fed. Cir. 2007) (No. 2006-1192), 2007 WL 3388523.

⁶¹ See *id.* at 8–9 (noting that the party "became aware of the [constitutional] error underlying the Board's proceedings in . . . reviewing a July 2007 article" and citing this Essay); see also *id.* at 8–15 (briefing the Appointments Clause issue with several references to this Essay).

⁶² See Response to Appellant's Petition for Panel Rehearing and Rehearing *En Banc*, *In re Translogic Tech., Inc.*, 504 F.3d 1249 (Fed. Cir. 2007) (No. 2006-1192), 2007 WL 4739046.

“Patent and Trademark Office and the Department of Commerce, in consultation with the Department of Justice, are presently considering a legislative proposal that would address any Appointments Clause issue.”⁶³

The issue then moved to the Supreme Court, with a petition for certiorari filed by Translogic on April 16, 2008. That petition begins with the statement:

This case involves a constitutional issue of great importance. Since early 2000, all new members of the United States Patent and Trademark Office’s Board of Patent Appeals and Interferences have been appointed by the Director of the PTO, who is not the Head of a Department as required by the Appointments Clause.⁶⁴

An earlier version of this Essay was cited for authority.⁶⁵ The petition included an extensive discussion of the importance of the issue and the need for judicial attention to the constitutional defect.

The full extent of the constitutional defect was revealed in an article published on April 28, 2008.⁶⁶ That article quoted a PTO spokeswoman who disclosed that approximately forty of the BPAI’s sixty-one administrative patent judges—nearly two-thirds of the BPAI—were appointed after March 29, 2000.⁶⁷ If administrative patent judges are being randomly assigned to three-judge panels, then a simple probability calculation shows that less than five percent of panels would be composed of judges who have valid appointments. Thus, by the spring of 2008, more than ninety-five percent of BPAI panels were likely to have the constitutional defect. The magnitude of the constitutional defect attracted significant additional coverage in the press.⁶⁸

⁶³ *Id.* at 15 n.6.

⁶⁴ Petition for Writ of Certiorari at 2, *Translogic Tech., Inc. v. Dudas*, 129 S. Ct. 43 (2008) (No. 07-1303), 2008 WL 1757257.

⁶⁵ *See id.* at 2 n.1.

⁶⁶ *See* Marcia Coyle, *Patent Board’s Rulings in Doubt*, NAT’L L.J., Apr. 28, 2008, at 1, available at <http://www.law.com/jsp/nlj/PubArticleNLJ.jsp?id=90005509641>.

⁶⁷ *Id.* at 7.

⁶⁸ *See, e.g.*, Adam Liptak, *In One Flaw, Questions on Validity of 46 Judges*, N.Y. TIMES, May 6, 2008, at A18, available at <http://www.nytimes.com/2008/05/06/washington/06bar.html>; *Patent Judgments Questioned in Appointment Flap*, NPR Weekend Edition Saturday, May 10, 2008, available at <http://www.npr.org/templates/story/story.php?storyId=90344019>. The *New York Times* article quoted a spokeswoman for the PTO as confirming that 46 of 74 judges on the BPAI had been appointed under the unconstitutional 1999 statute. The *National Law Journal* had previously quoted the same spokeswoman as representing that “nearly 40” of the BPAI’s 61 judges were appointed under the 1999 statute. *See* Coyle, *supra* note 66. While the reason for the disparity is unclear, the two figures were consistent in confirming that approximately 65% of the BPAI judges were appointed under the flawed statute. Random selection from such a pool

During the late spring and summer of 2008, the government sought and obtained multiple extensions to file its brief in opposition to Translogic's petition. The response was ultimately filed in July 2008 and, once again, the government did not defend the constitutionality of the judges' appointments.⁶⁹ As in its prior filings, the government cited Translogic's failure to raise the constitutional issue in a timely fashion as a reason to deny certiorari. But by July of 2008, the government was able to offer the Court a new "independent reason why certiorari should be denied. Legislation that would remove the grounds for petitioner's constitutional objection is currently pending in Congress and may well be enacted soon."⁷⁰

In fact, the legislation had been put on a very fast track—with the Senate bill passed by the full Senate one day after its introduction.⁷¹ The government's prediction of imminent enactment was accurate. Corrective legislation changing the appointment process for judges became law on August 12, 2008.⁷²

The new legislation restored the pre-2000 method of appointing the members of the BPAI—they were to be appointed once again by the Secretary of Commerce. The change was significant. As the Supreme Court reasoned in *Freytag*, the Framers of the Constitution were determined "to limit the distribution of the power of appointment" so that "they could ensure that those who wielded it were accountable to political force and the will of the people."⁷³ The Framers' concerns generated the Appointments Clause, which pre-

of judges would produce constitutionally appointed judges for less than 5% of three-judge panels.

⁶⁹ See Brief for the Federal Respondent in Opposition, *Translogic Tech., Inc. v. Dudas*, 129 S. Ct. 43 (2008) (No. 07-1303), available at <http://www.usdoj.gov/osg/briefs/2008/0responses/2007-1303.resp.pdf>.

⁷⁰ *Id.* at 13.

⁷¹ The government's brief detailed the speed of the change:

On July 21, 2008, the chairman of the Senate Judiciary Committee introduced S. 3295, which was co-sponsored by the ranking minority member of the Judiciary Committee. See 154 Cong. Rec. S6976 (daily ed.). The next day, the bill was discharged from committee, and it passed the Senate by unanimous consent. See 154 Cong. Rec. S7079 (daily ed. July 22, 2008). An identical bill, H.R. 6362, has been pending in the House of Representatives, where it is co-sponsored by the bipartisan leadership of the Judiciary Committee and its Subcommittee on Courts, the Internet, and Intellectual Property. See 154 Cong. Rec. H6088 (daily ed. June 25, 2008).

Id. at 13–14.

⁷² Pub. L. No. 110-313, § 1(a)(1), 122 Stat. 3014, 3014 (2008) (to be codified at 35 U.S.C. § 6).

⁷³ *Freytag v. Comm'r*, 501 U.S. 868, 884 (1990).

serves the "Constitution's structural integrity by preventing the diffusion of the appointment power."⁷⁴

The new appointment scheme may well raise the status of administrative patent judges, for they now will have been scrutinized, and appointed, by a member of the President's Cabinet. But the more significant point is that the power to appoint these important adjudicators has now been restored to an officer who reports directly to the President. The 2008 statutory change thus reconciles the appointment process of administrative patent judges with the Framers' original vision, as appointment responsibility is once again concentrated at the highest levels of government, where political accountability is greatest.⁷⁵

Because the appointment structure mandated by the 2008 statute is plainly constitutional, the need for Supreme Court review in the *Translogic* case was significantly reduced, for the constitutional problem had now been remedied prospectively by Congress. Given the procedural problems in the *Translogic* case (the Appointments Clause issue had not been raised until the petition for rehearing in the Court of Appeals), it was not surprising that the Supreme Court denied certiorari when the Justices reconvened for the beginning of their 2008 Term on the first Monday in October.⁷⁶

Yet while the new legislation solved the constitutional problem on a prospective basis, it could not provide a clean "retroactive" solution to address the numerous decisions previously rendered by unconstitutionally appointed judges during the prior eight years. Rather, the new statute offered two alternative mechanisms that attempted to address the problem of prior decisions (and the mere fact that Congress included two solutions gives some indication that neither was viewed as certain to succeed).

First, the statute authorized the Secretary of Commerce to make the new appointments of the existing judges "take effect" at the time when the PTO Director had previously purported to make the appointments.⁷⁷ In other words, the statute purported to authorize the

⁷⁴ *Id.* at 878. As Justice Souter explained, "no branch [of the government] may abdicate its Appointments Clause duties," by, for example, "adopt[ing] a more diffuse and less accountable mode of appointment than the Constitution requires." *Weiss v. United States*, 510 U.S. 163, 188 & n.3 (1994) (Souter, J., concurring).

⁷⁵ See *Freytag*, 501 U.S. at 878.

⁷⁶ *Translogic Tech., Inc. v. Dudas*, 129 S. Ct. 43 (2008).

⁷⁷ Pub. L. No. 110-313, § 1(a)(1)(C)(c), 122 Stat. 3014, 3014 (to be codified at 35 U.S.C. § 6(c)) ("The Secretary of Commerce may, in his or her discretion, deem the appointment of an administrative patent judge who, before the date of the enactment of this subsection, held office

Secretary to make appointments in August of 2008 that take effect years earlier, some as far back as the year 2000—long before then-Secretary of Commerce Gutierrez held the position, and indeed, before George W. Bush's administration. Such retroactive appointments appear to be unprecedented in constitutional history. Indeed, the very concept of retroactive appointments seems in tension with, among other authorities, *Marbury v. Madison*, which fixed the time of appointment to be "when a commission has been signed."⁷⁸ True, that statement is merely dicta, and worse still, dicta by a Court that ultimately decided it lacked jurisdiction. But it is nonetheless dicta in one of the most important Supreme Court cases ever. It would be surprising now to find after more than two centuries that appointments can actually take effect when the commission is signed *or any time months or years in the past*.

Perhaps sensing the theoretical weakness of retroactive appointments, Congress included another retroactive fix: The statute states that the "de facto officer" doctrine "shall be a defense to a challenge to the appointment of an administrative patent judge on the basis of the judge's having been originally appointed by the Director."⁷⁹ Yet this congressional instruction seems more like a plea for judicial leniency than a constitutionally rigorous solution. The de facto officer doctrine is part of constitutional law, and thus the scope of the doctrine probably cannot be changed by the enactment of a statute. In all likelihood, the courts will independently determine, without reliance on any statutory law, whether the government may properly invoke the de facto officer doctrine to sustain the actions of the unconstitutionally appointed judges. In similar circumstances thirteen years ago, the Supreme Court unanimously rejected the government's argument that the de facto officer doctrine could be invoked to protect judges who were unconstitutionally appointed.⁸⁰

The weakness of these two retroactive fixes leaves open the possibility that the past decisions of the BPAI could still be vacated if the BPAI panel rendering the decision included at least one unconstitutionally appointed member.

pursuant to an appointment by the Director to take effect on the date on which the Director initially appointed the administrative patent judge.").

⁷⁸ *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 162 (1803).

⁷⁹ Pub. L. No. 110-313, § 1(a)(1)(C)(d), 122 Stat. 3014, 3014 (to be codified at 35 U.S.C. § 6(d)).

⁸⁰ See *Ryder v. United States*, 515 U.S. 177, 180–88 (1995).

The BPAI's past decisions can be divided into two large categories: cases denying patentability and cases confirming patentability. With respect to the former category, the Federal Circuit in *In re DBC* has now held that parties will be procedurally defaulted on the issue *unless they have exhausted their administrative remedies by presenting the Appointments Clause issue to the BPAI itself*.⁸¹ If *DBC* is not reviewed by the Supreme Court,⁸² disappointed patent applicants will be effectively barred from raising the Appointments Clause issue because no applicants raised the issue before the Board between the time of the issue's discovery in July 2007, and the congressional correction in August 2008.⁸³

The *DBC* decision seems to go against a sizeable body of case law holding that, at the administrative level, parties are *not* required to raise constitutional challenges to the very structure of the agency itself. A good example of that line of cases is found in the D.C. Circuit decision *Robertson v. FEC*, where the government argued (just as in *DBC*) that the "petitioner's constitutional challenge is not properly raised because it was not brought before the Commission."⁸⁴ The D.C. Circuit brusquely responded that the government's procedural default argument "need not detain us" because "[i]t was hardly open to the Commission, an administrative agency, to entertain a claim that the statute which created it was in some respect unconstitutional."⁸⁵ True, this area of administrative law has some doctrinal complexities and tensions,⁸⁶ and there may be a modern trend to allow agencies to

⁸¹ See *In re DBC*, 545 F.3d 1373, 1377 (Fed. Cir. 2008).

⁸² As this essay was going to the printer, a petition for certiorari filed by DBC was pending at the Supreme Court. See Petition for Writ of Certiorari, *DBC v. Patent & Trademark Office*, No. 08-1284 (U.S. Apr. 15, 2009), 2009 WL 1061247. The Court has extended the time for the Solicitor General to file a response to June 17, 2009, available at <http://origin.www.supremecourt.us.gov/docket/08-1284.htm>.

⁸³ During the oral argument before the Federal Circuit in *DBC*, the government confirmed that no applicants had raised the constitutional issue before the Board. See Petition for a Writ of Certiorari, *supra* note 82, at 8. The certiorari petition in *DBC* reveals an important practical hurdle to raising the constitutional issue before the Board: the parties before the Board "are not made aware of the composition of the Board until either the day of oral argument or the day the Board's decision is rendered." *Id.* at 9. Thus, during the briefing of the case, parties could not know whether their case will be assigned to a panel with an invalidly appointed judge.

⁸⁴ *Robertson v. FEC*, 45 F.3d 486, 489 (D.C. Cir. 1995).

⁸⁵ *Id.*

⁸⁶ See, e.g., *Able v. United States*, 88 F.3d 1280, 1288 (2d Cir. 1996) (noting that the "Supreme Court has been inconsistent in its jurisprudence concerning the 'constitutionality' exception to the exhaustion requirement"). For criticism of the rule that agencies may not adjudicate constitutional claims, see Note, *The Authority of Administrative Agencies to Consider the Constitutionality of Statutes*, 90 Harv. L. Rev. 1682 (1977).

consider constitutional issues at least in those circumstances where they can provide effective relief from the constitutional problem.⁸⁷ Yet the *DBC* opinion seems especially aggressive in requiring the exhaustion of administrative remedies where the issue involves the constitutional structure of the administrative body and the panel of adjudicators at the administrative level has no ability to remedy the constitutional defect.

Despite that weakness of the *DBC* opinion, the court's result is understandable in pragmatic terms: a contrary ruling might have led to a large number of cases that would have to be remanded back to the agency for re-adjudication before the newly appointed Board. *DBC*'s procedural default holding is perhaps the "least bad" way for the court to avoid having to remand many cases. The holding requires some distortion of existing law on exhaustion of administrative remedies and on the ability of agencies to entertain constitutional objections to their own composition, but it saves the court from having to address the constitutional validity of the two retroactive fixes included in the corrective legislation.

Where, however, the BPAI has previously ruled in favor of a patent applicant and that ruling has led to the issuance of a patent, *DBC*'s administrative exhaustion theory will obviously not work because parties likely to raise the Appointments Clause issue—e.g., accused infringers—will not have been involved at the administrative level. That group has not yet had their day in court to raise the issue (and therefore could not be defaulted for failing to exhaust administrative remedies). Still, one strongly suspects that, if any accused infringers do raise the Appointments Clause problem, the Federal Circuit will find another "least bad" way to avoid the problem.⁸⁸

Conclusion

The ongoing story of this constitutional problem provides an interesting test of the importance that our legal culture assigns to the

⁸⁷ See, e.g., *Thunder Basin Coal Co. v. Reich*, 510 U.S. 200, 215 (1994) (describing as "not mandatory" the rule that "[a]djudication of the constitutionality of congressional enactments has generally been thought beyond the jurisdiction of administrative agencies'" (quoting *Johnson v. Robison*, 415 U.S. 361, 368 (1974))).

⁸⁸ If an accused infringer raises the issue, the Federal Circuit might very well be driven to rely on the *de facto* officer doctrine to avoid the constitutional issue. A pragmatic reason for taking such an approach is once again clear: there is a strong desire not to destabilize years of decisions by the BPAI. While existing case law places strong constraints on the scope of the *de facto* officer, the doctrine itself contains a fundamental degree of flexibility that could make it attractive in these unusual circumstances.

structural protections of the Appointments Clause. Both the Supreme Court and the U.S. Department of Justice have taken the position that the Appointments Clause “reflects more than a ‘frivolous’ concern for ‘etiquette or protocol.’”⁸⁹ An overarching issue presented by the experience of the administrative patent judges is whether all of the Appointments Clause rules are entitled to the same degree of respect or, alternatively, whether our legal institutions will allow violations of at least some of the formalistic rules to be overlooked, forgiven, or ignored. While definitive answers to those important questions cannot confidently be given until the ultimate conclusion of this unfolding story, the experience so far presents a mixed picture: the courts have avoided the constitutional problem, even though they plainly had the ability to decide the issue. By contrast, the importance of the Appointments Clause was ultimately respected by the Department of Justice, which to its credit never defended the constitutionality of the judges’ appointments, and by the Congress, which enacted corrective legislation within a year of the problem being identified—lightning speed by congressional standards. Those divergent responses might be good, for they maintain respect for the constitutional rule while reflecting a thorough-going pragmatism that limits the repercussions of a constitutional mistake.

⁸⁹ Officers of the United States Within the Meaning of the Appointments Clause, 2007 OLC Lexis 3, at *2 (Apr. 16, 2007), available at http://www.usdoj.gov/olc/2007/appointments_clausev10.pdf (quoting *Buckley v. Valeo*, 424 U.S. 1, 125 (1976) (per curiam)). Consistent with its text, the Supreme Court has interpreted the Appointments Clause to demand observance of fairly specific rules in the appointments process.

Mr. JOHNSON of Georgia. Thank you, and next we will hear from Mr. Armitage, for five minutes.

STATEMENT OF ROBERT A. ARMITAGE

Mr. ARMITAGE. Yes. Chairman Johnson, Chairman Nadler, Ranking Member Roby, Vice Chairman Correa, and other members of the subcommittee, thank you for the opportunity to testify today on issues arising from the recent court decisions as they relate to the constitutionality of the PTAB under the Appointments Clause. The Arthrex decision addressing this issue, if nothing else, creates an opportunity to look back at how the PTAB was initially conceived, and perhaps spur some new thinking on a key issue, specifically whether one administrative board charged with handling both patent and trials and patent appeals should remain in the Patent and Trademark Office.

When the PTAB statute was enacted, Congress, in large measure, accommodated views of the United States Patent and Trademark Office that the PTAB simply continue with a new name, the same statutory provisions that the PTAB's predecessor, the Board of Patent Appeals and Interferences, had had. Otherwise, this new PTAB statute was largely unchanged except expanding its jurisdiction to include these trials arising from the party's review, which we discussed earlier, and also post-grant review.

With the benefit of both hindsight and the Arthrex decision, I believe there is a different and better way in which Congress could have written the PTAB statute, and one that would have assured better Appointments Clause compliance.

First, the old Board of Patent Appeals and Interferences, in spite of its name, was mostly a patent appeals board, one that rarely conducted trials under its jurisdiction over patent interferences.

Second, the scope of the new jurisdiction of the Patent Office under the AIA, over the validity of issued patents, especially through this second procedure, the post-grant review, was entirely unprecedented in the more than 200-year history of the office. As a result, this new jurisdiction required the office to create an entirely new capability to conduct potentially large numbers of patent validity trials, including in the case of post-grant reviews, trials on any patent validity issue that a district court judge might hear in a patent infringement action.

For these reasons, the AIA might better have created, in the Patent Office, a patent trial board, specifically charged with conducting these new validity trials and distinct from the old Board of Patent Appeals and Interferences. This would have allowed the Board of Patent Appeals and Interferences to return to being just a patent appeal board. Until 1984, such an appeals-only board existed and heard only ex parte patent appeals from inventors whose claims had been rejected by patent examiners.

Moreover, historically, the Patent Office Director could exercise plenary control over the decisions on appeals decided by this pre-1984 Board of Patent Appeals. The AIA might have specifically reaffirmed that the Director could continue to have plenary supervision and review authority over patent appeals, specifically all appeals where a decision was rendered that would allow a patent to issue.

Doing so would have assured that the Director's supervision and review of decisions to issue a patent was so complete as to preclude any possibility of a violation of the Appointments Clause if the members of a patent-only board continued to be appointed by the Secretary of Commerce without Senate confirmation.

As far as a new patent trial board, it would be adjudicating patent validity claims as between private litigants, where the Patent Office Director need not have any role given the public interest in these proceedings is, at best, of a secondary nature.

For this reason, a new patent trial board under the AIA could have excluded the need for any Director oversight of these invalidity trials, instead investing that supervision and review authority in a new presidentially appointed and Senate-confirmed chief administrative trial judge who would lead the new board. Such a structure would have permitted the members of the patent trial board, other than the Senate-confirmed chief judge, to be appointed by the Secretary of Commerce, again without offense to the Appointments Clause.

In sum, I believe that there may be policy-driven organizational changes to the current PTAB structure that could represent optimal policy choices for any new legislation that would all but assure Appointments Clause compliance.

[The statement of Mr. Armitage follows:]

Statement of
Robert A. Armitage

Before

The United States House of Representatives

Committee on the Judiciary
Subcommittee on
Courts, Intellectual Property, and the Internet

On

The Patent Trial and Appeal Board and the Appointments
Clause: Implications of Recent Court Decisions

2:00 p.m.
November 19, 2019
2141 Rayburn House Office Building

Chairman Johnson, Ranking Member Roby, and members of the Subcommittee, I want to thank you for your efforts and those of your staffs in organizing and conducting this hearing. Recent judicial developments, albeit somewhat disturbing ones, have made it timely to address the structure of the Patent Trial and Appeal Board (PTAB) of the United States Patent and Trademark Office¹ in light of the issues that have been raised in the courts with respect to the Appointments Clause of the U.S. Constitution.

Introduction – Implications Of Arthrex On Both The New “Inter Partes Review” Procedure And Its Companion AIA Procedure “Post Grant Review”

The proximate reason for today’s hearing is the Federal Circuit’s decision of less than three weeks ago in *Arthrex*² coupled with the pending Federal Circuit appeal in *Polaris*.³ As to the latter, the court recently ordered additional briefing.⁴ This suggests additional judicial action is likely, potentially soon after the supplemental briefs due in *Polaris* on December 6, 2019 are filed.

In *Arthrex*, the Federal Circuit found itself able to interpret the “inter partes review” (IPR) procedure under the patent statute,⁵ enacted as part of the Leahy-Smith America Invents Act (AIA),⁶ as constitutional under the Appointments Clause—but only by holding administrative patent judges, who are members of the AIA’s new PTAB and render the final written decisions in IPRs, are not subject to the protection of Title 5 civil service removal restrictions under 35 U.S.C. § 3(c).⁷

According to the *Arthrex* court, “35 U.S.C. § 3(c)’s provision that USPTO officers and employees are subject to Title 5 cannot constitutionally be applied to [PTAB administrative patent judges] with respect to that Title’s removal restrictions, and thus must be severed to that extent.” (slip op. at p. 23.)

¹ As used in this testimony, the references to the “United States Patent and Trademark Office,” “USPTO,” “Director,” and the “USPTO Director” are used for convenience and consistency, notwithstanding that the agency was formerly known as the “United States Patent Office” and the title of the agency’s head, currently the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office, has been formerly known as the “Commissioner of Patents” and the “Commissioner of Patents and Trademarks.”

² *Arthrex, Inc. v. Smith & Nephew, Inc.*, App. No. 2018-2041 (Fed. Cir., October 31, 2019).

³ *Polaris Innovations Ltd. v. Kingston Technology Company, Inc.*, App. No. 2018-1768.

⁴ In *Polaris*, the Federal Circuit has ordered supplemental briefing on the following constitutional issues to be filed by December 6, 2019: “(1) what level of supervision and review distinguish a principal from an inferior officer; (2) whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. § 3(c) sufficiently remedies the alleged unconstitutional appointment at issue in these appeals; (3) whether, and how, the remedy for an Appointments Clause violation differs when it stems from an unconstitutional removal restriction, rather than an unconstitutional appointment itself; and (4) whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. § 3(c) obviates the need to vacate and remand for a new hearing, given the Supreme Court’s holdings on the retroactive application of constitutional rulings.”

⁵ 35 U.S.C. §§ 311-319 (2011).

⁶ Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011).

⁷ “Officers and employees of the Office shall be subject to the provisions of title 5, relating to Federal employees.”

These PTAB administrative patent judges not only render “final written decisions” in IPR proceedings, but do so in a second AIA-created statutory proceeding, “post grant review” or PGR.⁸ Both these proceedings address the validity of patent claims and result in the cancellation of patent claims that are adjudicated to be invalid. While IPR proceedings have been—thus far—the more popular of the two proceedings, the PGR proceeding permits a much broader range of patent invalidity issues to be considered by the PTAB APJs. For these reasons, the Appointments Clause issues that arise from the authority of PTAB members to issue “final written decisions” in IPRs apply in spades to the companion ability of PTAB APJs to render such final decisions in PGR proceedings.

Given the long-term potential for PGRs to become the dominant proceeding vis-à-vis IPRs—and given the more extensive jurisdiction over patent validity issues in PGR proceedings relative to IPR proceedings—the Subcommittee’s review of the PTAB-related appointment, review, supervision, and removal provisions needs to encompass consideration of both of these procedures.⁹ That said, the PGR procedure represents an *unprecedented expansion of the authority of the USPTO to cancel claims in patents that it had previously issued*, while the new IPR procedure, in effect, merely duplicated part (but not all) of the jurisdiction over issued patents that already existed through the “inter partes reexamination” statute that the AIA repealed and replaced with the IPR statute.¹⁰

For all the above reasons, the focus in the discussion below centers on the PGR procedure and the PTAB’s authority over this proceeding. However, from a policy and operational perspective in addressing Appointment Clause issues, what applies to the PTAB’s authority to decide PGRs is necessarily applicable to the PTAB authority to decide IPRs.

⁸ 35 U.S.C. § 321–§§ 321-329 (2011).

⁹ In addition to IPR and PGR, on a transitional basis, § 18 of the AIA provided for certain patents, the so-called “covered business method patents,” to be subject to a PGR-like proceeding, in which issues of patent validity could be adjudicated by the USPTO. These so-called CBM proceedings will sunset in on September 15, 2020. To date the CBM process has resulted in nearly 600 PGR-like proceedings being instituted. See *Trial Statistics: IPR, PGR, CBM – Patent Trial and Appeal Board* (September 2019) p. 3. Given the “sunset” within a matter of months, the CBM procedure does not appear to require any further consideration for Appointment Clause purposes, apart from that which both IPR and PGR would appear to merit.

¹⁰ 35 U.S.C. § 311–§ 318 (1999). The inter partes reexamination statute was enacted as part of the American Inventors Protection Act of 1999, Act of Nov. 29, 1999, Pub. L. No. 106-113, § 4001, 113 Stat. 1501, 1501A-552. The IPR procedure does not permit the USPTO to consider non-statutory invalidity issues arising from “patents and printed publications,” while the old inter partes reexamination procedure did. Thus, obviousness-type double patenting issues, unlike in an inter partes reexamination, cannot be raised in an inter partes review proceeding. The USPTO has explained: “[r]ejections on art in inter partes reexamination proceedings may only be made on the basis of prior art patents or printed publications under the first-to-invent prior art regime, or double patenting.” Manual of Patent Examining Procedures § 2658 at <https://www.uspto.gov/web/offices/pac/mpeps/s2658.html>. In contrast, under the IPR statute (35 U.S.C. § 311(b)), “[a] petitioner in an inter partes review may request to cancel as unpatentable 1 or more claims of a patent only on a ground that could be raised under section 102 or 103 and only on the basis of prior art consisting of patents or printed publications.”

Finally, the Subcommittee will hear today from academic scholars with deep and nationally recognized expertise in the constitutional issues arising from the appointment of administrative patent judges to the PTAB. These constitutional experts can offer the Subcommittee far greater insights than I am able to offer into the manner in which the Appointments Clause might constraint the structure and composition of the PTAB—and insights into possible future holdings of the courts applying this constitutional restriction to the work of the USPTO otherwise.

As for me, my hope through my testimony today is to offer some background on the deliberations that led to the enactment of the Leahy-Smith America Invents Act (AIA),¹¹ the law that created the PTAB; the performance to date of the PTAB; future expectations for the contested IPR and PGR proceedings that will come before the PTAB for decision; and some broader legislative context in which Congress might consider any Appointment Clause-driven reforms to the PTAB. This admittedly more practical perspective may be useful to the Subcommittee as it sorts through the Appointment Clause issues that have been raised by recent decisions of the courts, most notably the Federal Circuit's *Arthrex* decision and the pending decision in *Polaris*.

The Patent Trial And Appeal Board Was Created As Part Of The Most Significant Overhaul Of U.S. Patent Law In Nearly Two Centuries

The PTAB came into being on September 16, 2012. It was created as part of a broad collection of reforms to the U.S. patent law that were achieved through the AIA.

The significance of the AIA to our patent laws is difficult to overstate.¹² Congress had done of nothing of comparable significance to the U.S. patent system since at least 1836.¹³

The AIA rewrote the core rules for patentability of inventions.¹⁴ The new law dramatically simplified aspects of the patent law. In important respects, the AIA aligned the core patentability principles of U.S. patent law more closely with those of other industrialized countries. The core objective of the AIA was to produce standards for determining patentability that were more transparent, objective, predictable and simple.

In addition, the AIA sought to make similar improvements in the manner in which patent litigation was conducted. A principal AIA objective was to limit or eliminate subjective elements in patent litigation. A hallmark of much patent litigation is its

¹¹ Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (2011).

¹² Robert A. Armitage, *Leahy-Smith America Invents Act: Will It Be Nation's Most Significant Patent Act Since 1790?*, Washington Legal Foundation Legal Backgrounder Vol. 26, No. 21 (September 23, 2011), available at https://www.wlf.org/wpcontent/uploads/2018/08/09-23-11Armitage_LegalBackgrounder.pdf.

¹³ Patent Act of 1836, 5 Stat. 117.

¹⁴ See Robert A. Armitage, *Understanding the America Invents Act and Its Implications for Patenting*, AIPLA Q.J. 40:1 (2012), available at https://www.uspto.gov/sites/default/files/aia_implementation/armitage_pdf.pdf.

expense, complexity, and unpredictability. Addressing subjective elements, such as the AIA attempted to do, remains an important priority for reform of the patent laws.

One of the keystone accomplishments of the AIA was to create the IPR and PGR procedures. These are both procedures in which the USPTO adjudication is limited to addressing the merits of the assertions of private litigants: the patent invalidity contentions of the patent challenger who petitions for the IPR or PGR and the responsive assertions of the patent owner in defense of its issued patent.

The new PGR procedure represented an unprecedented breakthrough in the ability to challenge the validity of an issued patent in a contested proceeding in the USPTO. The PGR proceeding permits the USPTO to adjudicate *any issue of patent validity that an accused infringer might raise as a defense to infringement of the patent in a patent infringement lawsuit*. In this sense, it can serve as a plenary review of the validity of the patent.

The PGR proceeding, like the IPR proceeding, has another unprecedented feature. Congress imposed on the USPTO a statutory, one-year time limitation on the procedure. Prior to the AIA, no other proceedings before the USPTO had limits on the time for the Office to conduct and conclude the proceeding, much less in a matter of this complexity.¹⁵

In short, nothing like this type of plenary, contested, open review of the validity of an issued U.S. patent by the USPTO had ever existed in the more than 200-year history of the U.S. patent system. Its enactment can be fairly characterized as a stunning expansion of the authority of the USPTO over issued U.S. patents.

The new PGR procedure was not made immediately available to all U.S. patents. Instead, Congress limited access to a PGR proceeding to petitioners challenging the validity of so-called “first-inventor-to-file” patents. In the main, these were patents initially sought after the AIA took effect on September 16, 2012. This limitation to first-inventor-to-file patents was premised on the need for such a time-limited review to be governed by the greatly simplified rules on patentability enacted under the AIA.

Moreover, the PGR procedure is only available if promptly sought post-issuance of a patent. The petition for post-grant review must be filed within nine months following the issuance of such a first-inventor-to-file patent.

Over time, essentially all newly issued U.S. patents will become subject to this post-grant review procedure. With the passage of time, the current inventory of USPTO patent filings not subject to the AIA’s new first-inventor-to-file rules will dwindle to nil, as the last patents that can be subject to the old first-to-invent provisions of the pre-AIA patent law issue as patents.

¹⁵ Other statutory deadlines do exist, e.g., 35 U.S.C. § 303(a) sets a deadline to make initial determination in an ex parte reexamination and, as part of the AIA, 35 U.S.C. § 257(a) imposes a three-month deadline to conduct and conclude a “supplemental examination.”

While the complete phase-in of the PGR process will theoretically take place over roughly a 20-year period from the enactment of the AIA, Congress—in any PTAB change that might be made now—should take account that the PGR process has the potential in the future to become *the predominant tool used to eliminate claims in issued U.S. patents that the USPTO should not have permitted to issue.*

This new adjudicatory function has required that the USPTO build (as it has done successfully over the past seven years) a cadre of highly skilled, technically competent, administrative trial judges. The demands under the PGR statute require the PTAB’s administrative patent judges to handle pre-trial motions, claim construction, and discovery and other evidentiary issues—as well as produce a final written decision able to serve as a basis for a judicial appeal by the losing party.

It was far from assured back in 2011 that the USPTO could successfully build the new capabilities needed to conduct post-grant review proceedings, *i.e.*, acquire the capabilities to assure their routine completion within the one-year statutory time limitation—and do so for any and all patent validity issues raised by the petitioner. The concerns over the time needed to build the administrative capability of the USPTO to handle PGR proceedings arose in large measure from the uniqueness of the challenge presented, coupled with the need for utmost fairness to patent owner and patent challenger alike in achieving the one-year statutory deadline for resolution.

At the start of the legislative process that resulted in the AIA,¹⁶ PGR was designed to be the only new contested proceeding that the USPTO would be charged with conducting.¹⁷ In subsequent deliberations, Congress elected to add the new IPR procedure. As noted above, the IPR procedure was enacted as a substitute for the “inter partes reexamination,” a procedure that was originally enacted in 1999 and then repealed in 2011 with the AIA.¹⁸

The companion IPR procedure was modeled on aspects of both the new PGR procedure and the then-existing and now-repealed “inter partes reexamination” procedure. Like inter partes reexamination, IPR is opened to all issued patents (not just first-inventor-to-file patents) and, unlike PGR, is not restricted to petitions for review filed within nine months from the original issue date of the patent. However, the key restriction on the new IPR procedure is that, like the old inter partes reexamination procedure, an IPR petition can only raise the validity issues of novelty and non-obviousness and then only do so based upon “prior art” consisting of published materials,

¹⁶ See H.R. 2795, 109th Congress (June 8, 2005) at <https://www.congress.gov/bills/109th-congress/house-bill/2795>.

¹⁷ *Ibid.*, § 9.

¹⁸ Unlike the PGR proceeding, the IPR procedure was not within the scope of the “open review” recommendation of the National Research Council of the National Academies of Science, discussed *infra*. For this and other reasons, the chief proponents of the PGR process did not favor either continuation of the so-called “inter partes reexamination” or creation of the new “inter partes review” proceedings. Faced with the need for some compromise, the proponents of PGR ultimately urged that the new IPR procedure replace the “inter parte reexamination” statute.

i.e., patents and printed publication that qualify as prior art to the claimed inventions of a patent.

To a significant degree, the proof of the USPTO's success in building the cadre of capable APJs able to meet the demands of the AIA's PGR and IPR proceedings comes from the popularity of the IPR proceedings among accused infringers in patent infringement actions. While fewer than 200 PGR petitions have been filed, nearly 10,000 IPRs have been sought during the past seven years, the vast majority of which arose from petitions by accused infringers in patent infringement litigation.¹⁹

During the AIA legislative process, the Office took the lead in drafting the statutory provisions that resulted in this community of new contested proceedings being enacted into law, *i.e.*, Chapters 31 (for IPR) and Chapter 32 (for PGR) of Title 35, United States Code, as well as the new statute creating the Patent Trial and Appeal Board. As part of the legislative process, the USPTO was insistent that key features of the Board of Patent Appeals and Interferences (BPAI), the predecessor in the Office to the PTAB, be preserved with the creation of PTAB.

In effect, without significant structural change, the PTAB simply superseded the pre-AIA BPAI that was originally created under the Patent Law Amendments Act of 1984,²⁰ which in turn had superseded the separate Board of Patent Appeals and Board of Patent Interferences that trace their lineage back to the 1952 Patent Act.²¹ The PTAB, like the BPAI, remained comprised of the "Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges."

Notwithstanding significant reservations over the structure of the new PTAB, the proponents of the adoption of the PGR provisions of the AIA ultimately acquiesced to the views of the USPTO on the framework and structure for the PTAB, including the presence of the USPTO Director as a member of the PTAB and the Director's role in selecting PTAB panels to hear PGR, IPR, and CBM proceedings.²²

The Creation Of The PTAB And PGR Were Reforms Based On A 2004 National Academies Report That Garnered Broad Support For Its Recommendations

Important, even historic, legislation does not happen by accident. In the case of the AIA, the ultimate enactment of the law was more a legislative miracle than an

¹⁹ See *Trial Statistics: IPR, PGR, CBM – Patent Trial and Appeal Board* (September 2019) p. 3 at https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2019-09-30.pdf.

²⁰ Patent Law Amendments Act of 1984, § 201, amending 35 U.S.C. § 7, Pub. L. No. 98-622, 98 Stat. 3383, 3386

²¹ Patent Act of 1952, Pub. L. No. 593, § 103, 66 Stat. 792. See 35 U.S.C. § 7, creating a "Board of Appeals" and 35 U.S.C. § 135, creating a "board of patent interferences."

²² "Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings." 35 U.S.C. § 6(c) (2011).

accident, given the contentiousness of virtually every one of its seminal changes to U.S. patent law.

The efforts that led to the enactment of the AIA began in earnest in 2004 with the release of the report of the National Research Council of the National Academies of Science proposing a series of sweeping reforms to the U.S. patent system.²³ The enactment of the AIA in 2011 resulted in most, but not all, of the National Research Council's recommendations being enacted into law.

The NRC's "Open Review" Recommendation Was Partially Implemented Through The Post-Grant Review Statute Of The AIA

One of the most important—and most controversial—recommendations of the NRC was its proposal for an unprecedented “open review” procedure within the USPTO to reassess the validity of issued patents:

Open Review procedure. Congress should seriously consider legislation creating a procedure for third parties to challenge patents for a limited period after their issuance in an administrative proceeding before administrative patent judges of the USPTO. The speed, cost, and design details of this proceeding should make it an attractive alternative to litigation to determine patent validity and be fair to all parties.²⁴

The more detailed recommendations of the NRC urged that, in addition, to opening up issued patents to an open review during a limited period after a patent had issued (such as the PGR statute does), *the USPTO could be charged with assessing patent validity where an accused infringer raised an invalidity defense to infringement.* The NCR specifically recommended:

- Any third party requesting a review should bear the burden of persuasion, subject to a preponderance of the evidence standard, that the claims of a patent should be cancelled or amended.
- *The Federal District Courts should be able and encouraged to refer issues of patent validity raised in a lawsuit to an Open Review proceeding, confining themselves to resolving issues of infringement.* The Department of Justice or the Federal Trade Commission should be able to request the director of the USPTO to initiate a

²³ National Research Council. 2004. *A Patent System for the 21st Century*. Washington, DC: The National Academies Press. <https://doi.org/10.17226/10976>. See also <https://www.nap.edu/read/10976/chapter/1>.

²⁴ See <https://www.nap.edu/read/10976/chapter/6#82>.

review if they suspect that an invalid patent or patents are being used to adversely affect competition.

- The requesting party would pay a fee, but the challenger and the patent holder would each pay their attorney fees and other costs.
- The challenger would, of course, have access to the history of the patent's prosecution.
- The proceeding would be conducted by an administrative patent judge (APJ) or panel of judges of the U.S. Patent and Trademark Office.
- The APJ would have discretion to allow limited discovery, live testimony of experts, and cross-examination.
- Subject to the Administrative Procedures Act, the USPTO would have broad authority to design procedures drawing on the best practices of other countries but aimed at speed, simplicity, and moderate cost. It should do so in consultation with professionals steeped in the details of the current administrative proceedings—reexamination, reissues, and interferences—and familiar with their drawbacks.
- In rare cases, circumscribed in regulation, the USPTO should have discretion to continue an Open Review even if the parties decide to settle their disagreement.²⁵

The legislative response by Congress was to implement the core recommendation of the NRC with new provisions in Chapter 32 of Title 35 that permitted the USPTO to institute PGR proceedings. In general, the PGR procedure, as now implemented through USPTO regulations, follows closely the framework recommended by the NRC. The key point of departure from the NRC's more detailed recommendations is that it does not permit the USPTO to accept referrals of patent validity issues from the Federal District Courts. In addition, as noted above, the post-grant review provisions are applicable only to the so-called "first-inventor-to-file" patents issued under the AIA.²⁶

²⁵ See <https://www.nap.edu/read/10976/chapter/6#97>. Emphasis supplied.

²⁶ Congress limited the availability of the post-grant review procedure to first-inventor-to-file patents. It did so in large measure because of the more transparent, objective, predictable, and simple determinations

**PGR Was Not—But Could Be—Optimized By Congress To Fully
Implement The NRC’s “Open Review” Recommendation**

In part because there was no need to do so, the PGR procedure was not drafted to take account of the needs of a statute that would accept patent validity referrals from the federal district courts. As a result, certain additions to the PGR statute would be needed if Congress were to authorize accepting invalidity petitions by accused patent infringers, most of which would be filed outside the existing nine-month window after issuance when a PGR petition under the existing statute must be made.

In addition, judicial developments since enactment of the AIA have also complicated the PGR statute and require remedial action by Congress for PGRs to operate as designed. Regrettably and wholly unexpectedly, the Supreme Court has expanded the discovery (in PGRs and other invalidity determinations) that can be needed to assess the validity of all first-inventor-to-file patents.

The Supreme Court, in a highly unfortunate ruling, now permits non-public activities, including non-public foreign activities, to be considered in determining the validity of an issued patent.²⁷ The Court’s holding appears to be in blatant disregard of the intent of Congress in enacting the AIA to simplify and internationally harmonize aspects of U.S. patent law, including through the operation of the PGR statute.

Thus, erasing the effects of this ruling, and specifically the Court’s expansion of the law that now allows secret foreign activities to be used to destroy the validity of a U.S. patent, should be made a congressional priority. Quite simply, the feasibility of conducting PGR proceedings in which extensive foreign discovery might be needed to address patent validity issues was not contemplated by Congress in enacting the AIA, much less the PGR statute.

The intent of the AIA statute had been to determine the issues of the novelty and non-obviousness of a claimed invention solely by reference to subject matter that had become *available to the public* prior to the date on which a patent was sought, and not dependent upon extensive discovery as an essential vehicle for unearthing non-public activities, particularly foreign activities, attributable to the inventor.²⁸

of what subject matter can constitute “prior art” for these patents. “Prior art” is used for the purpose of determining if a patent claim meets the requirements for novelty and non-obviousness under 35 U.S.C. § 102 and § 103. In addition, the AIA stripped out of the patent law certain “loss of right to patent” provisions, but only for first-inventor-to-file patents. That left more complicated rules for the determination of the validity of patents that were not subject to the first-inventor-to-file provisions of the AIA, *i.e.*, the so-called first-to-invent patents. These patents are subject to particularly complex rules for determining validity because validity for them can turn on the date of invention of the subject matter of a patent claim.

²⁷ *Helsinn Healthcare v. Teva Pharmaceuticals*, 139 S. Ct. 628 (2019).

²⁸ “Such provisions in the patent law can greatly compromise the efficiency and effectiveness of [a] seminal change to the U.S. patent law, the new post-grant review procedures enacted as part of the America Invents

As a result, today, if Congress wished to proceed with remedial legislation to address the Supreme Court's post-AIA precedent—as well as make the changes to the PGR statute needed to fully implement the NRC-recommendation that PGR should apply to patents challenged by accused infringers in patent infringement litigation—the following modifications to the AIA would be needed:²⁹

- Align the standard of proof, as applied to factual issues bearing on patent validity, to that applicable to invalidity defenses to infringement in the district courts, *i.e.*, the standard of clear and convincing evidence, for review petitions filed outside the existing nine-month window.³⁰
- Bar claim amendments in patents referred from a district court, including those that would otherwise be permitted in a post-grant review proceeding if brought during the first nine months following the issue date of the patent.³¹

Act. Congress provided the opportunity for any member of the public to challenge the validity of any newly issued U.S. patent on any ground that could be raised as a defense to the infringement of the patent, but in a proceeding designed with a one-year time limit for reaching a final decision—a limit premised on Congress's determination that discovery burdens in the old law would be gone in the new. Thus, not only did new [prior art provisions of the AIA seek to] restrict any bar to patenting to activities producing a public disclosure of the subject matter defined by the claim of a patent—through the overarching requirement for such subject matter to be made 'publicly known' or 'available to the public'—but did so for compelling reasons, *i.e.*, in light of the overall context in which the America Invents Act was conceived and enacted." Brief of Amicus Curiae Congressman Lamar Smith in Support of Petitioner on Writ of Certiorari in *Helsinn v. Teva*, App. No. 17-1229 (August 23, 2018), pp. 17-18, at https://www.supremecourt.gov/DocketPDF/17/17-1229/60461/20180823130453156_17-1229%20Amicus%20Brief%20of%20Congressman%20Lamar%20Smith.pdf. See also Brief of Amicus Curiae Congressman Lamar Smith in Support of Petition for Certiorari in *Helsinn v. Teva*, App. No. 17-1229 (March 27, 2018) at https://www.supremecourt.gov/DocketPDF/17/17-1229/40117/20180327102812171_USSC%2017-1229%20Amicus%20Brief%20of%20Lamar%20Smith.pdf.

²⁹ The USPTO, by rulemaking, recently eliminated the use of the "broadest reasonable interpretation" standard in construing claims, which represented an essential prerequisite to any use of the post-grant review procedure as a fair and efficient alternative to a district court's determination of validity. See *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, 83 Fed. Reg. 51340-51359 (Oct. 11, 2018) at <https://www.govinfo.gov/content/pkg/FR-2018-10-11/pdf/2018-22006.pdf>.

³⁰ *Microsoft Corp. v. i4i Ltd. Partnership*, 564 U.S. 91 (2011), interpreting 35 U.S.C. § 282. *Cf.* 35 U.S.C. § 326(e), "In a post-grant review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence."

³¹ See 35 U.S.C. § 326(a)(9) requiring the Director to proscribe regulations "setting forth standards and procedures for allowing the patent owner to move to amend the patent under subsection (d) to cancel a challenged claim or propose a reasonable number of substitute claims, and ensuring that any information submitted by the patent owner in support of any amendment entered under subsection (d) is made available to the public as part of the prosecution history of the patent" and 35 U.S.C. § 326(d), more generally, permitting amendments during a post-grant review proceeding.

- Eliminate the threshold required for institution of the review for patents referred from a district court, such that each invalidity defense to infringement that the accused infringer had pleaded could be considered in the post-grant review.³²
- Eliminate as “prior art,” for all first-inventor-to-file patents, acts (most especially secret foreign acts) placing an invention “in public use or on sale” in a manner in which the claimed invention does not become available to the public and, instead create a new defense to patent infringement that would render a patent unenforceable based upon a new *patent filing laches* unenforceability defense. Under this new defense if, based upon activities attributable to the inventor, the inventor failed to disclaim, before patent issuance, any patent term greater than 21 years from the date any claimed invention in the patent was “ready for patenting,”³³ the patent would be permanently unenforceable. This laches unenforceability defense would apply only if the claimed invention had been placed in public use or on sale in the United States more than six years before the effective filing date of any claimed invention.³⁴

For sound policy reasons, Congress may decide at some point to complete the process of enacting into the law the “open review” reforms recommended by the NRC. In doing so, Congress could dramatically change the manner in which patent validity challenges brought in patent infringement actions are processed in the district courts, with the potential for greatly reducing the costs and uncertainties associated with patent validity trials in the district courts.

³² 35 U.S.C. § 324(a), “The Director may not authorize a post-grant review to be instituted unless the Director determines that the information presented in the petition [for review], if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable.”

³³ *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998). The policy considerations expressed by the Supreme Court in *Pfaff* and *Helsinn* with respect to patent filings that are unreasonably delayed once an invention placed “in public use or on sale” in the United States was “ready for patenting” can be far more efficiently and fairly addressed with a patent filing laches defense to the enforceability of the patent claiming the invention. Such an enforceability defense would serve to prevent the expiration of the normal 20-year term of patent protection, calculated from the original patent filing, from being unduly postponed by requiring that an inventor who placed an invention in public use or on sale in the United States more than six years before filing for a patent would be required to disclaim any patent term that would extend beyond 21 years from the date on which the invention was “ready for patenting.” By requiring such a disclaimer to be made before the patent issued in order for the patent to be enforceable, this patent filing laches defense to infringement would assure that all policy concerns in *Pfaff* and *Helsinn* would be addressed without the need for the discovery that would otherwise be required to determine if patent claims were valid.

³⁴ The legislated change needed is two-fold to remedy the *Helsinn* holding of the Supreme Court: In 35 U.S.C. § 102(a)(1), (1) strike “or in public use, on sale,” and (2) in 35 U.S.C. § 282, insert at the end—

“(d) UNENFORCEABILITY DEFENSE.—If the inventor or a joint inventor of a claimed invention in a patent, or another who obtained the subject matter claimed directly or indirectly from the inventor or a joint inventor, had placed the claimed invention in public use or on sale in the United States more than six years prior to the effective filing date of the claimed invention, the claims of the patent shall be unenforceable unless, prior to the date on which the patent was originally issued, the patentee had disclaimed under section 154(b) the term of the patent extending beyond 21 years from the date on which the claimed invention was ready for patenting by the inventor.”

Given the four modifications/extensions of the existing PGR statute outlined above, the post-grant review procedure could afford a fair and efficient procedure in which technically trained administrative trial judges, during a one-year period from the institution of a PGR proceeding in the USPTO, would be able to issue a final written decision on an accused infringer's invalidity defenses to each challenged claim of an allegedly infringed patent.

As this Congress examines the PTAB statute with an eye to possible changes relating to the Appointments Clause, it may be prudent to premise any Appointments Clause analysis on the possibility that, at some future date, PGR might serve an expanded function as the vehicle for resolving invalidity defenses of accused infringers in patent infringement litigation brought before the district courts.

In any event, the consideration by Congress of the future role of the AIA's PGR statute, as part of any effort to modify the AIA's PTAB statute, becomes progressively more important over time. During this past decade, only a modest percentage of U.S. patents that have issued have been first-inventor-to-file patents. During the next decade, the majority of issued U.S. patents that issue will likely be first-inventor-to-file patents. In the decades that follow, essentially every issued U.S. patent would fall within the first-inventor-to-file jurisdiction of the post-grant review statute.

Just with the passage of time, PGR holds the potential for being used to a similar extent as the parallel "post-grant oppositions" procedures before the European Patent Office. Given a similar utilization of post-grant review in the United States as "oppositions" are used in the EPO, thousands³⁵ of PGR proceedings might be instituted each year to address the validity of the commercially most important patents being issued by the USPTO.³⁶

³⁵ For the PGR procedure to reach this level of utilization would require Congress to proceed with the correction of a legislative error in the enactment of the AIA. The judicial estoppel associated with the PGR proceeding extends to issues that the petitioner "reasonably could have raised." 35 U.S.C. § 325(e)(2). The Coalition for 21st Century Patent Reform has explained the need for correction of this legislative error. See *A "Reasonably Could Have Raised" Estoppel In Litigation Following Post-Grant Review Will Prevent The Envisioned Benefits Of The New Procedure From Being Achieved* at <http://www.patentsmatter.com/issue/pdfs/Why%20RCHR%20Estoppel%20Should%20Not%20Apply%20to%20PGR.pdf>. See also, Testimony of Robert A. Armitage, Hearing Before The Committee On The Judiciary House Of Representatives on Implementation of the America Invents Act, 112th Congress, First Session, May 16, 2012), p. 196 at https://archive.org/stream/gov.gpo.fdsys.CHRG-112hhrg74258/CHRG-112hhrg74258_djvu.txt. ("The [reasonably-could-have-raised estoppel] provision now in [the AIA] threatens to turn PGR into a dead letter, with an estoppel so draconian in character that it would be highly problematic for a patent challenger to use.")

³⁶ The counterpart of the PGR process in Europe is an "opposition" procedure imposing the identical nine-month deadline. The European Patent Office resolves about 4,000 patent oppositions each year among the approximately 125,000 patents it issues. See <https://www.epo.org/about-us/annual-reports-statistics/annual-report/2018/statistics.html> and <https://www.epo.org/about-us/annual-reports-statistics/annual-report/2018/statistics/searches.html#tab1>. In contrast, the USPTO issues over 300,000 patents each year, implying a potential PGR rate of approximately 10,000 PGRs per year. See statistics at https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm.

**The Policy Justification For The PGR Procedure Is No Less Valid
Today Than When The NRC's Recommendations Were First Made**

When the National Academies' 2004 report prepared by its National Research Council on the patent system was published, it set in motion immediate efforts to support the enactment of the NRC recommendations into law, not just through organizations such as the Coalition for 21st Century Patent Reform,³⁷ but also through the active support of the major national bar associations focused on intellectual property law issues. This included, most notably, both the American Intellectual Property Law Association³⁸ and the Section on Intellectual Property Law of the American Bar Association.³⁹

One reason for the immediate and enthusiastic support for the NRC's recommendations in certain elements of the patent community was their comprehensive and reasoned nature. Collectively, these recommendations sought to remake foundational aspects of U.S. patent law that, unlike patent regimes in other industrialized countries, more reflected 19th century norms than the 21st century opportunities for an efficient and high-functioning patent system.

As noted above, one key recommendation, albeit a highly controversial one, was to establish a new "open review" procedure.

The NRC report's 2004 rationale for the "open review" procedure should resonate with this Subcommittee even today given its concerns over patent quality,⁴⁰ as well as

³⁷ During the entire six-year legislative process that led to the enactment of the AIA, the Coalition for 21st Century Patent Reform, and members of its steering committee, were active in legislative process. See <http://patentsmatter.com/issue/legislation.php/>, providing a partial chronology of the efforts of the Coalition and its steering committee members. See, for example, *Statement of Robert A. Armitage, Senior Vice President and General Counsel, Eli Lilly and Company, Before The United States House of Representatives, Committee on the Judiciary, Subcommittee on the Courts, the Internet, and Intellectual Property On "Patent System Harmonization"* (April 27, 2006) at <http://www.patentsmatter.com/issue/Statements/armitage%20patent%20reform042706.pdf> and

³⁸ "The National Academy of Sciences has completed a four-year study of the patent system. The NAS Report contains an impressive and comprehensive set of recommendations for reforming the U.S. patent system. The Report contains proposals that, if enacted into law, would change the patent statute in very significant ways. ... AIPLA endorses immediate and concrete efforts to see that the major NAS Report recommendations for statutory changes to U.S. patent laws are enacted into law. AIPLA endorses the main thrust of the NAS Report in each of the seven areas where recommendations have been made." See *American Intellectual Property Law Association Response to the National Academies Report entitled 'A Patent System for the 21st Century'* at https://www.aipla.org/docs/default-source/advocacy/documents/nas092304.pdf?sfvrsn=d8f7fd3_3.

³⁹ "In its 2004 report on the U.S. patent system, 'A Patent System for the 21st Century,' the National Research Council of the National Academies called for major changes to U.S. patent law. The ABA IPL Section's response to this report supported the major recommendations of the National Academies for legislative changes to the patent law." *A Section White Paper: Agenda for 21st Century Reform* (July 7, 2005), Section on Intellectual Property Law, American Bar Association, at <http://www.jonesday.com/files/upload/WhitePaper.pdf>.

⁴⁰ See *Hearing on the Impact of Bad Patents on American Businesses*, Subcommittee on Courts, Intellectual Property, and the Internet, Committee on the Judiciary (July 13, 2017), at <https://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=106230>

similar concerns that have been expressed before the Senate’s IP Subcommittee.⁴¹ These “open review” reforms were recommended by the NRC based in part on the concerns over the consequences of allowing “bad patents, once issued, to stand unchallenged:

Low or inconsistent patent standards matter for the following reasons:

- In contrast to incentives to genuine innovation, patents on trivial innovations may confer market power or allow firms to use legal resources aggressively as a competitive weapon without consumer benefit.
- Poor patents could encourage more charges of infringement and litigation, raising transaction costs.
- The proliferation of low-quality patents in a technology complicates and raises the cost of licensing or avoiding infringement.
- The uncertainty about the validity of previously issued patents may deter investment in innovation and/or distort its direction.⁴²

Issuing patents containing one or more invalid claims can foster development of “patent thickets” and exacerbate the policy concerns (legitimate or not) that arise when large numbers of patents may impact the ability to market a competing product. For example, much ado has recently been made over a biologic product of a biopharma company that “has been the subject of Congressional inquiry for its use of a so-called ‘patent thicket’ to protect its biologic ... from biosimilar competition,” allegedly by seeking more than 200 patents and being issued more than a hundred.⁴³

The patent quality/patent thicket issue can arise from more than just issuing a large number of individual patents, but also through issuing just a single patent with a large number of individual claims. This type of “patent thickening” becomes pernicious in situations where such a mass of claims are lacking in validity.⁴⁴ In the absence of any

⁴¹ *Promoting the Useful Arts: How can Congress prevent the issuance of poor quality patents?*, Subcommittee on Intellectual Property, Committee on the Judiciary (October 30, 2019) at <https://www.judiciary.senate.gov/meetings/promoting-the-useful-arts-how-can-congress-prevent-the-issuance-of-poor-quality-patents>.

⁴² See <https://www.nap.edu/read/10976/chapter/6#95>.

⁴³ See *Biologics and Biosimilars: Background and Key Issues* (Updated June 6, 2019), Congressional Research Service, pp. 11-12, at <https://fas.org/sgp/crs/misc/R44620.pdf>.

⁴⁴ Eli Lilly and Company, as an example, was sued under U.S. patent 6,410,516 on June 25, 2002, the very day the patent issued. That patent had over 200 claims directed to “NF-κB induction” processes. It took eight years from the day the patent issued before the patent was finally invalidated as having only

“open review,” an accused infringer facing even a single patent with a thicket of hundreds of individual claims—each of which is presumed to be separately valid—may find the cost of invalidating each of these “bad claims” through a district court patent infringement action to be staggering.⁴⁵

The 2004 policy justification for the NRC “open review” recommendation was grounded on the challenges—the cost, time, and uncertainties—in litigating to an invalidity judgement in a district court the claims of a patent that the USPTO should never have permitted to issue. Today, no less than in 2004, the ability of an accused infringer to present invalidity arguments before the PTAB in a proceeding that reliably results in a final written decision within a one-year period from the date of institution of the proceeding has the potential to address in a compelling manner the cost/time/uncertainty challenges an accused infringer otherwise faces if left only to the courts.

The continuing prevalence of “bad claims” and “bad patents” is what makes the 2004 justification no less compelling 15 years later. Experience under the AIA appears to demonstrate that this policy justification was not merely a theoretical one—or a transient concern. The potential importance of a USPTO proceeding that can fairly and efficiently adjudicate thickets of patent claims—or even a single claim asserted in a single patent—have been borne out by the startling rate at which patent claims adjudicated by the PTAB in IPR proceedings have been invalidated during the seven years since coming into existence in 2012. Based on patent challenges brought before the PTAB that have reached the point of a *final written decision* following the one-year period from institution, the PTAB found some or all challenged patent claims to be unpatentable in 80% of the decisions it has reached.⁴⁶

In other words, the NRC-recommended “open review” procedure does not have merely a theoretical prospect of addressing issues of “bad patents,” “bad patent claims,” and “thickets” of the foregoing, but the actual operation of the NRC-recommended “open review” proceedings has invalidated thousands of such claims in thousands of such patents in just the few years since the PGR/IPR/CBM processes went live. Manifestly, these proceedings work in practice to the end sought by the NRC and, as a result, Congress might be wise to act to avoid any possibility that the PTAB—the engine of the

insufficiently disclosed claims under the “written description” requirement in 35 U.S.C. § 112(a). See *Ariad Pharms., Inc. v. Eli Lilly & Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (*en banc*).

⁴⁵ Lilly’s price tag for defending against the infringement allegations of Ariad, with its patenting containing a “thicket” of 200+ claims ran into eight figures, a truly staggering investment of time and money to be able to dispense with the claims of just one patent. A fuller discussing of this patent and Lilly’s 8-year odyssey to invalidate these claims can be found in the *Statement of Robert A. Armitage Before The United States House of Representatives Committee on the Judiciary On “H.R. 3309, Improving the Patent System to Promote American Innovation and Competitiveness”* (October 29, 2012) at <https://republicans-judiciary.house.gov/wp-content/uploads/2016/02/Armitage-Testimony-1.pdf>.

⁴⁶ See *Trial Statistics for IPR, PGR, CBM, Patent Trial and Appeal Board September 2019*, p. 10, at https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2019-09-30.pdf. Of 2,890 final written decisions, only 569—20%—found no invalid claims in the challenged patent.

“open review” process—cannot operate free from any constitutional doubt as to its authority to act.

In summary, as Congress considers making changes to the PTAB statute, it may be reasonable to assume that the contested proceedings created under the AIA, despite their manifest flaws,⁴⁷ have earned a place as a permanent feature of the U.S. patent system, with the principal question remaining open being if and when PGR might be expanded to more completely implement the NRC recommendations from 2004. The passage of time may have served to make the 2004 policy rationale of the NRC for recommending the “open review” procedures, as set out in its report, even more compelling.

The Director Has Historically Had Control Over Patentability Issues In Ex Parte Appeals From Patent Examiners

Historically, the vast preponderance of the proceedings falling under the responsibility of the Director of the USPTO were *ex parte* in nature, *i.e.*, decisions on whether or not to issue a patent on a pending application for patent. The Director of the USPTO has had the ability—again historically—to control the outcome of all such proceedings. In patent appeals taken from patent examiner rejections of claims in pending patent applications, the USPTO Director has long had the ability to, in effect, *personally* decide whether or not an individual application for patent should be permitted to be issued as a U.S. patent.⁴⁸

⁴⁷ For the PGR procedure, see the “estoppel” flaw, discussed *infra*. For the “inter partes review” procedure, its flaws are sufficiently severe that Congress ought to fix them or repeal the IPR statute entirely.

“Congress needs to make statutory changes to the IPR process to assure that this procedure treats the patent owner fairly and to assure that this procedure has the appearance of fairness. In my view this can best be accomplished if Congress makes changes now to the IPR law to provide a presumption that patents in IPR proceedings are not only valid, but assure that evidence of invalidity is clear and convincing. I would urge the Committee to place the issue of IPR remediation at the top of the list of things to be accomplished ... through the legislative process.” *Testimony of Robert A. Armitage, Hearing Before The Committee On The Judiciary House Of Representatives 114th Congress, First Session, On H.R. 9 (April 14, 2015) No. 114-20, p. 82 at https://republicans-judiciary.house.gov/wp-content/uploads/2016/02/114-20_94184.pdf.*

⁴⁸ This authority of the Director of the USPTO goes back as far as the statutes under which examiners-in-chief have heard appeals from the patent examiner initially assigned to review an application for patent. As noted in the leading nineteenth century treatise on the patent law: “The allowance of an application by the examiner, or by the examiners-in-chief upon appeal, does not oblige the Commissioner [now USPTO Director] to grant the patent for which it prays. The law empowers him to withhold a patent whenever in his judgment the invention is not patentable, or the issue of the patent is forbidden by the statutes, or the patent if granted would probably be held invalid by the courts.” See W. Robinson, *The Law of Patents* § 583 (1890).” While the Robinson commentary was with respect to the law creating the position of examiners-in-chief in 1861 (Act of March 12, 1861, ch. 88, § 2, 12 Stat. 246.), as well as permitting a further appeal to the Director of the USPTO (then Commissioner) in person, this type of USPTO Director control may have been the case until at least the enactment of the AIA. The Director has since 1927 been given statutory authority to choose the examiners-in-chief (now administrative patent judges) that will hear an *ex parte* appeal. See S. Rep. No. 69-1313 (1927) and Act of March 2, 1927, ch. 273, § 3, 44 Stat. 1335, eliminating the opportunity of direct review of an *ex parte* appeal by the USPTO Director, but providing that the Director and “Assistant Commissioners” would become part of the Board of Patent Appeals and the USPTO Director would have authority to designate members of the Board to hear appeals. “One lawyer

The Director's historic control of all ex parte patentability decisions, specifically those arising from an appeal from the decision of a patent examiner, has been long recognized in USPTO rule and practice. This Director control has derived in part from the Director's unquestioned authority to set out patent examining procedures.⁴⁹ Such procedures now direct the work of the corps of (now over 8000⁵⁰) patent examiners. The Director has a similar effective control of the ex parte appeal process from an examiner's decision not to issue a patent, one endorsed by the Federal Circuit.

The Federal Circuit addressed the issue of whether the Director could exercise control over this appeal process within the Office in an explicit and unrestrained manner in a decision rendered over 25 years ago.⁵¹ In the *Alappat* appeal the court addressed this question *en banc*—

When a three-member panel of the Board [of Patent Appeals and Interferences] has rendered its decision [on patentability of the claims of a patent application], does the [USPTO Director, then titled the PTO Commissioner] have the authority to constitute a new panel for purposes of reconsideration?"

In this appeal, the "new panel" selected by the Director to hear an appeal of examiner-rejected claims, which a three-member panel of examiners-in-chief had previously determined were patentable, consisted of five additional members. Those five additional members were: "PTO Commissioner Manbeck, PTO Deputy Commissioner Comer, PTO Assistant Commissioner Samuels, Board Chairman Serota, [and] Board Vice-Chairman Calvert."

In effect, with the sanction of the Federal Circuit, the Director "packed" the original panel of three examiners-in-chief in order to secure a reversal of the original decision of this three-person panel deciding that the *Alappat* claims were patentable: "the five new members of the expanded panel issued the majority decision now on appeal, authored by Chairman Serota, in which they affirmed the Examiner's ... rejection, thus ruling contrary to the decision of the original three-member panel. The three members of

has expressed the fear that in providing ... that the board of appeals shall have the sole power to grant 'rehearings,' the bill may lessen the present supervisory power of the commissioner, but it was agreed by the other lawyers at the hearing, and the Committee on Patents concurs in this view, that the supervisory power of the commissioner, as it has existed for a number of decades, remains unchanged by the bill." [Emphasis added.] Nothing in the 1952 Patent Act or the AIA made any change to that patent statute that would appear to diminish the effective control by the USPTO Director over the ultimate decision to grant or not to grant a U.S. patent to an inventor.

⁴⁹ See the *Manual of Patent Examining Procedures*, Chapter 7, Examination of Applications, at <https://www.uspto.gov/web/offices/pac/mpep/mpep-0700.pdf>.

⁵⁰ See USPTO FY 2018 Performance and Accountability Report, p. 12 at <https://www.uspto.gov/sites/default/files/documents/USPTOFY18PAR.pdf>.

⁵¹ *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

the original panel dissented on the merits for the reasons set forth in their original opinion, which they augmented in a dissenting opinion.”⁵²

This effective authority of the Director of the USPTO over patent examination policy, patent examination procedures, and patent examination outcomes, rather than being some evil, serves an important public interest. This is evidenced in the *Alappat* appeal itself.

The ex parte patentability decisions of the USPTO, whether the Director personally intervenes or not, are subject to judicial review—the final agency action is not a final disposition of an inventor’s right to patent. The claims in the *Alappat* application, upon review by the Federal Circuit, were found to be directed to patentable subject matter, notwithstanding the final agency determination at the USPTO. Ultimately, a patent was ultimately issued to the inventor.

The patent issued based on the *Alappat* appeal was explicitly determined by the Federal Circuit to be directed to subject matter that was eligible for patenting under 35 U.S.C. § 101. The appeal to the Federal Circuit removed what would have been a substantial cloud over the subject matter eligibility of the claims issued to the inventor, rendering the patent more securing enforceable in any future efforts to enforce the patent. *Alappat* benefited from the Director’s initial refusal to issue a patent in the sense that the patent ultimately issued was a more assuredly valid patent.

Moreover, the *Alappat* decision afforded the USPTO a precedent to be followed that might permit future patent filings to be more accurately examined for patent eligibility. This included future patents filings that *Alappat* himself might have made of a similar ilk.

Finally, the decision that the *Alappat* claims met the § 101 requirements for eligible subject matter was not free from doubt. The dissenting opinion of two of the judges of the Federal Circuit is evidence of how close the *Alappat* claimed invention came to being found ineligible for patenting:

As the player piano playing new music is not the stuff of patent law, neither is the mathematics that is *Alappat*’s ‘rasterizer.’ And the Supreme Court has in its decisions required it so. *Alappat*’s claimed discovery is outside 35 U.S.C. § 101, and for this reason I would affirm the board’s rejection. I dissent from the majority’s decision on the merits to the contrary.”⁵³

With some irony, the arguments raised by the *dissenters* at the Federal Circuit now appear to be ensconced in Supreme Court precedents that appear to reject the majority

⁵² 33 F.3d at 1531.

⁵³ Judge Archer, joined by Judge Nies, dissenting at 33 F.3d 1568.

view of the Federal Circuit that Alappat claims were “not a disembodied mathematical concept which may be characterized as an ‘abstract idea,’ but rather [were directed to] a specific machine to produce a *useful, concrete, and tangible result*.”⁵⁴ But for the Director’s personal actions that led to the initial refusal to grant the Alappat patent, the Supreme Court would not have had the dissenter’s views at the Federal Circuit on which to build the current jurisprudence highly restricting patents with claims directed to “abstract ideas.”

None of these beneficial consequences *arising from further defining and judicially clarifying the reach of the patent laws on exceedingly close questions of patentability* would have taken place had the USPTO Director not personally stepped into the appeal process to reverse the original decision that the Office otherwise would have made to allow the patent application claims to be issued as a patent. In the context of the *ex parte* patent appeal process before the USPTO, Congress could readily conclude that this *personal* intervention of the USPTO Director should not be seen as some abuse of the office, but a fundamental responsibility entrusted to the head of the agency—an agency head appointed by the President and confirmed by the Senate precisely to discharge this responsibility.

Historically, The Proceedings In The USPTO Were Largely Confined To Ex Parte Matters, With Scant Authority Over Validity Of Patents

When the 1952 Patent Act was enacted, the USPTO had no authority permitting the Office to cancel claims of an *issued patent*, save for the ability of the Office to “reissue” a patent at the request of the patent owner.⁵⁵ The only “contested” proceedings under the 1952 Patent Act where an *issued patent claim* could be canceled by the Office was the “patent interference” procedure that was conducted before the “board of patent interferences” by “patent interference examiners.”⁵⁶

However, this “interference” authority of the Director could only be exercised over an issued U.S. patent if another patent application was still pending, naming a

⁵⁴ 33 F.3d at 1544. The Federal Circuit itself ultimately recanted on the “useful, concrete, and tangible” result cited in *Alappat* as being dispositive of patent eligibility. See *In re Bilski*, 545 F.3d 943, 959-960 (Fed. Cir. 2008), “Therefore, we also conclude that the ‘useful, concrete and tangible result’ inquiry is inadequate and reaffirm that the machine-or-transformation test outlined by the Supreme Court is the proper [subject matter eligibility] test to apply.”

⁵⁵ Inventors have long had the opportunity to voluntarily surrender patent rights for the purpose of having a defective patent reissued. 35 U.S.C. § 251.

⁵⁶ See 35 U.S.C. § 135 (1952), first paragraph, “Whenever an application is made for a patent which, in the opinion or the Commissioner, would interfere with any pending application, or with any unexpired patent, he shall give notice thereof to the applicants, or applicant and patentee, as the case may be. The question of priority of invention shall be determined by a board of patent interferences (consisting of three examiners of interferences) whose decision, if adverse to the claim of an applicant, shall constitute the final refusal by the Patent Office of the claims involved, and the Commissioner may issue a patent to the applicant who is adjudged the prior inventor. A final judgment adverse to a patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved from the patent, and notice thereof shall be endorsed on copies of the patent thereafter distributed by the Patent Office.”

different inventor, that contained one or more claims to the *same patentable invention*, such that an issue of “priority of invention” was present that required a “patent interference” proceeding to be declared to decide which inventor was first to invent. In general, prior to 1984, the validity of the patent claims in these patent interferences was not at issue, other than the issue of whether patent claims might be invalid based upon the patent applicant proving itself to be the “prior inventor.”⁵⁷

As part of the efforts of the USPTO during 1982-1984 to reform the manner in which patent interferences were conducted, Congress expanded the jurisdiction of patent interference proceedings to consider issues of patentability generally, no longer constraining the interferences to consider patentability issues only if “ancillary to priority.”⁵⁸ The result was a change in patent interference practice that permitted patentability and priority to both be fair game whenever an issued patent was involved in a patent interference—before a new “Board of Patent Appeals and Interferences”⁵⁹ created by the Patent Law Amendments Act of 1984.⁶⁰

However, the availability of such a procedure to attack the claims of an issued patent remained dependent upon a finding of an “interference in fact” between claims of a patent and a pending patent application claiming the “same patentable invention.” Only a handful of patent interferences were conducted each year and most of the interferences, once declared, were settled without any decision by the USPTO, much less a decision canceling patent claims as unpatentable.⁶¹

⁵⁷ In these interference proceedings under the 1952 Patent Act if the patent applicant were determined by a *patent interference examiner* to be the “first to invent” the commonly claimed subject matter, and not the patentee, the USPTO was authorized to cancel the claims of the issued patent. Under the 1952 Patent Act, as originally enacted, these patent interference examiners were part of a “board of patent interferences” authorized by statute to handle patent interferences and render the final agency determination on the priority issue—including the final agency decision canceling claims of issued patents where the award of priority by the patent interferences examiners was adverse to the patentee.

⁵⁸ “Under prior interference practice certain issues of patentability, including the application of 35 U.S.C. §§ 102 and 103, were not deemed to be ‘ancillary to priority’ and would not be considered during the interference proceeding. ... There had evolved an elaborate body of judge-made law as to what was and what was not ancillary to priority, contributing to the complexity of past interference practice. ... It is no longer necessary to determine whether an issue is ancillary to priority. See 130 Cong. Rec. 28,065, 28,072 (1984), reprinted in 1984 U.S. Code Cong. & Admin. News 5827, 5837.” *Perkins v. Kwon*, 886 F.2d 325, 328 (Fed. Cir. 1989).

⁵⁹ “The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared under section 135(a) of this title.” 35 U.S.C. § 7(b), as amended by Pub. L. 98-622, 98 Stat. 3386, § 201(a).

⁶⁰ Pub. L. 98-622, 98 Stat. 3383 (Nov. 8, 1984), Title II, Patent and Trademark Office Procedures at <https://www.govinfo.gov/link/statute/98/3392>.

⁶¹ See, Ian A. Calvert and Michael Sofocleous, “Three Years of Interference Statistics”, 64 J. Pat. Off. Soc. 699 (December 1982); “Interference Statistics for Fiscal Years 1982 to 1985”, 68 J. Pat. Off. Soc. 385 (August 1986); “Interference Statistics for Fiscal Years 1986 to 1988”, 71 J. Pat. Off. Soc. 399 (May 1989); “Interference Statistics for Fiscal Years 1989 to 1991”, 74 J. Pat. Off. Soc. 822 (November 1992); and “Interference Statistics for Fiscal Years 1992 to 1994”, 77 J. Pat. Off. Soc. 417 (May 1995).

Indeed, within a few years from the creation of the combined board in 1984, only a relatively few patent interferences were decided based on the issue of which party to the interference was the first to invent—and only rarely did someone other than the first inventor to file for a patent ever succeed in a patent interference in establishing priority.⁶² In effect, even after 1984, the contested, “patent interference jurisdiction” of the BPIA was largely inconsequential, and not a generally available vehicle for seeking cancellation by the Director of invalid patent claims.

In 1980, the 1952 Patent Act was amended⁶³ to permit the USPTO to review validity of issued patent claims where a “substantial new question of patentability”⁶⁴ had been raised. The new procedure, then termed “reexamination” and now known as “ex parte reexamination” effectively resulted in a resumed (but limited) examination process for the claims of an issued patent.⁶⁵

While “any person” can request a patent be subjected to ex parte reexamination (including the patent owner), the procedure was not a contested one—the person requesting the reexamination, if not the patent owner, does not become a party to the proceeding. In addition, the reexamination statute was limited to consideration of patentability based only upon “prior art” arising solely from “patents and printed publications.” Other patentability issues could not be raised in reexamination. Moreover, a third-party requester was not able to participate in the reexamination, once commenced. Between 1981 and 2018, fewer than 10,000 total requests for ex parte reexamination were filed by third parties.⁶⁶

With only the limited reissue, patent interference, and ex parte reexamination options available, prior to 1999, the USPTO had not been in the business of snatching issued patent rights back from inventors, particularly in contested proceedings before the Office. This situation changed only modestly (and transiently) with the enactment of an “inter partes reexamination” statute as part of the American Inventors Protection Act of 1999.

⁶² See Ian A. Calvert, et al., “*Interference Statistics for Fiscal Years 1989-1991*”, Journal of the Patent and Trademark Office Society, November 1992, pp. 822-826, noting that by the early 1990’s the USPTO was only resolving 200 interference contests each year. In only 27.7% of all interferences, 55 interferences per year, someone other than the first to file was determined to be entitled to a patent. Only one in five interferences was contested to the extent that it required a decision by the Board of Patent Appeals and Interferences at a final hearing, *i.e.*, about 40 interferences per year. In only 27 of these 40 interferences did one or more of the parties attempt to establish priority, *i.e.*, attempt to prove through testimony, which party was the ‘first inventor.’ Among these 27 interferences per year where invention date proofs were offered, fewer than a dozen second-to-file inventors per year were awarded priority.

⁶³ Public Law 96-517, 94 Stat. 3015 (Dec. 12, 1980), enacting a new Chapter 30 to Title 35, United States Code, 35 U.S.C. §§ 301-307.

⁶⁴ 35 U.S.C. § 303.

⁶⁵ Since 1980, have had the opportunity to seek an ex parte reexamination of a patent in which the Director, if reexamination is granted, can issue a certificate of unpatentability canceling claims of the issued patent. See 35 U.S.C. § 307.

⁶⁶ See Ex Parte Reexamination Filing Data (September 30, 2018) at https://www.uspto.gov/sites/default/files/documents/ex_parte_historical_stats_roll_up.pdf.

This inter partes reexamination procedure modestly expanded the ability of a member of the public to participate in the reexamination process, as well as appeal a determination favorable to the patent owner to the Federal Circuit. However, like its ex parte counterpart, inter partes reexamination was limited to patentability issues arising from patents and printed publications—and not to patent validity issues more broadly.

Not only was jurisdiction limited and discovery unavailable, but there was no *trial*, just an examination that might be followed by an appeal—and no PGR/IPR-like time limitation for the examination to come to an end. Before being repealed through the AIA, fewer than 2000 requests for inter partes reexamination were made over the dozen years of the existence of the inter partes reexamination statute.⁶⁷

Thus, when the AIA was enacted in 2011, the experience of the USPTO in handling “contested” validity issues involving issued patent claims was negligible. There were no trial proceedings of the type authorized under the AIA, save for the negligible experience of the USPTO with patent interferences.

In sum, in 2011, at the time the AIA was enacted, the Office had essentially no existing capability for conducting the type of validity trial that the NRC “open review” would require—and require in potentially in hundreds to thousands of such proceedings commenced each year.

Proponents Of PGR And The PTAB Expressed Concerns Over Director-Control Of The New And Unprecedented “Contested Matters” Canceling Patent Claims

The supporters of the NRC’s recommendations for providing USPTO with near-plenary “open review” authority over newly issued patents had a justifiable sense of concern over the ability of the Office to build, essentially from the ground up, a new capability to decide the validity of issued patent claims in contested trial proceedings. Such was understandable given, as noted above, the nearly complete absence of experience of the USPTO with the handling of contested matters involving the validity of the claims of issued patents.

The Coalition for 21st Century Patent Reform, the leading proponent for enactment of the 2004 recommendations of the NRC into law and one of the prime advocates for the NRC’s “open review” recommendations, raised such concerns over the ability of the USPTO to build the capabilities needed for this work. A second Coalition concern related to Director control over the “open review” process.

The Coalition saw the inter partes nature of the “open review” trial procedure as raising profoundly different policy and governance issues compared to the USPTO’s bread-and-butter jurisdiction deciding ex parte requests for the issuance of a patent. The

⁶⁷ See Inter Partes Reexamination Filing Data (September 30, 2017), at https://www.uspto.gov/sites/default/files/documents/inter_parte_historical_stats_roll_up.pdf.

“open review” process is more akin to private litigation conducted between private litigants, where the adjudicator’s principal role is to referee—play the role of the umpire and “to call balls and strikes”.⁶⁸

In the eyes of the Coalition, the public interest role of the USPTO in these proceedings must play a secondary role to the responsibility to the private litigants that these proceedings offer a full and fair opportunity for patent challenger to contest validity of issued patents and to afford a *similar full and fair opportunity to patent owners to sustain the validity of patents that might become involved in this new procedure*.⁶⁹

As part of these concerns, not surprisingly, the Coalition had a particular focus on the composition of the PTAB itself. During the legislative process, the Coalition had (quite unsuccessfully) urged that the composition of the PTAB not simply be a carbon copy of the composition of its BPAI predecessor that had almost exclusively focused on ex parte patent appeals. Among the Coalition’s communications to Congress was the following, addressing the PTAB provision from H.R. 1908 (110th Congress),⁷⁰ and urging that the PTAB consist exclusively of *administrative patent judges*:

The Patent Trial and Appeal Board [under H.R. 1908] consists of the Director, the Deputy Director, the Commissioner of Patents, the Commissioner of Trademarks, and administrative patent judges. In *ex parte* matters, the Director has assigned, in part, the adjudication to himself and his deputy. See *Ex parte Alappat*, 23 USPQ2d 1340 (BPAI 1992). H.R. 1908 would allow the Director to bypass the administrative patent judges in adjudicating these cancellation proceedings. The Coalition proposal removes this possibility, assuring the process will be free from any political influence on the outcome.

⁶⁸ Opening Statement of Chief Justice Roberts before the Committee on the Judiciary of the U.S. Senate (Sept. 29, 2005) at <https://www.uscourts.gov/educational-resources/educational-activities/chief-justice-roberts-statement-nomination-process>.

⁶⁹ “Among the most important policy choices that the USPTO will be called upon to make will be in the new post-issuance proceedings authorized under the AIA. The rulemaking for the new post-grant review and inter partes review proceedings must walk along a fine line in dealing with a host of implementation issues. They must, first and foremost, afford patent owners a full and fair opportunity to defend the validity of their issued patents. Of no less importance, however, is the objective of providing patent challengers a full and fair opportunity to present evidence and arguments contesting the validity of issued patents. ... Fairness and balance are not the only constraining factors in this rulemaking. These procedures must be concluded within a statutory timeframe of one year. Additionally, these procedures need to be economical for their participants. Rules must be cost-conscious of both the USPTO resources devoted to these proceedings and the cost of participation by those who are parties thereto.” *Testimony of Robert A. Armitage, Hearing Before The Committee On The Judiciary House Of Representatives on Implementation of the America Invents Act, 112th Congress, First Session*, (May 16, 2012), p. 32 at https://archive.org/stream/gov.gpo.fdsys.CHRG-112hhrg74258/CHRG-112hhrg74258_djvu.txt.

⁷⁰ Patent Act of 2004, H.R. 1908, 110th Congress. See H. Rpt. 110-314, p. 5 at <https://www.congress.gov/110/crpt/hrpt314/CRPT-110hrpt314.pdf>.

Allowing such contested adjudicatory matters to be decided by a politically appointed head of the USPTO would set an undesirable precedent internationally.⁷¹

While the concerns of the Coalition with respect to the possible politicization of decisions of the PTAB in contested cases was—and remains—hypothetical, as there have been no actions in fact by the Board that suggest anything other than fairness and impartiality in deciding contested cases, the Coalition’s concern over the undesirability of the precedent set in the AIA internationally remains a valid one. The PTAB process should be one that is, insofar as possible, entirely free from the appearance of even the possibility of political influence on the outcome of a contested case as between the two private litigants involved, *i.e.*, the patent owner and the patent challenger.

As Congress thinks through any changes in structure of the PTAB in response to Appointment Clause issues, it may be worthwhile to once again give consideration to the position of the Coalition from 2007. As discussed below, it may be possible to accommodate the entirely justifiable USPTO position that *ex parte* patent appeals should reflect the historic oversight responsibilities of the USPTO Director, while at the same time providing that the new authority of the Office over issued patents in contested cases need not and—for sound policy reasons—should not be under the same degree of Director control.

Administrative Judges Deciding Ex Parte and Inter Partes Matters Have Been Subject Various To Presidential Or Commerce Secretary Or USPTO Director Appointment

Prior to the 1952 Patent Act,⁷² the “Board of Appeals” was the entity that housed the “examiners-in-chief” “appointed by the President who had jurisdiction to hear both “patent interferences” and *ex parte* patent appeals.⁷³ For example, the Patent Act of 1870⁷⁴ provided, in part, that “the officers and employees of [the Patent Office] shall continue to be: one commissioner of patents, one assistant commissioner, and three *examiners-in-chief, to be appointed by the President, by and with the advice and consent of the Senate [and] one examiner in charge of interferences [who] shall be appointed by the Secretary of the Interior, upon nomination of the commissioner of patents,*” with the further requirement that “the examiners-in-chief shall be persons of competent legal knowledge and scientific ability, whose duty it shall be, on the written petition of the appellant, to revise and determine upon the validity of the adverse decisions of examiners upon applications for patents, and for reissues of patents, *and in interference cases.*”

⁷¹ Excerpt from a submission from Coalition for 21st Century Patent Reform to Congress prior to the preparation of the report to accompany H.R. 1908. Emphasis added.

⁷² Patent Act of 1952, Pub. L. 82-593, 66 Stat. 792 (July 19, 1952) at https://www.ipmall.info/sites/default/files/hosted_resources/lipa/patents/patentact/file7.pdf.

⁷³ See Reviser’s Notes to the Patent Act of 1952, discussing changes to 35 U.S.C. § 7 relative to the pre-1952 statutes, “Some changes in language have been made and the reference to interferences, which are no longer considered by the Board of Appeals, has been deleted” House Report 89-1923 (accompanying H.R. 7794) (May 12, 1952), p. 13, at

https://www.ipmall.info/sites/default/files/hosted_resources/lipa/patents/patentact/file10.pdf.

⁷⁴ Patent Act of 1870, Ch. 230, 16 Stat. 198-217 (July 8, 1870), Sections 2 and 10.

Under the 1952 Patent Act, as noted above, a significant departure was made from the pre-1952 handling of patent interferences. A “board of patent interferences” was constituted as a separate entity from the Board of Appeals. Patent interference examiners rendered final decisions in interference matters that were no longer appealable to the “Board of Appeals.”

The examiners-in-chief of the 1952 “Board of Appeals” were constituted, by statute, as a nine-member board appointed by the President and subject to Senate confirmation.⁷⁵ However, the separate “board of patent interferences,” consisting of panels of three examiners of interferences charged with deciding interference issues, did not have its decisions subject to review by the Board of Patent Appeals⁷⁶ and its members did not have the status of Presidential appointees.

By 1984, as noted above, the Board of Patent Appeals and Interferences had been created with “[t]he examiners-in-chief [being] persons of competent legal knowledge and scientific ability, who shall be appointed to the competitive service.”⁷⁷ Not until 2008 was the BPAI statute changed to require that the BPAI be appointed by the Secretary of Commerce in consultation with the USPTO Director.⁷⁸

Historically, therefore, the USPTO has been subject to various statutory configurations as between its *ex parte* (patent application examination) and *inter partes* (patent interference and *inter partes* reexamination) matters, as well as differing appointment regimes for the individuals charged with decision-making on *ex parte* and *inter partes* matters. The current commingling of *ex parte* and *inter partes* matters through a single USPTO board, appointed by the Secretary of Commerce, has only a recent vintage, with the 1984 creation of the BPAI and the 2008 modification to provide for Commerce Secretary appointments, a structure simply ported over into the AIA’s PTAB without substantive change.

With the new PGR and IPR proceedings representing an unprecedented expansion of the traditional, authority of the USPTO over issued patents—allowing the Office to invalidate any patent that it had earlier granted in fully contested adversarial proceedings—there was in 2011 no *a priori* reason that this new adjudicatory function needed to be placed within the same administrative structure that would have responsibility for the traditional jurisdiction of the Office over *ex parte* patent appeals. This is clearly so given that today one arm of the current PTAB operates strictly as a trial function and the other operates strictly as an appellate one.

⁷⁵ 35 U.S.C. § 3 (1952), “A Commissioner of Patents, one first assistant commissioner, two assistant commissioners, and nine examiners-in-chief, shall be appointed by the President, by and with the advice and consent of the Senate.”

⁷⁶ 35 U.S.C. § 135 (1952), “The question of priority of invention shall be determined by a board of patent interferences (consisting of three examiners of interferences)”

⁷⁷ 35 U.S.C. § 7(a) (1984), § 201, Pub. L. 98-622 (Nov. 8, 1984), 98 Stat. 3386.

⁷⁸ Public Law 110-313, sec. 1(a)(1), 122 Stat. 3014 (Aug. 12, 2008),

Any response by Congress to USPTO-related Appointment Clause issues might consider how best to optimize the manner in which contested cases between private litigants might be handled going forward by the USPTO—and how that handling might justifiably differ from the manner in which *ex parte* appeals from decisions of patent examiners denying claims in pending patent applications should be addressed in the Office.

Possibilities For Restructuring The PTAB In Light Of Appointment Clause Issues

In light of all the above considerations, the following is offered for consideration by the Subcommittee as a way in which to refine, based on experience with the PTAB, the handling of the processes within the USPTO dealing with both traditional patent *ex parte* appeals and the AIA's new contested trials. The suggestions below are intended to be mindful (to the extent someone not an expert in constitutional law can be) of Appointment Clause issues, as well as to be driven by both the past seven years of experience with the PTAB and the policy considerations and concerns expressed by the Coalition for 21st Century Patent Reform during the AIA legislative process.

Divide And Conquer – Separate PTAB into a “PAB” and a “PTB”

Congress might wish to consider whether the quite different policy objectives for deciding *ex parte* patent appeals and conducting contested patent validity trials could most expeditiously, fairly, and efficiently be accomplished if the PTAB were divided into a *Patent Appeal Board* staffed with *administrative appeal judges* and a *Patent Trial Board* staffed by *administrative trial judges*. If Congress were to take this route, the *Patent Appeal Board* would hear *ex parte appeals* from decisions of patent examiners made during *ex parte* prosecution of pending patent application, *ex parte* reexamination of issued patents, and *ex parte* examination of reissue applications.⁷⁹

The *Patent Trial Board*, on the other hand, would handle all contested cases. The PTB would adjudicate issues of patent validity and patent ownership under the provisions of the AIA relating to inter partes derivation proceedings,⁸⁰ inter partes review, and post-grant review.⁸¹

The respective proceedings that would come before the PAB and PTB are, as exhaustively outlined above, quite different in nature. All of the work of the PAB would involve *ex parte* issues where the patentability of claims is being assessed—and the claims are being given their broadest reasonable interpretation in order to make that assessment.

⁷⁹ 35 U.S.C. § 251(a) provides that “[w]henver any patent is, through error, deemed wholly or partly inoperative or invalid, by reason of a defective specification or drawing, or by reason of the patentee claiming more or less than he had a right to claim in the patent, the Director shall, on the surrender of such patent and the payment of the fee required by law, reissue the patent for the invention disclosed in the original patent”

⁸⁰ 35 U.S.C. § 135 (2011).

⁸¹ The provisions of the AIA relating to the transitional program for covered business methods reaches its statutory eight-year sunset in 2020 and, thus, would not be of relevance. See AIA § 18, 125 Stat. 329.

In contrast, all the work of the PTB would involve contested matters in which the validity of issued patent was being assessed based upon specific invalidity contentions of the patent challenger and the response of the patent owner—with the claims being construed as a matter of law.

In effect, the work of the PAB is akin to appellate work of the type appellate judges undertake, but with the ability of the PAB to raise new grounds of unpatentability to deny a patent. The work of the PTB is fundamentally trial work, ruling on discovery and evidentiary matters, and requiring fact-finding in order to reach conclusions of law on the invalidity contentions raised by the challenger.

Except for derivation proceedings,⁸² the remaining work of the PTB (more than 99.9% of the anticipated workload) would be subject to a one-year time statutory time limitation from institution to final written decision on the validity issues asserted by the patent challenger. The ex parte patent appeals of the PAB are, under current law at least, subject to no similar constraint on timing.

The only conceivable administrative reason for keeping two such disparate boards under one administrative roof would be the opportunity for individuals serving on one of the two boards to gain experience, skills, and insights from temporary assignments to the other board. However, precedents exist in the USPTO for this type of cross-fertilization that do not require as a requisite that the PAB and PTB be combined as a single unit.⁸³ Congress could provide, as the USPTO thought appropriate, that members of one board could undertake temporary service on the other.

How might this bifurcation be constituted?

**Constitute A Patent Appeal Board Of Administrative Appeal Judges
That Is Structured To Assure Its Judges Are “Inferior Officers”**

Historically, the examiners-in-chief of the “Board of Appeals” under the 1952 Patent Act were Presidential appointees, confirmed by the Senate,⁸⁴ notwithstanding that the Appointments Clause may not have demanded such status *given the control over the decision to grant a patent that ultimately could be exercised by the USPTO Director*. If

⁸² The derivation statute under 35 U.S.C. § 135 is essentially a dead letter. The very first derivation proceeding instituted was in 2018, more than six years after enactment of the AIA, *Andersen Corp. v. GED Integrated Solutions Inc.*, DER2017-00007, Paper 32 (P.T.A.B. March 21, 2018).

⁸³ Exemplary of this type of service outside of the regular membership of the Board of Appeals was found in 35 U.S.C. § 7 (second paragraph) (1952), “Whenever the Commissioner considers it necessary to maintain the work of the Board of Appeals current, he may designate any patent examiner of the primary examiner grade or higher, having the requisite ability, to serve as examiner-in-chief for periods not exceeding six months each. An examiner so designated shall be qualified to act as a member of the Board of Appeals. Not more than one such primary examiner shall be a member of the Board of Appeals hearing an appeal.”

⁸⁴ “A Commissioner of Patents, one first assistant commissioner, two assistant commissioners, and nine examiners-in-chief, shall be appointed by the President, by and with the advice and consent of the Senate.” 35 U.S.C. § 6 (1952).

Congress were to create a PAB focused on reviewing the decisions by patent examiners to reject claims, with the authority of its administrative appeal judges to offer new grounds of rejection and affirm (or reverse) any existing grounds for rejecting claims, *then it might also afford the USPTO Director express authority to review and reverse any decision of the PAB that would allow application claims to issue.* Congress could by statute afford the USPTO Director sufficient supervision and review functions to eliminate any reasonable possibility these administrative appeal judges would take on the status of principal officers requiring Senate confirmation.

To this end, Congress might consider a new PAB statute that would have the following attributes:

- The members of the PAB would be limited to administrative appeal judges who were individuals “of competent legal knowledge and scientific ability.”
- Each of the members of the PAB would be “inferior officers” who—consistent with the Appointment Clause—could be properly appointed by the Secretary of Commerce (in consultation with the USPTO Director), and, therefore, not subject to Senate confirmation.
- Unlike the PTAB today, the USPTO Director, the USPTO Deputy Director, the Commissioner for Patents and the Commissioner for Trademarks would no longer serve on the PAB.
- The members of the PAB could take the title of “administrative appeal judges,” but would resume the historic role of the examiners-in-chief, as that role existed prior to 1984, before the merger of the Board of Patent Appeals and Board of Patent Interferences.
- The members of the PAB would be subject to such guidance documents and other policies as the USPTO Director might issue for the guidance of the process of examining applications for patent.
- The final decision by the PAB on each appeal that comes before it would be subject to a new system of statutory deadlines to render final decisions on appeal, modeled on the successful efforts to impose timing deadlines on post-grant review proceedings.⁸⁵

⁸⁵ Preferably the guidelines would be on the order of six months from the date the briefing of the appeal was completed or six months from the date of oral argument, if requested. Similarly, oral arguments could be subject to a three-month statutory deadline from the date of completion of the briefing. If an examiner's answer were not submitted within two months from the date of the appellant's opening brief, a further timing provisions could provide that no further briefing would be permitted.

- To facilitate achieving the new timing deadlines for disposition of PAB appeals, the USPTO would be authorized to use “primary examiners”⁸⁶ to participate as members of the PAB in deciding appeals, as needed to provide the capacity needed to expeditiously resolve appeals. The USPTO could follow the historic practices that used primary examiners for this purpose.
- Once a decision has been issued by a three-member PAB panel of administrative appeal judges that would permit the patenting of appealed claims, the Director would have a one-month statutory period in which the Director would be given explicit statutory authority to review any favorable decision on the patentability of such claims and (1) accept the determination on patentability, (2) make modifications to it, (3) reject and reverse the decision, or (4) order rehearing of the appeal by the same, different, or expanded panel of administrative patent judges.

In effect, this new procedure for administrative appeal judges would reflect the historic role of examiners-in-chief, namely that all PAB decisions would be subservient to the long-held authority of the Director to supervise the actions of examiners-in-chief and address patentability in individual patent filings where the Director believed that claims presented for examination should not be allowed to issue as a patent.

Under the above criteria, no member of the PAB would have final authority, to act on behalf of the Director, to permit a patent to issue. In every case, a favorable decision by the PAB would be subject to the review by the Director before a patent could issue.

Given the right of patent applicants to judicial review of any final agency denying patentability of a claim, no inventor with meritorious claims could be ultimately denied the right to a patent based on the action of the USPTO Director negating a favorable decision on patentability by a PAB panel of administrative appeal judges.

In effect, the plenary authority to review and the ability otherwise to supervise the work of the members of the PAB would relegate these administrative judges to the status of “inferior officers,” but without compromising the ultimate ability of inventors to secure patents on meritorious inventions.

**Constitute A Patent Trial Board With Administrative Trial Judges
Who Are “Inferior Officers” Whose Actions Are Reviewed And
Supervised By A Senate-Confirmed “Chief Trial Judge”**

As detailed above, the present role of the USPTO, in adjudicating validity of issued patents in contested proceedings, is without any significant historical precedent.

⁸⁶ Within the USPTO, a “primary examiner” is a patent examiner with “signatory authority” who can make a decision to permit a patent to issue on an application for patent without the need to have a more senior examiner review and approve the decision to grant a patent. Achieving this status requires several years of training and experience. See https://www.uspto.gov/sites/default/files/documents/20190808_PPAC_Operations-Update.pdf.

Before 1980, there was no scant precedent whatsoever for the USPTO Director to cancel claims of an issued patent in a contested proceeding within the Office.

If post-grant review is extended to fully implement the “open review” recommendations of the NRC, the usage of this procedure would expand significantly. Even without expansion of PGR to litigated patents, PGR may someday be used to contest the validity of U.S. patents to the same extent that opposition procedures in Europe contest the validity of patent claims. Either way, this could be thousands of PGRs instituted each year.

All of these factors should help to inform Congress in any effort to determine how a new “Patent Trial Board” should be led, its administrative trial judges be supervised, and the actions taken by the PTB reviewed. If the above prognostications on the potential future of PGR are correct, then (among other reforms) the recommendations of the Coalition for 21st Century Patent Reform outlined above on the composition of the PTAB may merit reconsideration by Congress.

The current executive leadership of the PTAB consists of a Chief Judge, a Deputy Chief Judge, and a group of six Vice Chief Judges,⁸⁷ each of whom manages a “Division” of the PTAB. Some of the Vice Chief Judges deal with ex parte patent appeals and others of which deal with trials based upon the PGR, IPR, and CBM provisions of the AIA. Each Vice Chief Judge, in turn, supervises the Section Lead Judges within the Division.

A *Patent Trial Board* could retain all aspects of the current organizational structure of the PTAB, at least in a formal sense, but have a new appointment and accountability elements—consistent with the Coalition’s urgings concerning its composition during the AIA process—that could assure fidelity with the Appointments Clause. Congress might consider creating a new Patent Trial Board with the following characteristics:

- The work of the PTB would be assigned to *administrative trial judges* who were individuals “of competent legal knowledge and scientific ability.”
- Among the administrative trial judges of the PTB would continue to be an Executive Leadership Board consisting of a Chief Administrative Trial Judge, a Deputy Chief Administrative Trial Judge, and a group of Vice Chief Administrative Trial Judges, one for each Division of the PTB.
- Among the members of the Executive Leadership Board, the Chief Administrative Trial Judge would be appointed by the President and confirmed by the Senate. This Chief Judge would, thus, have the role of a Presidential-appointed, Senate-confirmed “principal officer.”

⁸⁷ See *Organizational Structure and Administration of the Patent Trial and Appeal Board* at <https://www.uspto.gov/sites/default/files/documents/Organizational%20Structure%20of%20the%20Board%20May%2012%202015.pdf>.

- The remaining judges of the PTB would be limited to administrative trial judges appointed by the Secretary of Commerce, and not subject to Senate confirmation.
- Unlike the PTAB today, the USPTO Director, the USPTO Deputy Director, the Commissioner for Patents and the Commissioner for Trademarks would not serve on the PTB.
- The final written decisions rendered by members of the PTB in each IPR/PGR/CBM proceeding that would continue to be subject to the existing statutory time limitation that typically imposes a one-year deadline from the date of institution.
- As might be needed to meet the workload demands or for training and/or development purposes, administrative patents judges from the PAB could be assigned for limited periods to serve on the PTB.
- Once a final written decision has been issued by the panel of three administrative trial judges, that decision would only become final if ratified by the Chief Administrative Trial Judge, which could be done in consultation with one or more other members of the Executive Leadership Board.
- The work of the non-executive administrative trial judges would be subject a degree of supervision and review to assure that each PTB judge, other than the Chief Judge, was a properly appointed “inferior officer.”

The structure proposed for the PAB and PTB above would revert to something akin to the pre-1984 structure in which the *Board of Patent Appeals* was devoted to *ex parte* appeals, while the *Board of Patent Interferences* handled only *contested* interference matters consisted solely of a set of *patent interference examiners*, without any direct participation or direct oversight on the part of the USPTO Director. For sound policy reasons, it may be desirable for aspects of this history to repeat itself.

Conclusions

The very concerning issues arising from the Appointments Clause holding of the Federal Circuit in *Arthrex* may contain a small, silver lining. The *Arthrex* holding presents Congress the opportunity to take a step back and assess any potential changes in the PTAB statute based on the past seven years of experience with the operation of the PTAB.

Most significantly, it affords Congress the opportunity to again consider the potential future impact of the 2004 recommendations of the National Research Council of the National Academies of Science as they relate to “open review.” In the foreseeable future, the PGR process could explode from single-digit numbers of PGRs being sought each year to *thousands* of such PGR proceedings being sought.

If the NCR recommendation allowing access to PGR by accused infringers is enacted into law, the validity of the most valuable patents issued by the USPTO could be adjudicated for validity back in the USPTO. Whatever might be done now by Congress with regard to the PTAB should be mindful of this future potential for PGR.

With the post-issuance review process being of potentially monumental importance to the entire patent system's operation, Congress should consider creating a separate board entirely dedicated to the trial of these contested cases. Given the size and importance of the board that would be needed, it makes common policy sense for its leadership to be a Presidential appointee who is Senate confirmed.

The remaining administrative trial judges on such a board could be given a supervision and review relationship to the executive leadership of the new board that would permit their appointment by the Secretary of Commerce—again, for sound policy reasons. Such a structure would also be consistent with any applicable Appointment Clause constraints.

This would permit a second board dedicated to ex parte patent appeals to be constituted—and operate under the historic strictures on patent-granting decisions within the USPTO. This would permit the Director to exercise such complete control—supervisory and review authority—over the work of the appeals board that would allow all ex parte appeals before the board to be decided by “inferior officers” appointed by the Secretary of Commerce. Such supervisory and review authority for these ex parte decisions to allow a patent to issue would be consistent with both the historical authority of the Director and the demands of good patent policy.

Finally, the proposal above should be minimally disruptive to the management of the USPTO. In large measure, the internal changes required within the Office could be accomplished by issuing new organizational charts. The day-to-day work of the current corps of administrative patent judges would be fundamentally unchanged.

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The recent decision of the Federal Circuit in *Arthrex* is perversely timely, at least in one sense. Now is an appropriate time for Congress to look more generally at the structure, oversight, and operation of the Patent Trial and Appeal Board created under the Leahy-Smith America Invents Act. The PTAB has been in existence since September 16, 2012. During the more than seven years of its existence, it has considered 10,000 petitions seeking cancellation of claims of issued U.S. patents. These petitions were filed pursuant to three new AIA procedures conducted in the United States Patent and Trademark Office: PGR (post-grant review), IPR (inter partes review), and CBM (covered business method) proceedings.

These proceedings are not inconsequential. In the span of seven years, thousands of claims have been invalidated in thousands of issued U.S. patents. For most patents in which “final written decisions” have been rendered in these proceedings, one or more challenged claims were determined to be invalid.

These proceedings came into being because organizations such as the Coalition for 21st Century Patent Reform were willing and able to act as champions of the recommendations of the National Research Council of the National Academies of Science, including the recommendation to create a new “open review” procedure in the USPTO, specifically the new PGR procedure. Indeed, but for the diligent advocacy of the Coalition, it is unlikely that the AIA’s post-grant review procedure would have been enacted into law—a procedure that will eventually allow any newly issued U.S. patent to be challenged on any invalidity ground that an accused patent infringer could raise in a patent infringement lawsuit.

The National Academies’ recommendation for this type of “open review” of issued patents was only partially implemented by Congress under the AIA. The unfinished work on this recommendation would further open the PGR procedure to any accused infringer in any patent infringement litigation.

Over the next two decades, essentially all newly issued patents will be subject to a PGR. If, in the decades ahead, the use of this procedure becomes as prevalent as the use of the parallel “open review” process in Europe, the USPTO could be asked to handle 10,000 PGRs each year. If the National Academies’ recommendation to extend “open review” to accused patent infringers is enacted into law, then thousands more PGRs may be instituted each year. In short, as Congress considers how the PTAB might be changed to address its jurisdiction over the AIA’s “open review” procedures, Congress should be mindful of just how profoundly consequential these proceedings might become in the years ahead.

Given the specialized nature of the trial process required to administer the PGR/IPR/CBM proceedings, any Appointments Clause issues aside, Congress should consider dividing the current PTAB into two organizations: a *Patent Trial Board* to hear only these new contested cases and a *Patent Appeal Board* to hear only ex parte appeals of patent applicants. A new “PTB” would be solely composed of *administrative trial judges* and a new “PAB” would be composed solely of *administrative appeal judges*.

Historically, the ex parte appeal process has been subject to supervision and review by the USPTO Director. Policy considerations suggest that the Director should have this type of *final review authority* for assuring that decisions to allow patents to issue are correct—with the USPTO Director having the ability to reverse any decision in an ex parte patent appeal the Director believes would wrongly result in the issuance of a patent. Given such Director review and supervision, the Appointment Clause should permit the judges handling ex parte matters to be appointed by the Secretary of Commerce.

In contrast, the USPTO Director should keep “hands off” the decisions on the validity of patent claims in the PGR/IPR/CBM proceedings. These proceedings are disputes that take place between private litigants. In these proceedings, the supervision and final approval of decisions by panels of judges appointed by the Commerce Secretary could be placed in the hands of a Presidentially appointed, Senate-confirmed leader of the PTB, namely the current PTAB Chief Judge. Again, such a supervision-and-review structure could be Appointments Clause-consistent, as well as fully reflect the optimal patent policy for the composition and oversight of the AIA’s “open review” procedures.

Mr. JOHNSON of Georgia. Thank you. Now, Mr. Whealan, you may begin.

STATEMENT OF JOHN M. WHEALAN

Mr. WHEALAN. Chairman Johnson, Ranking Member Roby, Chairman Nadler, and Members of the Subcommittee, thank you for inviting me here today to discuss the Arthrex decision, the PTAB, and IPRs. I served as a solicitor, as was noted, of the PTO, and I also served as counselor to the Senate Judiciary Committee while the AIA was pending.

The Appointments Clause governs the appointment of officers of the United States. Principal officers must be appointed by the President and confirmed by the Senate. Inferior officers may be appointed by the heads of departments.

Three weeks ago, the Federal circuit held that APJs were unconstitutional since they are principal officers who must be appointed by the President. To remedy this problem, the court invalidated, therein, civil service protection and made them fireable at will. They demoted them to inferior officers who the secretary could then appoint.

Many questions have arisen. First, does the Appointments Clause problem still exist, given APJs still issue final decisions on behalf of the USPTO? Second, did Arthrex adopt the correct remedy? I question whether Congress would have chosen this remedy, especially given the other remedies available, including second levels of review at places like the ITC and the SEC.

The courts could take a year to resolve these issues, and in the end ultimately may not even have the power to do so. Uncertainty abounds. Prompt legislative action may be necessary.

At the time, Congress may also wish to consider whether the IPR system is functioning as Congress had originally intended. Eight years have passed, over 10,000 IPRs have been filed, so this may be a good time for Congress to take a second look, as it often does after it has created a new administrative regime.

IPRs have had a profound effect on the patent system. However, they received little debate during the AIA, as compared to the highly controversial post-grant review second window, that ultimately had to be stripped from the bill in order to obtain passage. Yet IPRs share many of the attributes as were feared of PGR's second window, including inability to quiet title and multiple and serial petitions.

IPRs have devalued every single U.S. patent. Patents are supposed to be presumed valid. They are not before the PTAB. Invalidity must be proven by clear and convincing evidence. Not at the PTAB. The numbers confirm this. There are over 1,400 IPRs filed each year. That is 3.5 times as many as the USPTO estimated to Congress.

IPR petitioners fare much better than patentees, given IPRs are instituted over 60 percent of the time, and in final decisions some claims are invalidated 80 percent of the time.

To my knowledge, no one, or almost no one thought, that there would be 1,400 IPRs per year, that there would be 260 APJs, so many claims would be invalidated, and that the estoppel provision would be so weak. And no one thought that APJs were unconstitu-

tional. But laws can have unexpected and unintended consequences.

I want to applaud Director Iancu for several changes he has recently made. However, he alone can only do so much. For the last eight years, many interested parties have said repeatedly that the system was working just fine. It wasn't and it still is not.

A critical voice seems to have been missing from the discussion, that of the patent owner. Patentees must pay thousands of dollars and wait years to get a patent, and then they must sometimes have to pay hundreds of thousands of dollars and wait years to see if it is valid. I know of no other Federal agency where one party may thousands of dollars to get a patent, or get a grant, and then another party pays the institution to invalidate that grant, but that is what we have today.

Something odd is happening at the PTO. Every business day, 1,000 patents are issued. But when the PTO re-evaluates some of those patents and writes a final decision, it invalidates some claims 80 percent of the time. It is also amazing to me that the only institution in the United States that does not give PTO credit for its work is the PTO. It can't. Patents are not presume valid at the PTAB.

So as Congress thinks about this, some issues it may wish to consider—presumption of validity, standing, estoppel, and realizing that IPRs are often not a substitute for but are in addition to litigation. And most of all, consider IPRs from the perspective of the patentee. After all, without them we wouldn't be here.

It has been an honor and a privilege to appear here today, and I am at your service. Thank you.

[The statement of Mr. Whealan follows:]

STATEMENT OF JOHN M. WHEALAN
ASSOCIATE DEAN FOR INTELLECTUAL PROPERTY LAW STUDIES
THE GEORGE WASHINGTON UNIVERSITY LAW SCHOOL

BEFORE THE
SUBCOMMITTEE ON COURTS, INTELLECTUAL PROPERTY, AND THE INTERNET
COMMITTEE ON THE JUDICIARY
UNITED STATES HOUSE OF REPRESENTATIVES

"The Patent Trial and Appeal Board and the Appointments Clause:
Implications of Recent Court Decisions"

Nov. 19, 2019

Introduction

Chairman Johnson, Ranking Member Roby, Chairman Nadler, Ranking Member Collins, and Members of the Subcommittee, thank you for this opportunity to discuss the impact of recent decisions from U.S. Court of Appeals for the Federal Circuit (Federal Circuit), including the recent decision in *Arthrex, Inc. v. Smith & Nephew, Inc.*,¹ regarding the constitutionality of how administrative patent judges (APJs) of the United States Patent and Trademark Office (USPTO) are appointed.

My name is John M. Whealan. Currently, I am the Intellectual Property Advisory Board Associate Dean for Intellectual Property Law Studies at the George Washington University Law School (GW Law). In this position, which I have held since 2008, I oversee, coordinate, and help run GW Law's top, world-recognized intellectual-property program. I also teach classes and have designed several, including the first-ever course on the Patent Trial and Appeal Board (PTAB) and inter partes review, which is now in its 6th year.² And, for the last 5 years, I have hosted (and co-moderated) an annual conference where leading members of the government, bar, and industry gather to discuss the most important and relevant issues relating to the PTAB.³ I am occasionally hired in my private capacity by private parties in intellectual-property cases to assist as a litigation counsel or consultant, or as an expert witness.

¹ *Arthrex, Inc. v. Smith & Nephew, Inc.*, --- F.3d ---, 2019 WPL 5616010 (Fed. Cir. Oct. 31, 2019).

² I currently teach (or co-teach) a survey class on patent law, and a course on the Federal Circuit. I also have taught at Franklin Pierce Law Center, George Mason University School of Law, and the Chicago-Kent College of Law. I have also lectured on patent law in China (where I will be going for two weeks in December 2019), India, Germany, Japan, and other countries.

³ I have spoken at numerous conferences and bar association events as well, including regularly at the recently created PTAB Bar Association, the American Intellectual Property Law Association, American Bar Association's Intellectual Property Section, the Federal Circuit Bar Association, and numerous state patent bar associations throughout the country.

Before joining GW Law, I worked for 17 years in various positions in all three branches of the federal government. I served 12 years in the USPTO's Solicitor's Office, serving as Deputy General Counsel for IP Law and Solicitor (2001-08), Acting Deputy Solicitor for Patents (1999-2001), and Associate Solicitor (1996-99). For those 12 years, my primary responsibility was defending the PTAB's predecessor, the Board of Patent Appeals and Interferences (BPAI), in hundreds of cases before the Federal Circuit. As Solicitor, my responsibilities included reviewing and editing hundreds of Federal Circuit briefs; helping to prepare every attorney from the USPTO who argued before the Federal Circuit; and arguing several of the most important patent cases before the Federal Circuit, including three en banc cases.⁴ I also assisted the Solicitor General of the United States on virtually every intellectual property case argued before the Supreme Court of the United States during my tenure as Solicitor. Other responsibilities included providing all sorts of legal advice to the USPTO, for example on regulations involving intellectual-property law, policy positions the agency took, proposed legislation, and other legal matters. I also gave an annual year-in-review lectures to approximately 2,000 patent examiners (later made available to all examiners online).

And quite relevant to this hearing, I served as Counsel to the Senate Judiciary Committee to then-Chairman Patrick Leahy (2007-08) (on detail from the USPTO), primarily advising on the legislation that became the American Invents Act. I attended all Judiciary Committee hearings related to the bill, sat in on hundreds of meetings, and assisted in the drafting of the first version of the Senate Committee Report. Finally, I have worked for the U.S. International Trade Commission (1993-96), clerked for Judge James T. Turner of the U.S. Court of Federal Claims

⁴ *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011) (en banc); *Ariad Pharmaceuticals, Inc. v. Eli Lilly & Co.*, 598 F.3d 1336 (Fed. Cir. 2010) (en banc); *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

(retired), and clerked for Judge Randall R. Rader of the Federal Circuit (retired). I have also served on the Federal Circuit Advisory Council for three of the six Chief Judges (Prost, Rader and Michel).⁵

Today, I would like to discuss issues surrounding the appointment of USPTO APJs. Given the large number of inter partes reviews, the USPTO currently employs approximately 260 or so APJs to preside over hearings and to issue final decisions concerning whether previously granted patents should be revoked.⁶ Although APJs issue final decisions for the Executive Branch, they are appointed by the Secretary of Commerce. Less than three weeks ago, a three-judge panel of the Federal Circuit held that APJs were not properly appointed under the Appointments Clause. To remedy the violation, the Federal Circuit panel invalidated a portion of the Patent Act that gave APJs civil service employment protections, and instead held they could be fired at will; the court also remanded the case with instructions that a properly appointed panel of three new APJs had to conduct a new hearing.

The issues raised by *Arthrex* are many and complex, involving difficult constitutional questions on which the Supreme Court has provided less-than-complete guidance. Although I cannot definitely say how courts should interpret and apply the Appointments Clause, I do wish to offer some insights on the issues surrounding the decision from the perspective of one who has worked in all three branches of federal government and who has studied, practiced, and taught patent law for decades. In my view, the *Arthrex* decision and related rulings raise significant questions concerning the Appointments Clause that have the potential to affect hundreds—and possibly thousands—of cases, particularly the longer these issues remain unresolved. Yet it will

⁵ Additional information about my background and experience can be found on my curriculum vitae, which is attached to the end of my statement.

⁶ The PTAB, however, is limited to rendering unpatentability decisions only under 35 U.S.C. §§ 102 and 103 and only to considering printed prior art (patents and printed publications).

likely take many months, and possibly even one to two years, for the courts to issue their final word on *Arthrex*.⁷ In the meantime, the validity of decisions issued by the PTAB will remain uncertain. Legislative action designed to address any Appointments Clause issues could serve to provide welcome clarity. It also could provide an opportunity to redress other issues, including concerns about the PTAB process and PTAB decisions.

I. The Appointments Clause and Administrative Patent Judges

The Appointments Clause governs the appointment of “Officers of the United States.” U.S. Const. art. II, § 2, cl. 2. It provides:

[The President] shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.

Id. That clause contemplates two kinds of officers—principal and “inferior” (although the term “principal” is not used). *Id.* Principal officers must be appointed by the President “by and with the Advice and Consent of the Senate.” *Id.* Congress, by contrast, may vest the appointment of “inferior” officers “in the President alone, in the Courts of Law, or in the Heads of Departments.” *Id.*

In recent years, there have been a handful of high-profile Appointments Clause cases. Several concerned the difference between “officers of the United States,” officials subject to the

⁷ The government has already indicated in writing that it plans to seek en banc review. Its petition (assuming no extension) is due December 16, 2019. If rehearing is granted, full briefing—which likely would include substantial amicus participation—could take several months. Often, it can take approximately a year from the time the Court grants en banc review until a decision is rendered. And, in many recent en banc cases, the Federal Circuit has not been unanimous and has issued several separately authored opinions in such cases. The losing side may then petition the Supreme Court for a writ of certiorari. And, if the Supreme Court granted certiorari, a decision would likely not come until next term at the earliest. In the meantime, over 100 IPR petitions will be filed and over 30 final PTAB decisions will issue each month.

requirements of the Appointments Clause, and non-officer employees. *See, e.g., Lucia v. SEC*, 138 S. Ct. 2044, 2049 (2018); *Helman v. Dep't of Veterans Affairs*, 856 F.3d 920, 922 (Fed. Cir. 2017); *Ass'n of Am. R.R. v. U.S. Dep't of Transp.*, 821 F.3d 19, 37-38 (D.C. Cir. 2016). Last year, for example, the Supreme Court held that the U.S. Securities and Exchange Commission's administrative law judges are officers because they occupy "a continuing position established by law" and exercise "significant authority pursuant to the laws of the United States." *Lucia*, 138 S. Ct. at 2051-55 (quotation marks omitted). The Court rejected the argument that those officials are "non-officer employees"—"lesser functionaries" in the Government's workforce" who fall outside the Appointments Clause's ambit. *Id.* at 2051; *see id.* at 2053-55. But the Court had no occasion to elaborate on the difference between principal and inferior officers because all parties viewed administrative law judges "as inferior officers." *Id.* at 2051 n.3.

In the wake of *Lucia*, the Executive Branch has taken the position that administrative patent judges (APJs)⁸ are officers—officials who must be appointed consistent with the Appointments Clause. *See Arthrex, Inc. v. Smith & Nephew, Inc.*, --- F.3d ---, 2019 WL 5616010, at *3 (Fed. Cir. Oct. 31, 2019); U.S. Br. 25, *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 18-2140 (Fed. Cir.) (arguing they are inferior officers). It makes sense to view administrative patent judges as at least inferior officers. Like administrative law judges, administrative patent judges occupy "a continuing position established by law" and exercise "significant authority pursuant to the laws of the United States." *Lucia*, 138 S. Ct. at 2051 (quotation marks omitted). The Patent Act creates the position of administrative patent judge. *See* 35 U.S.C. § 6(a). Those who occupy it also wield significant authority. In inter partes reviews, for example, a panel com-

⁸ Note that APJs are different from administrative law judges. APJs are unique to the Patent Office. Depending on the agency in which administrative law judges serve and the statutes they serve under, the authority and functions of administrative law judges may differ from APJs.

posed entirely of administrative patent judges is authorized to issue “final written decision[s]” on whether a previously granted patent should be revoked. 35 U.S.C. §§ 6(b), 318, 319; *see also* 37 C.F.R. §§ 42.5, 42.53, 42.71 (other responsibilities). And, consistent with the Executive’s view that administrative patent judges are officers, the Patent Act vests their appointment in the “Head[] of [a] Department”—the Secretary of Commerce. *See* 35 U.S.C. § 6(a).

Although the Patent Act’s method of appointment is suitable if administrative law judges are inferior officers, the Constitution would require Presidential nomination and Senate confirmation if they are principal officers. “Generally speaking,” what separates principal from inferior officers is the degree to which their work is “directed and supervised” by other officials. *Edmond v. United States*, 520 U.S. 651, 662-63 (1997). But the Supreme Court has provided relatively little guidance as to how much direction or supervision is enough and what form that direction and supervision must take. The leading Supreme Court case, *Edmond v. United States*, 520 U.S. 651 (1997), is now more than 20 years old, and while it explains why certain Coast Guard officials were inferior officers and thus Constitutionally appointed, the decision does not say what would have made them principal officers instead. *See id.* at 659-66. Guidance from lower courts is limited as well, though several decisions have addressed the difference between principal and inferior officers. *See, e.g., Ass’n of Am. R.R.*, 821 F.3d at 38-39; *Intercollegiate Broadcasting Sys., Inc. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1337-40 (D.C. Cir. 2012).

II. The Federal Circuit’s *Arthrex* Decision

In *Arthrex, Inc. v. Smith & Nephew, Inc.*, --- F.3d ---, 2019 WPL 5616010 (Fed. Cir. Oct. 31, 2019), the Federal Circuit applied *Edmond* to the USPTO’s administrative patent judges. It held that the Patent Act “as currently construed makes the APJs principal officers” who must be—but are not—appointed by the President and confirmed by the Senate. *Id.* at *1, *4-*8. As a remedy, the panel invalidated a portion of the Patent Act that restricts their removal. *See id.* at

*1, *8-*11. The panel deemed that alteration to the Patent Act to be sufficient to demote administrative patent judges from principal officers, who require presidential appointments, to inferior officers, who may be appointed by the Secretary of Commerce. *See id.* And the panel held that parties to an inter partes review who timely raise an Appointments Clause challenge are entitled to a new hearing before properly appointed officers. *See id.* at *11-*12. I discuss those rulings in turn.

A. Whether Administrative Patent Judges (APJs) Are Principal Officers

The *Arthrex* panel determined that administrative patent judges (APJs) are principal officers based on three primary considerations. First, the panel observed that APJs issue “final written decision[s]” on behalf of the United States. *Arthrex*, 2019 WPL 5616010, at *4. “No presidentially-appointed officer has independent statutory authority to review a final written decision by the APJs before the decision issues on behalf of the United States.” *Id.* That “support[ed]” the “conclusion that APJs are principal officers.” *Id.* at *5.

Second, the *Arthrex* panel considered the “extent to which” the work of APJs is “supervised or overseen by another Executive officer.” *Arthrex*, 2019 WPL 5616010, at *5-*6. The panel deemed that factor to “weigh in favor of a conclusion that APJs are inferior officers” because the Director has the power to issue “policy directives,” decide which decisions are precedential, and supervise APJs’ pay. *Id.* at *6.

Third, the panel considered how easily APJs could be removed from office. *See Arthrex*, 2019 WPL 5616010, at *6-*7. Under the Patent Act, the panel explained, APJs are “subject to the provisions of title 5, relating to Federal employees.” *Id.* at *7 (quoting 35 U.S.C. § 3(c)). And Title 5 permits APJs to be removed “only for such cause as will promote the efficiency of the service.” *Id.* (quoting 5 U.S.C. § 7513(a)). That “limited removal power” over APJs “combined with” the lack of Executive Branch review led the panel to conclude that APJs are

principal officers who “must be appointed by the President and confirmed by the Senate.” *Id.* at *8.

Setting aside for the moment whether the panel’s ultimate conclusion is correct, its analysis raises questions that will doubtless be the subject of further court proceedings. For example, the *Arthrex* decision reads as if the panel gave equal weight to the three factors—review, supervision, and removal—that it considered. The panel found APJs to be principal officers because two factors weighed in favor of that finding while one weighed against it. *See Arthrex*, 2019 WPL 5616010, at *8. And, while the panel mentioned in passing that “the three factors discussed” are not “the only factors to be considered,” the panel thought that it could cure the problem by altering the direction that one of the three factors pointed: *See id.* *8, *10. But it is far from clear that those three factors should receive equal weight—or that the distinction between principal and inferior officers depends on a three-factor test.

Although the Supreme Court has considered the three factors *Arthrex* discussed, it has “not set forth an exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes.” *Edmond*, 520 U.S. at 661. Rather, the Supreme Court has emphasized that “‘inferior officers’ are officers whose work is directed and supervised at some level by others who were appointed by Presidential nomination.” *Id.* at 663. That formulation focuses on the control that principal officers exert over subordinates. Certainly, the “power to remove officers” at will is “a powerful tool for control.” *Id.* at 664. But that power does not lend the one who exercises it “complete” control over lesser officials—it does not amount to the power to reverse or modify decisions made by them. *See id.* Thus, the first factor that *Arthrex* discussed—whether APJs have “power to render a final decision on behalf of the United States,” *id.* at 665—may well deserve greater weight than the other two.

Moreover, if the government prevails in different case pending before the Federal Circuit, *Facebook, Inc. v. Windy City Innovations, LLC*, Nos. 2018-1400, -1401, -1402, -1403, -1537, -1540, -1541 (Fed. Cir.), regarding the deference appropriate to precedential PTAB decisions, the power of APJs to issue final decisions will have added significance. Currently, the Director may convene a panel of three officials—all of whom may have been appointed as inferior officers—to issue precedential decisions that bind the Patent Office. Standard Operating Procedure 2 (Rev. 10), at 3-4, <http://go.usa.gov/>. The government has argued that those precedential decisions should also receive *Chevron* deference from the Judiciary, describing them as having a “‘lawmaking’ purpose.” U.S. Br. 6-7, *Facebook, Inc. v. Windy City Innovations, LLC*, Nos. 2018-1400, -1401, -1402, -1403, -1537, -1540, -1541 (Fed. Cir.). But the *Arthrex* decision concluded that the Director does not have the power to determine the result reached by the agency. *Arthrex*, 2019 WPL 5616010, at *5. His authority is limited to deciding “*whether* . . . [to] convene a panel.” *Id.* As a result, if the government prevails on its *Chevron* deference argument, non-presidentially appointed officials would have the potential to issue final decisions whose influence extends even to shaping judicial interpretations of the Patent Act.

The *Arthrex* panel, however, did not discuss the factors’ relative weight. Nor did it explore the possibility that an Appointments Clause violation might remain despite its decision to invalidate the restriction on removing administrative patent judges. The *Arthrex* panel instead stated without explanation that “severing the restrictions on removal of APJs renders them inferior” officers. *Arthrex*, 2019 WPL 5616010, at *10. Similarly, while the panel mentioned in passing that “the three factors discussed” are not “the only factors to be considered,” the panel provided little explanation of why other considerations had no bearing on the analysis. *Id.* at *8.

B. Whether Severing the Removal Restrictions on APJs Remedies Any Violation

Questions attend the *Arthrex* panel's discussion of remedies as well. Having found that two of three factors favored a finding that APJs are principal officers, the panel decided to tip the balance by easing the APJs removal status from one protected under the civil service that required removal for cause, to instead being employed (and removable) at will. The panel held that the restrictions the Patent Act and Title 5 place on the removal are "unconstitutional as applied to APJs." *Arthrex*, 2019 WPL 5616010, at *9. By eliminating the removal protections previously extended to APJs, the panel explained, it had rendered them inferior officers whom the Secretary of Commerce could appoint consistent with the Appointments Clause. *Id.* at *10. The panel acknowledged that other remedies were possible. The government, for example, had proposed that the court could construe the Patent Act to do away with the requirement that final decisions in inter partes review proceedings must be made by three-member panels and to give the Director power to issue unilateral decisions. *See id.* at *8. But the *Arthrex* panel was "uncomfortable with such a sweeping change to the statute." *Id.* at *9. The panel expressed confidence that, if faced with the problem here, Congress would have made administrative patent judges removable at will to "preserve the statutory scheme it created for reviewing patent grants" and its "intent[ion] for APJs to be inferior officers." *Id.* at *10.

The *Arthrex* panel also determined that the Appointments Clause violation required the agency decision before the court to be vacated and "a new hearing" conducted by a "new panel of APJs." *Arthrex*, 2019 WPL 5616010, at *12. But the panel cautioned that a new hearing would be required only where the final agency "decision was rendered by a panel of APJs who were not constitutionally appointed" and where "the parties presented an Appointments Clause challenge on appeal." *Id.* at *11.

Although the *Arthrex* panel expressed confidence that it had imposed a limited remedy that both cures any Appointments Clause problem and avoids rewriting the statute, significant questions regarding those conclusions remain. The panel's confidence that it had resolved the Appointments Clause problem appears to rest on the assumption that the three factors it discussed are of equal weight. But that is by no means certain. As mentioned previously, it is possible that an Appointments Clause problem could remain so long as administrative patent judges are able to issue final decisions on behalf of the Executive Branch. I also think it is far from settled that, when passing the America Invents Act (AIA), Congress intended the APJs to not have civil-service protections like their predecessors had and as the vast majority of other USPTO employees have today. This issue may be raised in future litigations challenging the *Arthrex* panel proposed severance solution.

And perhaps of most interest to this body is the panel's conclusion that it had solved the constitutional problem without "judicial[ly] rewriting" the American Invents Act or departing from Congress's intent as expressed in it. *Arthrex*, 2019 WPL 5616010, at *10. The *Arthrex* decision only begins to hint at the range of possible solutions—particularly legislative solutions—for the constitutional problem identified. One solution (which the panel did not discuss) would be to require administrative patent judges to be appointed by the President and confirmed by the Senate. That remedy, of course, would impose some additional burdens on the Senate. But it would not have been an unthinkable solution at the time that the 112th Congress enacted the America Invents Act because no one in Congress (at least to my knowledge)

expected that the number of administrative patent judges would have swelled from around 80 at the time to approximately 260 that exist today.⁹

There are also additional good reasons to think that the 112th Congress would have been wary of making administrative patent judges removable at will. For one thing, well qualified lawyers might have been hesitant to take a newly created position without any degree of civil-service protections. Indeed, the Federal Circuit's decision to strip APJs of those protections raises questions about whether they have been deprived of a vested property right without due process. For another, the Federal Circuit's solution of giving presidentially appointed officials "unfettered" discretion to remove subordinates means that APJs can be fired for invalidating too many patents in the view of a given Director or too many patents owned by particular companies. That possibility, even if never realized, could have the potential to undermine confidence in the fairness and integrity of the PTAB decision making in general.

Another possible solution would be to restructure the review process within the USPTO so that APJs no longer have the authority to issue final decisions. The structures of other agencies provide potential models. For example, in the securities context, administrative law judges (ALJs) issue decisions subject to the review of the U.S. Securities and Exchange Commission, either at a party's request or the Commission's own initiative. If no review is sought, however, the ALJ's decision is "deemed the action of the Commission," 15 U.S.C. § 78d-1(c), and the Commission issues an order stating that the decision is "final," 17 C.F.R. § 201.360(d)(2). The U.S. International Trade Commission (USITC) has a similar structure. In that agency, ALJs make "initial determination[s]" concerning unfair competition and unfair trade

⁹ U.S. Patent and Trademark Office, *Director's Forum*, https://www.uspto.gov/blog/director/_parte_frye_bpai_s (noting there were 80 APJs in 2010).

practices. 19 C.F.R. §210.42. Those determinations are subject to Commission review. 19 C.F.R. §210.42(h). But they become “final” absent it. *Id.*

The 112th Congress could have adopted either model to give the power to issue final decision to officials with presidential appointments. It could have given the Director (or, if other officials are given presidential appointments, a panel consisting of the Director and those officials) the power to review all APJ decisions. That review structure would have various benefits—from promoting internal consistency to serving as an additional check on the consistency and quality of adjudications from the PTAB. And some of those benefits are needed. As the Federal Circuit has recently pointed out several times, PTAB decisions can be conclusory or otherwise lacking in their analysis.¹⁰ If PTAB members know that the Director will be reviewing their decisions—and has the power to send back any he believes are not sufficiently supported, are not sufficiently analyzed, or are simply incorrect—they will have an incentive to do better work (just like the rest of us do when our work is reviewed). Although the viability of solutions short of presidential appointment will depend on the source of any Appointments Clause problem, the *Arthrex* remedy is far from the only one.

III. The Post-*Arthrex* Turmoil

The questions surrounding *Arthrex* are already causing tremendous upheaval. As a published decision, *Arthrex* is now binding precedent on all other Federal Circuit panels. Although the government intends to seek rehearing en banc of *Arthrex* and time remains for the

¹⁰ See, e.g., *Pers. Web Techs., LLC v. Apple, Inc.*, 848 F.3d 987, 994 (Fed. Cir. 2017) (decision not “adequately explained” or “grounded in evidence”); *Rovalma, S.A. v. Bohler-Edelstahl GmbH & Co. KG*, 856 F.3d 1019, 1025-26 (Fed. Cir. 2017) (decision did not “sufficiently explain the basis for its obviousness determinations”); *In re Nuvasive, Inc.*, 842 F.3d 1376, 1384 (Fed. Cir. 2016) (“the PTAB never actually made an explanation-supported finding”); *Cutsforth, Inc. v. MotivePower, Inc.*, 636 F. App’x 575, 578 (Fed. Cir. 2016) (vacating decision that “made broad, conclusory statements”).

government to do so, the Federal Circuit has already begun applying *Arthrex* in other cases. For example, on the same day that *Arthrex* issued, the same panel issued an order in another case that vacated the PTAB's decision and remanded the case "for proceedings consistent with th[e] court's decision in *Arthrex*." *Uniloc 2017 LLC v. Facebook, Inc.*, --- F. App'x ---, No. 2018-2251, 2019 WPL 5681316 (Fed. Cir. Oct. 31, 2019). Similarly, a week later, a different panel vacated other PTAB decisions in light of *Arthrex*. See *Bedgear, LLC v. Fredman Brothers Furniture Co.*, --- F. App'x ---, Nos. 2018-2082, -2083, -2084, 2019 WL5806893, at *1 (Fed. Cir. Nov. 7, 2019) (per curiam). In other cases, the government has begun asking panels to stay proceedings pending a final disposition of its intended rehearing petition in *Arthrex*. See, e.g., U.S. Mot. to Stay Proceedings, *VirnetX Inc. v. Cisco Sys., Inc.*, No. 19-1671 (Fed. Cir.).

Another area of uncertainty concerns who should benefit from *Arthrex*. Although the parties in *Arthrex* did not raise an Appointments Clause challenge before the PTAB, the Federal Circuit applied an exception to forfeiture. It declined to find forfeiture because (1) the petitioner had raised the challenge in its opening brief to the Federal Circuit, and (2) the PTAB would "not [have been] capable of providing meaningful relief" if the issue been raised before it. *Arthrex*, 2019 WPL 5616010, at *11. The very next day, the Federal Circuit issued a precedential order holding that parties are not entitled to relief under *Arthrex* unless they have raised an Appointments Clause challenge in their opening briefs (or motions filed beforehand). See *Customedia Techs., LLC v. Dish Network Corp.*, --- F.3d ---, No. 2019-1001, 2019 WL 567703, at *1 (Fed. Cir. Nov. 1, 2019). Together, those rulings entitle litigants who raise Appointments Clause challenges no later than their opening briefs to the Federal Circuit to (1) vacatur of PTAB decisions rendered prior to *Arthrex*, and (2) an entirely new hearing before the PTAB before a new panel of ALJs. But Federal Circuit judges have since filed a concurrence questioning

whether *any* litigants are entitled to a new hearing. *See Bedgear*, 2019 WL5806893, at *1-*5 (Dyk, J., concurring, and joined by Newman, J). In their view, the Patent Act should be “read as though” administrative patent judges were “always” removable at will and “always . . . constitutionally appointed.” *Id.* at *3. Several commentators have raised serious concerns with this reasoning. It is, for example, hard to see how the power to remove APJs at will would have caused APJs to act like inferior officers *before* the Federal Circuit created that power.

Still other Federal Circuit panels and judges have invited further briefing on whether *Arthrex* imposed the proper remedy. After oral argument in *Polaris Innovations Ltd. v. Kingston Technology Co., Inc.*, No. 2018-1768 (Fed. Cir.) (argued two business days after *Arthrex* issued), that panel ordered supplemental briefing on the following four questions:

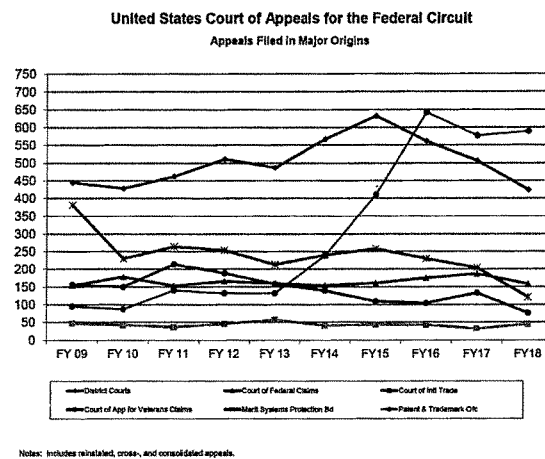
- (1) what level of supervision and review distinguish a principal from an inferior officer;
- (2) whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. § 3(c) sufficiently remedies the alleged unconstitutional appointment at issue in these appeals;
- (3) whether, and how, the remedy for an Appointments Clause violation differs when it stems from an unconstitutional removal restriction, rather than an unconstitutional appointment itself; and
- (4) whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. § 3(c) obviates the need to vacate and remand for a new hearing, given the Supreme Court’s holdings on the retroactive application of constitutional rulings.

Order 2, *Polaris Innovations Ltd. v. Kingston Technology Co., Inc.*, No. 2018-1768 (Fed. Cir.) (Nov. 8, 2019). That order encapsulates the wide range of open questions following *Arthrex*, including whether *Arthrex* went far enough in solving any problem.¹¹ Given the government has

¹¹ The timing of the Federal Circuit’s various rulings also seems a bit unusual. Generally, before a precedential opinion or order issues, non-panel members receive ten working days to review the proposed decision. Fed. Cir. IOP #10(5). In *Arthrex*, however, the precedential opinion issued only two days after the parties had filed supplemental briefs requested by the Court on the

been asked for supplemental briefing and the questions could be of wide-ranging importance, many parts of the government will have to convene to resolve the ultimate positions taken.

The uncertainty surrounding *Arthrex* is already affecting large numbers of cases—perhaps “hundreds.” *Bedgear*, 2019 WL5806893, at *1 (Dyk, J., concurring). The Federal Circuit now receives approximately 600 appeals from the USPTO each year, the vast majority of them involving PTAB decisions:



U.S. Court of Appeals for the Federal Circuit, *Caseload, by Major Origin*
http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/02-_Hist_Caseld_by_Origin__FY18_-_Final.pdf.¹² The longer the uncertainty persists, the more cases will be affected.

appropriate Appointments Clause remedy. It also issued a relatively short time after oral argument. In *Customedia*, the precedential order issued (1) on the same day a Rule 28(j) letter regarding *Arthrex* was filed and (2) one day after the *Arthrex* decision.

¹² The black, hockey-stick like line above, shows the number of USPTO appeals to the Federal Circuit. The significant increase from 2013-present is a direct result of the additional PTAB proceedings created by the AIA and, in particular, IPRs. In fact, since 2016, the number of

But a final resolution from the courts is not expected soon. The government has announced its intention to seek en banc review of *Arthrex*,¹³ and currently has until December 16, 2019, to file for rehearing en banc, *see* Fed. R. App. P. 35(c), 40(a)(1). Completion of rehearing proceedings could take months, particularly if the full court decides to rehear the case and members have conflicting views that require the writing of separate opinions. And then any party dissatisfied with the outcome will have at least 90 days, and perhaps as many as 150 days, to seek Supreme Court review. *See* 28 U.S.C. § 2101(c). It is possible that litigation surrounding the Appointments Clause could continue well into 2020 and perhaps even 2021.

To be sure, *Arthrex* and *Customedia* attempt to limit the number of cases affected. *Arthrex* purports to fix the Appointments Clause problem going forward, which if correct, means that any future decisions from of the PTAB will not be tainted by an Appointments Clause violation. *See Arthrex*, 2019 WPL 5616010, at *10-*11. But it is far from certain that the en banc Federal Circuit or the Supreme Court would agree that *Arthrex* is correct, or at a minimum that the remedy imposed is proper. Either could issue a more sweeping decision that calls into question the validity of PTAB decisions issued since *Arthrex*. Similarly, either the en banc Federal Circuit or Supreme Court could overturn *Customedia*'s holding that parties forfeit an Appointments Clause challenge if they fail to raise it on appeal no later than their opening briefs to the Federal Circuit. The Supreme Court has described an Appointments Clause challenge as a "structural constitutional objection[.]" which "[n]either Congress nor the Executive can agree to waive." *Freytag v. Commissioner*, 501 U.S. 868, 878-80 (1991). And, regardless of what the

PTAB decisions appealed to the Federal Circuit has exceeded the number of district court patent decisions appealed to that same Court. This was a surprise to many, including myself.

¹³ See U.S. Mot. to Stay Proceedings ¶4, *VirnetX Inc. v. Cisco Sys., Inc.*, No. 19-1671 (Fed. Cir.)

courts decide, the questions surrounding *Arthrex* are apt to keep large numbers of cases in limbo until there is final resolution, and patentees and petitioners uncertain of the final outcome.

IV. Additional Issues Related to the PTAB That Congress May Wish To Consider

Given the turmoil and uncertainty surrounding *Arthrex* and other recent rulings, legislation to address the Appointments Clause issue may provide welcome clarity. Should this body decide a legislative response is warranted, it may also wish to consider other issues affecting the PTAB. I touch on some of those issues below. The list below is by no means complete or comprehensive given the limited amount of time given to prepare this testimony. But I would be happy to return in the near future to discuss the issues more fully.

A. The PTAB—What Was Expected and What We Have

The creation of the PTAB and inter partes review (IPR) represents one of the two biggest changes to the U.S. patent system in recent times. Only the Supreme Court and Federal Circuit's approach to patent eligibility under § 101—an issue on which Congress has recently held multiple hearings—rivals the magnitude of the change. The design of the PTAB and the IPR proceedings was some time in the making. The ideas incorporated into the AIA were discussed, drafted, and debated over a 6-year period. During that time, I participated in the process closely, first as the Solicitor, then as Counsel to the Judiciary Committee, and then as an Associate Dean for Intellectual Property at GW Law. My goal—and privilege—throughout the process was to strive for the solution that would best serve the Nation and the entire patent system. Today, I offer my observations about the PTAB in that same spirit.

Although the AIA contained many sections, it had two primary objectives. First, given that many U.S. (as well as international) companies are multi-national companies that file for patent rights in multiple international jurisdictions, the AIA attempted to bring U.S. patent law in closer accord with other countries' patent laws. That effort reflected that having a set of similar

rules, at least for patent procurement, makes the most sense. Accordingly, the AIA adopted a first to file (or, more precisely, a first inventor to file) system; eliminated best mode as an invalidity defense in patent litigation; and made other changes intended to bring the U.S. patent procurement system more in line with (albeit not identical to) other countries' systems. Second, the AIA sought to achieve a kind of tort, or patent litigation, reform. Companies frequently accused of infringement (many of them high-tech companies) complained about the high damage awards and the expense of patent litigation. They also complained of abusive patent litigation and unflatteringly labeled certain litigants "patent trolls." Congress therefore attempted to create a lower-cost, faster alternative to district court patent litigation.

The AIA sought to provide a litigation alternative through a newly created proceeding called Post Grant Review (PGR), which would allow parties to challenge issued patents on any grounds of patent validity. It borrowed from the European Patent Office's system of opposition proceedings. Much of the debate concerning PGR concerned the proposed periods of time in which parties could file challenges—periods that were often referred to as the 1st window and 2nd window. The 1st window time period would have allowed any interested party to challenge a patent within a period of time immediately after the patent issued (initially 12 months, later shortened to nine months). Comparatively, that was relatively uncontroversial. The 2nd window time period would have allowed challenges throughout the entire life of the patent. It was hotly debated, so much so that it took several Congresses several years to ultimately pass the AIA. Why? There were numerous fears and criticisms, including that patentees would not ever have quiet title, that there would be serial challenges, and patentees would be harassed. The AIA only passed *after* the 2nd window option was deleted from the bill.

With only the 1st window available, PGRs have not become the proceeding of choice for challenging the validity of issued patents. Relatively few petitions for PGRs are filed each year. In the first nine months of this year, for example, only 48 petitions were filed. U.S. Patent and Trademark Office, *Trial Statistics: IPR, PGR, CBM*, https://www.uspto.gov//_Statistics_2019-09-30.pdf.¹⁴ Petitions for inter partes review have instead become the preferred method for challenging issued patents. In the same period, nearly 1,400 petitions were filed. *Id.* A bit of history is necessary for understanding how that came to be.

For the last four decades, Congress and the USPTO have struggled with providing a way an issued patent can be reevaluated. Without going into great detail, in 1980, Congress enacted the first ex parte reexamination statute, which allowed any party to petition the Patent Office to reexamine an issued patent. *See* Act of Dec. 12, 1980, Pub. L. 96-517, 94 Stat. 3015. Problematically, however, the statute did not allow the patent challenger to participate in the reexamination; only the patentee could do so. Eventually in 1999, Congress provided for inter partes reexaminations statute in which the patent challenger could participate throughout the proceeding and on appeal. *See* American Inventors Protection Act of 1999, Pub. L. 106-113, 113 Stat. 1501 (Nov. 29, 1999). The Patent Office even created a Central Reexamination Unit with highly experienced examiners to work on these proceedings, often in consultation with the Solicitor's Office. Inter partes reexaminations were considered an improvement. But there were two main complaints against the system: (1) it took too long (often several years) because the process began at the examiner level and appeals to the BPAI and Federal Circuit were available; and (2) patentees could amend (and amend and amend) their patents too easily to prolong the

¹⁴ PGRs can only be filed against patents that issued after the AIA passed, *i.e.*, September 16, 2012. Therefore as a practical matter, right after the AIA was implemented, there were no (or very few) patents even eligible for PGR review. In contrast, IPRs challenges can be filed against any patent, including all of those in existence before the AIA passed.

reexamination. Thus, if a defendant was sued for patent infringement in district court, the district-court litigation would often be over before any reexamination could conclude.

In the AIA, Congress sought to redress the complaints with inter partes reexaminations by making a few changes to the process. The updated process was known as inter partes review (or IPRs for short). Notice how the first initials for each type of proceeding (“T,” “P,” and “R”) are exactly the same, and only one word in the name of the proceeding was changed (“reexamination” was replaced by “review”). As originally conceived, inter partes review was not intended to alter the fundamentals of inter partes reexaminations. Rather, inter partes review was meant to streamline the process by making inter partes reexaminations faster and more efficient by having only the PTAB (as opposed to an examiner initially and then subsequently the BPAI) consider petitions in the first instance and disallowing unlimited (albeit not all) amendments to the challenged patent. The limited nature of the intended change is reflected in the legislative process. During my time observing it, I rarely saw the changes to inter partes reexaminations debated. The debate instead focused on the controversial 2nd window for PGRs and the risks associated with that proposal.

Today, however, the inter partes review (IPR) system has come to look a lot like 2nd window PGR proposal that Congress declined to enact, albeit limited to §§ 102 and 103 challenges based on printed prior art. Because there is no standing requirement to file an IPR any party may file a petition. Indeed, there are now entities with (undisclosed) members whose sole goal is to file IPR (and PGR and CBM) petitions to invalidate patents. Parties also may file petitions throughout the entire life of the patent. As a result, patentees lack the ability to obtain quiet title. Many patentees complain about serial petitions. It is not uncommon for patent-infringement litigation in district court to be stayed for two or three years, pending the

disposition of IPRs challenging the asserted patents and any subsequent appeals to the Federal Circuit. And those are only some of the similarities.

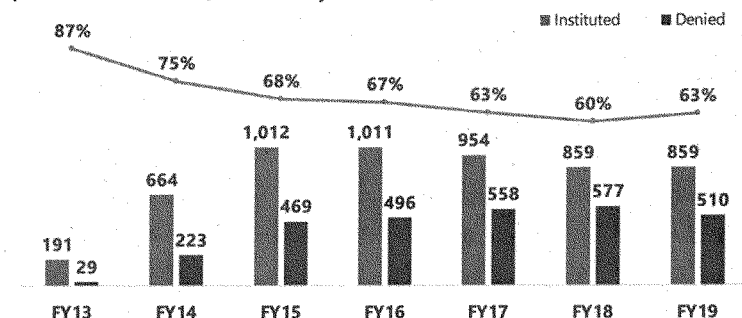
Most importantly—and I wish to pause before I say this—IPRs have devaluated every single U.S. patent that has issued or will issue in the future. Patents are supposed to be presumed valid. 35 U.S.C. § 282. That is why in district-court litigation invalidity must be proved by “clear and convincing evidence.” *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 95 (2011). By contrast, in an IPR invalidity need only be proven by a “preponderance of the evidence.” 35 U.S.C. § 316(e). That lower standard—combined with the lack of constraints on who can challenge a patent and when—has effectively removed the presumption of validity from issued patents. Section 102 and 103 validity defenses (based on patents and printed publications) that would have been tested in district court under a clear and convincing standard are now presented to the PTAB where a lesser preponderance standard applies, and challengers may enjoy various procedural advantages.

The numbers confirm the effects. Whereas the USPTO had initially estimated that parties would file about the same number IPRs as reexamination requests—which were roughly 400 per year at the time—the number of IPRs actually filed annually is over *three and a half times* what the USPTO predicted, on average over 1,400 per year. There are so many that the Federal Circuit now hears more appeals from the PTAB as compared with all district courts.¹⁵ Indeed, the creation of a PTAB Bar Association is a mark of the influence of IPRs, PGRs and CBMs.¹⁶ Challengers, moreover, fare well and, on average, better than patentees. Institution rates are above 60%:

¹⁵ U.S. Court of Appeals for the Federal Circuit, *Year-to-Date Activity, as of September 30, 2019*, <http://cafc.uscourts.gov/sites/default/files/the-court/statistics/YTD-Activity-September-2019.pdf>.

¹⁶ <https://www.ptabbar.org/>.

Institution Rates (FY13 to FY19: Oct. 1, 2012 to Sept. 30, 2019)

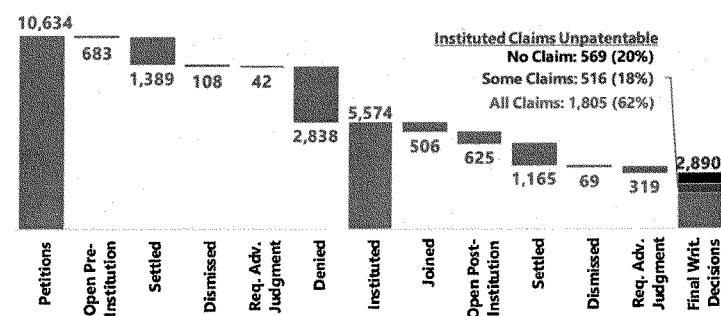


Institution rate for each fiscal year is calculated by dividing petitions instituted by decisions on institution (i.e., petitions instituted plus petitions denied). The outcomes of decisions on institution responsive to requests for rehearing are excluded.

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U.S. Patent and Trademark Office, *Trial Statistics: IPR, PGR, CBM*, https://www.uspto.gov/sites/default/files/documents/Trial_Statistics_2019-09-30.pdf. And final decisions invalidate all instituted claims 62% of the time—and at least one claim 80% of the time:

Status of Petitions (All Time: Sept. 16, 2012 to Sept. 30, 2019)



These figures reflect the latest status of each petition. The outcomes of decisions on institution responsive to requests for rehearing are incorporated. Once joined to a base case, a petition remains in the Joined category regardless of subsequent outcomes.

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*Id.*¹⁷

In discussing this history and these statistics, I do not mean to fault, blame, or personally criticize anyone. My intent is to point out that the AIA has had effects on the patent system that were not foreseen, or at least not fully appreciated, at the time it was enacted. For example, to my knowledge, no one (or almost no one) thought that there would be 1,400 IPR petitions per year; that the number of APJs would increase from 80 to more than 260; or that such a high percentage (and number) of claims would be invalidated. Nor did anyone think that serial challenges to a patent would be so prevalent. The emergence of entities whose sole goal is to invalidate patents on behalf of undisclosed members was unexpected. Also unexpected is the weakness of the estoppel provisions for IPRs, 35 U.S.C. §315(e)(2), which do not bar challengers from relitigating validity in other fora unless the PTAB issued a final written decision against them. And, of course, no one thought that APJs would wield such power and have such independence that an appeals court would conclude they are principal officers unless they were stripped of the civil-service protections and were made removable at will. But laws

¹⁷ I have heard some people argue that the invalidation rate at the PTAB is the same as district court. I respectfully disagree. As noted, when a final PTAB decision (which is the only time estoppel applies), the USPTO's own published statistics show the invalidation rate is 62% (all claims) and 80% (some claims). In contrast, on average, district court patent invalidation rates has remained fairly constant at the rate of 40% or so. John R. Allison, et al., *Our Divided Patent System*, 82 Univ. Chi. L. Rev. 1073, 1100 (2014). Thus, when looking at final invalidity decisions, the PTAB's invalidation rate seems significantly higher than the district courts'.

Now, if some people wish to change the base number to all claims ever challenged in any IPR petition, that number will go up and the overall invalidation rate will go down. But that would then be comparing apples to automobiles. Claims that are never instituted can be freely challenged in a district court proceeding. The same goes for claims where no final decision ever issues (such as claims that were disposed of through settlement, dismissal, etc.). To use such numbers would be akin to comparing them to the number of patent claims filed in the 4,000 cases filed each year. Many of those claims invalidity is never decided on by a court. Therefore, using those numbers (or the inflated PTAB numbers) would both be inappropriate.

sometimes have unexpected consequences. Now that Congress has had seven years to evaluate the AIA's operation, it may wish to consider whether changes are warranted.

B. Some Big-Picture Considerations

Before going into specific issues, I want to applaud current USPTO Director Andrei Iancu for several changes he has proposed or implemented to the PTAB's operation in the last 12 to 18 months. Those changes include the creation of precedential opinion panels (POPs), the adoption of an amendment pilot program, and the replacement of the broadest reasonable interpretation (BRI) standard for claim construction with the *Phillips* standard used by district courts. As Director Iancu recently mentioned at a conference where we were both speaking (and I am paraphrasing here), these changes were intended to make the PTAB and IPR process more balanced, more fair, and more transparent. That is good for the patent system. Despite Director Iancu's commendable efforts, however, there is only so much that he can do. He cannot rewrite the Patent Act. Nor does he have the benefit of hearing from the same diversity of constituents as Congress in evaluating problems and solutions.

Moreover, the mere fact that Director Iancu has needed to implement changes to make the system more balanced, fair, and transparent speaks volumes about how the system functioned previously. It implies that, for the first five years of its existence, the IPR process was not as balanced, fair, or transparent as it could have been or that many involved in the AIA would have hoped. Oddly enough, however, many interested parties—including the USPTO, the PTAB, and companies and firms that file many IPR petitions—said repeatedly that the entire system was working just fine. I did not believe those assurances at the time, and I do not believe them today. A critical voice seems to have been missing from the discussion: that of patent owners—the innovators who invested thousands of dollars and months of effort in obtaining patents from the USPTO only to be later told by the same USPTO that their patents are worthless.

If one steps back, it is evident that something odd is happening at the USPTO. On average, the examiners at the USPTO issue about 1,000 patents each business day. At the same time, the PTAB is permitting more than 60% of IPRs brought against those patents to move forward and, when it allows them to continue, is invalidating at least some of the claims 80% of the time. Moreover, to obtain patents from the USPTO, inventors must invest thousands of dollars and wait years for receive them. Those same inventors then must spend hundreds of thousands of dollars and invest years more of their time (the average IPR process through final PTAB decision and Federal Circuit appeal lasts 2.5 years) in defending the patents in PTAB proceedings.¹⁸ And, during the entire time, a cloud of uncertainty will hang over the patent. Any attempts to license the patent or enforce it through district court litigation might well be put on hold until the IPR concludes.¹⁹ I cannot think of another federal agency that requires a party to pay the agency thousands of dollars to obtain something and then allows another party to pay the same agency thousands of dollars to invalidate the earlier grant.

Also amazing to me is that the only institution in the United States that does not (or more accurately is not allowed to) credit the work the USPTO did in deciding to issue a patent is the USPTO itself. In district court litigation, patents are presumed valid. 35 U.S.C. §282. The standard to invalidate them is thus high—as, the Supreme Court has explained, “clear and convincing evidence” of invalidity is required. *Microsoft*, 564 U.S. at 95. Yet, in an IPR proceeding, the presumption of validity effectively does not attach (though the statute does not

¹⁸ Although a final decision is usually issued in PTAB proceedings within a year of institution, it takes about six months for the IPR to be instituted or denied. Thus, from filing of the IPR petition to the issuance of a final written decision, the process will take about 1.5 years. Should either side appeal, the Federal Circuit proceedings will take another year (or more) to complete. And, depending on the results of the appeal, additional proceedings could happen on remand.

¹⁹ Although statistics vary by district, I am frequently told the average stay rates of district court litigations when the patent is involved in an IPR proceeding hovers around 50%.

abrogate the presumption expressly). The statute only requires the USPTO to find by a “preponderance of the evidence” that the patent is invalid. 35 U.S.C. § 316(e).

I understand that others have defended the lesser standard in IPRs and argued against a presumption of validity for IPRs on the grounds that (1) the USPTO is just rechecking its own work and (2) no presumption of validity attaches in initial examination or reexaminations. But—and I am saying this from the perspective of someone who defended the USPTO in initial examinations and reexaminations and observed the AIA’s debates—the IPR process is in practice much different from the examination and reexamination process. During initial examinations and reexaminations, there is a back and forth between the examiner and the patentee. Discussion can be had, claims can be amended, and agreement can be reached. By contrast, IPRs involve a formal, frontal challenge against the patent by an interested third party. The petitioner is on offense, and the patentee is on defense. Moreover, because IPRs are often brought years after a technology was invented and patented, there is a real (albeit unintended) risk that true innovations will look obvious in “hindsight.” *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 36 (1966). Consider, for example, just how hard it is to imagine a world without ubiquitous smartphones, even though relatively few people had them a dozen years ago.

C. Specific PTAB and IPR Issues Congress May Wish to Consider

With that in mind, I will briefly outline a few issues related to PTAB and IPRs that Congress may wish to explore further. I would also be happy to elaborate on them and discuss them further at another date in the near future. Please note that, though some of the issues and suggested reforms have been discussed in connection with the STRONGER Patents Act of 2019 currently pending in the Senate,²⁰ I have had no involvement with that piece of legislation.

²⁰ The STRONGER Patents Act of 2019, S. 2082, 116th Cong., was introduced by Senators Coons, Cotton, Durbin, Hirono, Kennedy, and Cramer.

Rather, I have arrived at my ideas independently through my work in the government, practice of patent law, and study of the patent system.

1. *In IPRs, Patents Should Be Presumed Valid, and a Clear-and-Convincing Standard Should Be Applied*

Although IPR was meant to streamline reexaminations, the difference in practice is vast. There is no examiner involved in IPR. Nor does the PTAB serve as a functional equivalent. Rather, IPRs have become an adversarial system for challenging patent validity under §§ 102 and 103 of the Patent Act based on patents and printed publications. As the Supreme Court and Federal Circuit have recognized, an IPR “mimics civil litigation,” with the PTAB serving in a quasi-judicial role akin to that of a district court judge deciding validity in infringement litigation. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1352 (2018). Unlike examination and reexamination there are few if any amendments allowed in an IPR.²¹

If IPR is serving a litigation function, then it makes sense for the same standards to apply. The Director has already adopted for PTAB proceedings the same claim-construction standard that is used in district-court litigation (the *Phillips* standard). But the Director cannot change the preponderance standard of proof used to determine invalidity in PTAB proceedings. That is baked into the statute. Congress thus should consider whether the presumption of validity and the accompanying clear-and-convincing standard should be extended to PTAB proceedings. That change alone, I believe, would have a significant impact on the IPR process, making it fairer to the inventor to whom the USPTO decided to issue a patent.

²¹ Although the so-called unlimited amendment practice of reexaminations was curtailed in IPRs, some amendments could still be made. For the first few years, statistics showed the USPTO allowed amendments in approximately 6% of proceedings. This was due in large part to restrictive standards eventually deemed inappropriate by the Federal Circuit. *See Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017) (en banc). Although the USPTO’s recent amendment pilot program is an improvement from days past, Congress may wish to consider whether the USPTO is allowing for amendments to the same degree as Congress had intended.

2. *Add a Standing Requirement for IPRs*

A key concern that contributed to 2nd window PGR's defeat was the concern that patentees would be harassed and not be able to obtain quiet title. Both can occur during IPRs because anyone can file an IPR at any time during the life of the patent.²² There is no standing requirement for IPRs. By contrast, if a party wanted to challenge a patent in district court and obtain a declaratory judgment of invalidity, the party would have to demonstrate the existence of an actual case or controversy within the meaning of Article III. *See MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 126 (2007). Congress should consider whether some form of standing requirement is warranted for IPRs as well.

3. *Put More Teeth into the IPR Estoppel Provisions*

Another factor contributing to serial petitions is the weakness of IPR estoppel provisions. Although a party who loses an IPR may be estopped from relitigating the same validity issues decided in the IPR in district court, 35 U.S.C. § 315(e)(2), there are now organizations with paying members whose sole (or primary) mission is to file IPR petitions on behalf of members without subjecting those members to potential estoppel effects. In fact, one such entity is among the top five IPR petitioners each year.²³ In addition, despite some recent interest by the Federal Circuit, the PTAB has only found a fairly narrow set of circumstances under which IPR estoppel can impact the organizations' paying members. *See, e.g., Apple Inc. v. Uniloc Luxembourg, S.A.*, Case IPR2018-00282 (June 4, 2019) (Paper 30) (rejecting argument that member was a real party in interest who could be estopped). In my opinion, however, all paying members of such an organization should be estopped by all adverse decisions that result from the organization's IPR

²² Although I have not had time to research this issue yet, I query whether someone against whom an expired patent is asserted for past damages could file an IPR to challenge the expired patent in hopes of showing that it never should have issued in the first place.

²³ Unified Patents, *2018 Patent Dispute Report*, <https://www.unifiedpatents.com/insights/2019/2/2018-patent-dispute-report-year-in-review>.

filings. These organizations are not charitable enterprises or disinterested advocates. They instead receive large annual fees from their members (possibly in the hundreds of thousands or millions of dollars) to challenge patents that could impact members. Although future litigation may bring about some changes, Congress should consider whether it wanted to create a system that allows patents to be challenged by organizations on behalf of paying members without their members being bound by the intended estoppel provisions associated with adverse results.

Another weakness results from the fact that estoppel only applies once a final written decision issues that is adverse to the challenger. 35 U.S.C. § 315(e)(2). As noted above, however, written decisions are adverse to the challenger only a small percentage of the time. Only 20% of decisions uphold all claims. U.S. Patent and Trademark Office, *Trial Statistics: IPR, PGR, CBM*, https://uspto.gov/default//Trial_Statistics_2019-09-30.pdf. And a challenger is not estopped should the USPTO decide against instituting the IPR in the first place or should the case settle. *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309, 1316 (Fed. Cir. 2016). That combination gives a powerful incentive to file IPRs by limiting the potential downside for challengers. Congress may wish to revisit and study this issue further.

In my view, the weaknesses of the estoppel provision were unexpected. The large numbers of IPRs we have today were not expected in part because of the estoppel provision. When the AIA was first enacted, relatively few IPRs were filed and very few firms had IPR departments due to concerns that filing IPRs would have estoppel consequences. Once parties and lawyers started to see the high rate at which IPRs were granted, the high rate at which patents were invalidated, and the rarity with which estoppel attached, however, IPRs became almost a no-lose proposition for the petitioner. If the IPR was instituted and went to a final decision, the petitioner had a two-third chance of winning. Conversely, if institution was denied

or the case settled before the final decision, the petitioner would face no estoppel consequences. I recognize that petitioners do still have to consider the costs involved in IPRs and that final decisions uphold at least one claim about a third of the time. But my point is that the incentives attended IPR can be quite different than those that attend district court litigation.

4. *IPRs Can Add to the Cost, Time, and Complexity of Litigation*

Although IPRs are defended as an alternative to district court litigation, they are not an alternative so much as an addition. As Chief Judge Michel (now retired) has frequently remarked in public, IPRs have become an add-on to patent infringement litigation, adding more costs, more time, and often more complexity to the typical case. A very high percentage of patents challenged through IPRs are being asserted in concurrent district court litigation.

Some might consider it close to malpractice if a lawyer did not consider filing an IPR whenever a company is sued for infringement. Why? Well, the odds are good that the IPR will be instituted; the odds are even better that any instituted claims will be invalidated; and if institution is denied or no final decision issues, the IPR filers will face no estoppel consequences. Moreover, in the IPR, the IPR filer will have advantages. For example, the IPR filer will only have to prove invalidity by a preponderance of the evidence—it will not have to meet the clear-and-convincing standard applicable in district court. There is also about a 50% chance that the district court case will be stayed pending the IPR (which could take 2.5 years to run its course). And, even if the IPR filer loses, it will still have several invalidity defenses available to it in district court (eligibility, enablement, written description, indefiniteness) as well as other defenses against liability (non-infringement, etc.).

Essentially, IPRs have become an add-on to patent infringement litigation in district court. If the patent is invalidated at the PTAB, the infringement litigation may be narrowed or may disappear altogether. But if the PTAB proceedings are not fully dispositive of the

infringement claims, the PTAB proceeding ends up increasing the parties' costs and often delaying the district court litigation by 2.5 years. That is another facet worth considering.

5. *Do Not Have the Same Panel Render Institution and Final Decisions*

Another consideration is whether the same panel who decides whether to institute an IPR should issue a final written decision on the challenged claims. In the world of reexaminations, the group who decided whether to institute a reexamination was different from the group who actually conducted the reexamination. I doubt that Congress would have expected the practice to change when it replaced reexaminations with IPRs. But IPRs follow a different path. When an IPR petition is filed, three APJs must evaluate whether there is a "reasonable likelihood" that the petitioner will prevail in the IPR. 35 U.S.C. § 314(a). If so, the petition is instituted. The APJs who decide to institute typically issue a lengthy, 20+ page opinion in support of their decision. Then, after some further briefing and one hour of oral argument, the same APJs are asked to decide whether the same challenged patent should be invalidated. Overwhelmingly, the APJs agree with their initial determination that the petitioner has the better of the argument. That is not surprising. However good their intentions, people tend to have difficulty changing their initial conclusions, even if they did not have complete information at the time.

Currently, the Patent Act does not require the same actors to make both decisions. In fact it is the Director who is charged with deciding whether to institute an IPR. 35 U.S.C. § 314(a). He can delegate that authority to anyone and if need not be the same three APJs who will make a final decision in the same IPR. He also could consider whether institution decisions—which are not binding on the APJs who issue the final written decision—should be as lengthy as they are. There may be some merit to having shorter decisions lest institution decisions made on less than complete information unduly influence the final decisionmakers. Whether or not the Director acts, however, Congress could consider whether to require a different person(s) to determine

whether an IPR should be instituted in the first place, as compared to the person(s) that will eventually decide and write the final written decision of the IPR.

6. *Allow Appeals of Procedural Determinations Made at Institution*

At the institution stage, the USPTO evaluates more than the merits. It also evaluates whether various procedural requirements are satisfied (e.g., timing requirements, estoppel requirements, etc.). If those requirements are not satisfied, the IPR cannot move forward. Currently, however, institution decisions are not appealable. 35 U.S.C. § 314(d). Parties must wait until a final written decision is issued (which does not happen in every proceeding) to appeal. That makes sense to an extent. Any initial determination about the merits of the petition will be subsumed by the final written decision on patentability. But neither side should be deprived of the ability to appeal the procedural determinations made at the institution stage, any more than they should be deprived of the ability to appeal statute-of-limitations determinations in district court litigation. I believe Congress should clarify that.

7. *In Any Change, Congress Should Consider the Words Used To Describe PTAB Proceedings and IPRs*

In law, words matter. They inform actors of the role they play. They inform parties' expectations. And they inform this body of how the proceedings should unfold. But there is a great disconnect at the moment between the words used to describe PTAB proceedings and their actual content. Consider a few terms used in almost every IPR and PTAB proceeding:

- “Trial”: Trials conjure up a certain image—like the O.J. Simpson trial I remember watching on TV. There are live witnesses, often many of them, who are cross-examined in open court. I have participated in many trials like that as an expert. PTAB “trials” are different. There are no live witnesses or fact gathering or cross-examination. There is a one-hour hearing before a three-member panel that resembles a Federal Circuit argument.
- “Testimony”: Testimony is another word closely associated with trials. I have both solicited trial testimony and given it. It is typically live. In contrast,

“testimony” at the PTAB consists of two types of paper documents—the declaration of a witness (typically one per side), and that person’s deposition.

- “Evidence”: Evidence, too, has a more limited meaning in PTAB proceedings. In district court litigation, evidence comes in all forms—live testimony, documents from the parties, videos of an event, etc. In the PTAB, the evidence tends to consist of the paper documents from the experts (usually one per side) and the appendices attached to their declarations.

To me, PTAB proceedings are not trials in any true sense of the word in which witnesses and evidence are presented. The vast majority are challenges made under §§ 102 and 103 based on the parties’ pleadings, expert declarations and depositions, and a one-hour hearing. Using terminology that reflects the nature of those proceedings would help to align it with reality.

8. *Consider IPRs from the Patentee's Perspective*

Finally, I suggest Congress consider how IPR proceedings impact the patentee. Although patent filings are increasing, I am told that it is harder to enforce patents for many of the reasons discussed. They are no longer presumed valid in IPRs. Challengers have very good odds. And IPRs add to the expense and time associated with enforcing a patent.

I am not suggesting this because I am overly pro-patent. I spent 12 years litigation on behalf of the USPTO. In almost every case, I defended USPTO decisions finding claims invalid. But the system we have now is very different. I realize large parts of the AIA were passed to combat what was considered to be abusive patent litigation tactics. But that should not receive undue focus. Patent litigation is only one aspect of the patent system—and even within patent litigation, many parties are not seeking to abuse it. I am reminded every day that, without the innovators, the inventors, and the patentees, none of us would be doing what we are today. More important, without those people, we would not have the healthcare, smartphones, computers, electric cars, or countless other technologies we enjoy. The health of our patent system as a whole must be considered, not just the tactics that some litigators may employ.

Conclusion

The recent *Arthrex* decision by the Federal Circuit is significant. It raises serious questions that are unlikely to be resolved by the courts in the near future. And the courts may ultimately call upon Congress to take some action to address the Appointments Clause issue. If Congress can come up with a simple, acceptable solution in the meantime, it may wish to act accordingly. That will help to reduce the costly uncertainty from the current situation. For that reason, I applaud Congress for holding this hearing so quickly.

In addition, should Congress consider whether to amend the Patent Act, Congress may wish to revisit the question whether the PTAB and IPR process is functioning as envisioned. It may wish to consider whether the process is as fair, balanced, and transparent as it should be. Although others may disagree, I am confident that there is room for improvement. It has now been seven years since the AIA was enacted. And although recent tweaks to the system may be helpful, it does not appear that the major concerns attending the current system are apt to change, or at least any time soon. I am reminded of the adage that it can take a lot of effort and time to re-direct an ocean liner; some of the same can be said of the PTAB-IPR process as it exists today. I respectfully suggest that Congress should consider whether further changes to redress those concerns are warranted. After all Congress is best situated to decide whether the IPR-PTAB process is working as Congress intended; and, if not, to make the necessary changes.

Thank you again for asking me to appear before you today. It is truly an honor and a privilege. And I stand ready to assist the Congress and their staff in whatever way I can.

Mr. JOHNSON of Georgia. Thank you, and Ms. Rai, you may now begin.

STATEMENT OF ARTI K. RAI

Ms. RAI. Thank you very much, Chairman Johnson, Chairman Nadler, Vice Chairman Correa, and Ranking Member Roby for inviting me. I am honored to be here and I also thank the other distinguished Members of the Committee.

There are few issues about which I am more passionate than the PTAB. In that regard, I will have to limit myself to five minutes, but I do want to make one introductory point and then two other points.

My written testimony lists the empirical and analytical work I have done on the PTAB. I have done a number of empirical and analytical studies. Based on this work, I do believe the PTAB is largely functioning as Congress envisioned in the America Invents Act. It is an expert, efficient, and fair alternative to expensive Article III litigation of the validity of issued patents.

Second, the Federal Circuit's opinion in *Arthrex*, though in my view unduly formalist, may represent the views of the current Supreme Court.

Third, from the standpoint of sound administrative procedure, the *Arthrex* remedy is not optimal as a policy matter. I believe it does make the PTAB constitutional, even under the current Supreme Court's jurisprudence, but it is not optimal as a policy matter. As a consequence, Congress could and should cure the problem by enacting a surgical alteration to the patent statute that gives the Director a unilateral right of review of PTAB decisions.

So let me unpack each of those three points.

I will start very quickly with my introductory point. I believe that the data showed that not only is PTAB serving the purpose that Congress intended, but this data has been used by the USPTO Director to take a number of important steps to make the PTAB function better.

For example, the USPTO Director used data that my AUTHORS and I generated on the substitution effects that the PTAB is having to have the PTAB serve as an even more effective substitute for Article III. The Director has aligned PTAB's claimed construction procedures based upon that data with those used in the Article III so that substitution can occur even more efficiently.

In addition, the Director has implemented procedures to curb serial petitioning and other potentially abusive practices. And then finally, and most relevant to the panel today, the Director has implemented procedures through which he, working with other senior USPTO personnel, creates presidential opinions that ensure policy consistency across the PTAB. Policy consistency, as we all know, is a very important feature of the administrative state.

More specifically, under the procedure the director has created, the Director can determine that a particular PTAB opinion may warrant rehearing and convene a Precedential Opinion Panel to determine whether to grant rehearing. By default, this panel consists of the director, the commissioner of patents, and the PTAB chief.

Now this last change leads directly to the *Arthrex* opinion. In that opinion, the Federal circuit panel determined that the creation

of this Precedential Opinion Panel was insufficient because the director is only one member of a three-member panel. In my view, this is probably an unduly formalist reading of what is required for purposes of giving PTAB judges, quote, “adequate direction and supervision,” unquote, under the Supreme Court’s *Edmond* case. But as Professor Duffy has noted, it may be consistent with what a majority of the current Supreme Court would find.

So now to my third point on the issue of remedy. On the positive side, the Arthrex panel’s decisions to sever removable protections, I think, is a mechanism for curing the constitutional infirmity. Not only did the intercollegiate decision that Professor Duffy mentioned from the D.C. circuit use the same remedy but it is also consistent with the Supreme Court’s decision in *Free Enterprise Fund v. PCAOB*, which also used severance to deal with an Appointments Clause challenge.

So I think that the remedy is constitutional. But I do think as a policy matter it is a bad idea. Why is it a bad idea? I think, as Chairman Johnson has mentioned, it puts considerable pressure on the policy principle that political review of adjudicators should be transparent. The administrative state generally has such transparent review, whether the administrative adjudication is covered by the APA or whether it is a so-called Type B hearing, as the Administrative Conference of the United States has called these other types of hearings.

So if the Congress were so inclined, it could just imitate the other parts of the administrative adjudicatory state that give a politically appointed official a clear right of review, and it would largely replicate the review that is already occurring in the POP panel but that the current Federal circuit and maybe the current Supreme Court would think is not sufficiently unilateral.

Thank you, and I look forward to your questions.

[The statement of Ms. Rai follows:]

Testimony of Arti K. Rai

Elvin R. Latty Professor and Faculty Director, the Center for Innovation Policy

Duke University School of Law

11/19/19

“The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions”

Testimony of Arti K. Rai

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“The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions”

My Background

I am Elvin R. Latty Professor and Faculty Director of the Center for Innovation Policy at Duke University School of Law. I teach and write in the areas of patent and administrative law and have written a number of articles and book chapters, both doctrinal and empirical, discussing the Patent Trial and Appeal Board (PTAB). The articles include *Administrative Power in the Era of Patent Stare Decisis*, 65 DUKE LAW JOURNAL 1561 (2016) (with Stuart M. Benjamin) and *Strategic Decisionmaking in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH L.J. 45 (2016) (with Saurabh Vishnubhakat and Jay Kesan). The book chapters discussing the PTAB are contained in the two-volume RESEARCH HANDBOOK ON THE ECONOMICS OF INTELLECTUAL PROPERTY LAW (Edward Elgar 2019), edited by Peter Menell, Ben Depoorter, and David Schwartz.

From 2009-2010 I served as the Administrator of the Office of External Affairs (now the Office of Policy and International Affairs) at the USPTO. In that capacity, I conducted policy analysis of draft legislation that ultimately became the America Invents Act.

I am testifying on my own behalf. No organization has paid for or approved this testimony.

Introduction

Since its creation, the PTAB has played a very important role in ensuring patent quality. As envisioned by Congress, it has allowed the USPTO to correct initial errors in patent grants in a manner that is faster, cheaper, and more expert than Article III adjudication. The articles and book chapters referenced in the section above demonstrate the PTAB’s critical role, and I refer the Committee to those articles and book chapters.

Additionally, the USPTO has, in line with recommendations made in my work and that of other commentators, implemented a series of steps to improve PTAB operation. The agency has aligned its claim construction procedures with those used in Article III courts; implemented procedures to curtail serial petitioning and other potentially abusive practices at the PTAB; and implemented procedures through which the Director, working with other senior USPTO personnel, can create precedential opinions that ensure policy consistency across the PTAB. I discuss the USPTO’s Precedential Opinion Process in greater detail below.

Because of the PTAB's central role, it has been the subject of very heavy scrutiny. One recent area of scrutiny has involved the Appointments Clause of the Constitution.

In *Arthrex, Inc. v. Smith & Nephew, Inc.*, ___ Fed. 3d, ___ (Fed. Cir. 2019), a panel of the Federal Circuit held that the administrative patent judges (APJs) at the PTAB are "principal officers" who must, under the Appointments Clause, be appointed by the President and confirmed by the Senate. In contrast, the current patent statute provides for APJs to be appointed by the Secretary of Commerce in consultation with the PTO Director. 35 U.S.C. § 6(a). The *Arthrex* panel further determined that it could remedy the constitutional defect by severing APJ removal protections, thereby rendering them inferior officers who can be appointed by "Heads of Departments" like the Commerce Secretary. The panel also determined that, in the case before it and other cases where "final written decisions were issued and where litigants present an Appointments Clause challenge on appeal," the decisions should be vacated and remanded to be heard by a new panel of APJs.

My testimony makes three points. First, although the *Arthrex* panel's decision is quite formalist in orientation, the current Supreme Court majority tends to view administrative adjudication through a formalist lens. Thus the panel's decision to focus on Justice Scalia's opinion for the Court in *Edmond v. United States*, 520 U.S. 651 (1997), and give less emphasis to the Court's opinion in *Morrison v. Olson*, 487 U.S. 654 (1988), may reflect the views of a majority of the current Supreme Court. Second, the *Arthrex* panel's remedy, though likely consistent with the current direction of the Supreme Court majority, yields a result that is far from optimal. The removal of firing protections from APJs creates opportunities for non-transparent political pressure to be applied to the APJs. Moreover, the requirement that cases currently on appeal also be vacated and remanded to be heard by a new panel creates additional work and uncertainty. As a consequence, and third, the best course forward involves Congress granting the Director a unilateral, discretionary right of review. This intervention, which would parallel review provisions that exist for most other agencies, would cure any constitutional defect without creating the problems associated with the *Arthrex* panel's remedy.

The *Arthrex* Panel's Assessment of Principal vs. Inferior Officer Status

The *Arthrex* panel's conclusion regarding principal officer status of APJs, which rested on Justice Scalia's 1997 opinion for the Court in *Edmond v. United States*, may reflect an accurate read of the position that would be taken by the current Supreme Court majority.

In *Edmond*, the Court held that inferior officers must be "directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." According to the *Arthrex* panel, PTAB judges lack adequate direction and supervision under *Edmond* for two reasons: first, "presidentially appointed officers" cannot "review, vacate, or correct decisions by the APJs"; and, second, these presidentially appointed officers (specifically the Secretary of Commerce and Director) have only "limited removal power."

The *Edmond* Court had to distinguish its considerably less formalist opinion in *Morrison v. Olson*. Under the *Morrison* test, which relies on multiple indicia of inferiority, including whether the officer has "authority to formulate policy for the Government or the Executive

Branch,” *Morrison*, 487 U.S. at 671, the patent statute’s unique conferral upon the Director of overall responsibility for USPTO “policy direction and management supervision,” 35 U.S.C. § 3(a)(2)(A), might be more relevant than under *Edmond*.

Also relevant under a more functional analysis would be the mechanism for rehearing of PTAB decisions for which the statute provides. *See* 35 U.S.C. § 6 (c). Pursuant to this statutory provision, the Director has set up a comprehensive “Precedential Opinion Panel” (POP) process, *see* Standard Operating Procedure 2 (Rev. 10), at <http://go.usa.gov/xVQcN>, to rehear PTAB cases that raise important issues. The POP is selected by the Director and by default consists of the Director, the Commissioner for Patents, and the Chief Judge.

While the *Arthrex* panel did note the Director’s general supervisory powers over the PTAB, his statutory authority to promulgate regulations by which the PTAB is bound, the rehearing provision, and the POP procedure, it emphasized that neither the statute nor the POP procedure explicitly provide for a right of rehearing over specific cases by the Director *only*. The panel presumably concluded that, under *Edmond*, any functional ability the Director might have to persuade the Commissioner for Patents and the Chief Judge is insufficient.

The Problem with the *Arthrex* Remedy

The *Arthrex* panel’s decision to sever removal protections as a mechanism for curing constitutional infirmity appears consistent with the Supreme Court’s decision in *Free Enterprise Fund et al. v. Public Company Accounting Oversight Board et al.*, 561 U.S. 477 (2010). The Public Company Accounting Oversight Board (Board), created by the Sarbanes-Oxley Act of 2002, comprises five members appointed by the Securities and Exchange Commission (Commission). The petitioners in *Free Enterprise Fund* challenged the structure of the Board as unconstitutional, on the theory that it was insulated from Presidential control by two layers of protection: Board members could only be removed by the Commission for good cause, and Commissioners could also only be removed by the President for good cause. The Court agreed with petitioners on the removal question and severed the “good cause” restriction on removal of the Board’s members.

Although the Court focused on the removal question, it also addressed the Appointments Clause challenge. According to the Court, because “the Commission is properly viewed, under the Constitution, as possessing the power to remove Board members at will, and given the Commission’s other oversight authority, we have no hesitation in concluding that under *Edmond* the Board members are inferior officers whose appointment Congress may permissibly vest in a “Hea[d] of Departmen[t].” *Free Enterprise Fund*, 561 U.S. at 510. The Court’s determination that severance of a removal restriction can cure constitutional infirmity associated with an Appointments Clause challenge suggests that the *Arthrex* panel appropriately relied on severance of a removal restriction, even though the case before the panel raised *only* an Appointments Clause challenge.

However, the remedy puts considerable pressure on the principle that political review of adjudicators should be transparent. Administrative adjudication involving legally required evidentiary hearings generally embodies transparent mechanisms for retaining political control

and ensuring policy consistency. Conventionally, whether the initial adjudicatory hearing is governed by the provisions of sections 556 and 557 of the APA and is before an administrative law judge (ALJ), or is a non-APA hearing before some other type of administrative judge, the judge has some level of decisional independence and protection against firing. However, the judge's decisions are subject to a right of review by a politically appointed agency head. *See, e.g.,* Ronald M. Levin, *Administrative Judges and Agency Policy Development: The Koch Way*, 22 WM. & MARY BILL RTS. J. 407, 412 (2013) (discussing the "standard federal model"). *See also* Chris Walker and Melissa Wasserman, *The New World of Agency Adjudication*, 107 CAL. L.REV. 141, 156-57 (2019) (discussing Michael Asimow's review for the Administrative Conference of the United States of legally required evidentiary adjudications not governed by the APA, almost all of which involve some appeal to the agency head).

Notably, the POP procedure replicates this transparent review process. However, given the constraints of the current patent statute, it cannot replicate an entirely unilateral version.

To be sure, best practices would counsel that the USPTO continue using its POP review procedure. Nothing in the *Arthrex* remedy requires the USPTO to abandon the procedure. And there is little reason to believe that an agency Director interested in maintaining credibility with stakeholders would pressure individual APJs. That said, stakeholders may have legitimate reasons to be concerned about the possibility of behind-the-scenes pressure on APJs who can be fired at will.

The *Arthrex* remedy also creates additional work and uncertainty. As Judge Dyk's concurrence in *Bedgear, LLC v. Fredman Bros. Furniture Company, Inc.*, ___ F.3d ___ (2019) notes, it "requir[es] potentially hundreds of new proceedings."

Judge Dyk takes the position that, under Supreme Court jurisprudence, the *Arthrex* panel erred in failing to apply its determination that restrictions on removal are unconstitutional retroactively. In his view, Supreme Court precedent requires retroactive application and therefore "actions of APJs in the past were compliant with the constitution and the statute."

Although Judge Dyk's argument is perspicacious and has considerable merit, several counterarguments merit attention. Judge Dyk distinguishes the Supreme Court's decision in *Lucia v. SEC*, 138 S. Ct. 2044 (2018) to require a hearing before a new administrative judge on the grounds that the purported Appointments Clause fix in that case (an order by the SEC ratifying the judges as appointed by the SEC) was an agency fix and therefore prospective only. However, the *Lucia* Court's decision to require a new judge even in the face of the purported fix doesn't discuss the origin of the fix. Instead the decision specifically stresses (in response to Justice Breyer's disagreement) the constitutional importance of a new decision maker.

Judge Dyk's opinion also relies on the *Free Enterprise Fund* Court's severance of removal restrictions. However, the only available possibility in that case was going back to a Board whose removal protections had been severed. There was no alternative Board. Given that the *Lucia* majority does discuss the possibility of a "rule of necessity" overriding the need for a new decision maker, 138 S. Ct. at 2055 n.5, one might argue that *Free Enterprise Fund* involved the rule of necessity.

To be sure, neither *Lucia* or *Free Enterprise Fund* addresses the retroactivity issue. Hence the perspicuity of Judge Dyk's approach. But given the arguments on the other side, there is reason to be wary that an appeal to retroactivity will obviate additional work and uncertainty.

A Role for Congress

The cleanest path forward is therefore surgical Congressional intervention that gives the Director a unilateral right of review (including, potentially, a right that applies retroactively). This approach would cure any perceived constitutional infirmity without subjecting APJs to political pressure that isn't transparent. In order to accommodate the Director's workload, the right of review should be discretionary.

To be sure, even with discretionary review, the Director might have to delegate responsibilities to subordinates. Alternatively, Congress could set up intermediate bodies between the PTAB and the Director that refine the issues necessary for Director review. A recent report by Michael Asimov for the Administrative Conference of the United States details how other agencies that don't use ALJs but nonetheless conduct relatively formal administrative adjudications on a large scale, structure review by agency heads. *See* Michael Asimov, *Federal Administrative Adjudication Outside the Administrative Procedure Act* (2019), available at <https://www.acus.gov/sites/default/files/documents/Federal%20Administrative%20Adj%20Outside%20the%20APA%20-%20Final.pdf>.

This report's exhaustive study of the landscape provides a valuable reference. In consulting the Asimov report, the Committee should of course be aware that bright-line mechanisms for ensuring unilateral Director control are likely to represent the safest option.

Mr. JOHNSON of Georgia. Thank you. Votes have been called. We have one or perhaps two votes, and the time for voting has expired, but there are still 255 people who have not voted. So we are going to scamper over, do this one vote, perhaps there will be another vote which would be five minutes after that. And so I look forward to us being back here in about 15 minutes.

So with that I will recess.

[Recess.]

Mr. JOHNSON of Georgia. We are back in session, and I will now proceed under the five-minute rule with questions, and I will begin by recognizing myself for five minutes.

Ms. Rai, should we assume that the ruling that the PTAB violates the Appointments Clause will stand up on appeal, and isn't it possible that the courts will work this out themselves?

Ms. RAI. So it is a very good question, and when you say appeal I assume you mean not en banc but appealed to the Supreme Court, or perhaps you mean both.

Mr. JOHNSON of Georgia. Both.

Ms. RAI. I think en banc it may not stand up, but that is a question that I haven't thought through, you know, with great rigor. But I think on appeal to the Supreme Court it may well stand up, given Justices Gorsuch, Kavanaugh, and Roberts. I not sure about Thomas and Alito, but those three, I—I think are fairly formal when it comes to these questions.

Mr. JOHNSON of Georgia. Thank you. I would like to get the panel's reaction to some potential legislative ideas to address the Appointments Clause problem. Should all PTAB judges be appointed by the President and confirmed by the Senate? Should PTAB decisions be subject to discretionary review by the director of the PTO, or should PTAB decision be reviewable by a special panel of Senate-confirmed PTAB judges, or should PTAB decisions be reviewable by the PTAB chief judge, which would be made into a Senate-confirmed position, or should the PTAB be divided into two entities, one to hear ex parte proceedings and the other to hear inter parte proceedings?

And I will start with you, Professor Duffy.

Mr. DUFFY. I think that all—the first four of your suggestions all make the final decisions of the PTAB, in one way or another, reviewable by a Senate-confirmed person. And so I think that all four of those are constitutional. Three of them are expressly suggestions in my written statement. The fourth one is making the Senate—pardon me, making the chief judge of the PTAB the person who gets to review, but you would have to change that person into a Senate-confirmed person.

The fifth option, I think, about dividing the court into two parts, I think that is a matter that is sort of sideways to the constitutional issue. The constitutional issue is just making sure that all the decisions are reviewable by somebody who is Senate-confirmed. And I think actually in the opening statements, all the panelists seem to agree that that was the clearest solution, but then there are different examples of that.

Mr. JOHNSON of Georgia. Let me ask you. Whose alternative do you prefer?

Mr. DUFFY. So, from a lawyer's standpoint I think they are all constitutional, so then I think it is just a matter of policy. I think probably the Director review is the easiest one to do, that would not require changing the appointment of any existing officers and just reinstalling a sufficient lever of control. In my written statement—so I would suggest that one.

Mr. JOHNSON of Georgia. Thank you.

Mr. ARMITAGE. I agree with Professor Duffy. I would say two things. One, I think it is important to do something quickly, so whatever provides the soonest, best political consensus should be given a priority.

Second, I think there is merit to thinking about whether there should be a separate trial-only function in the Patent Office, headed by a presidential appointee, because these are private litigants, basically, asking the PTO to adjudicate a private litigation.

Mr. JOHNSON of Georgia. Thank you. Mr. Whealan.

Mr. WHEALAN. Thank you, Mr. Chairman. I agree with at least some of the people on the panel that Director review, simply making that change, would be the quickest and most efficient way to probably make it constitutional. And in some ways, to be fair, I think the director has already been trying to do that, although not by himself, through the precedential panel proceedings that he as recently instituted.

Mr. JOHNSON of Georgia. All right. Thank you. And Ms. Rai?

Ms. RAI. Yes. I agree that unilateral Director review, really just one sentence, maybe in the patent statute, the Director shall have a right of review, would be the best option. It would be surgical. It would be quick, and hopefully not too controversial. And, I think it could actually work in tandem with the Precedential Opinion Panel system that has already been set up, and so there wouldn't even be a need to change that system. It would just be on top of that system.

Mr. JOHNSON of Georgia. Thank you. Mr. Duffy, do you believe the Arthrex court remedy of removing civil service protection for PTAB judges could lead to situations where there are due process concerns, and if yes, can you elaborate?

Mr. DUFFY. I think it is not a great remedy, because it says the Director can maybe be displeased with a decision and fire this person. So the judge is gone—the judges or judge is gone, but their judgment still is very hard to unwind in a particular case. So it is kind of like the Cheshire Cat. The cat is gone but the smile is still there, and I think that is not a great remedy.

Then you also have to say, well, to what extent can people get some sort of process before the Director, and say this was an incorrect decision. There is no mechanism to try to influence the director's exercise of discretion.

I think many of the members mentioned due process. I think that is in play here and it does create a sort of difficulty for controlling these judges under the current structure.

I can say one last thing, which is the Chief Justice of the United States, in the Oil States case actually brought up due process with respect to what is called panel stacking, which is one way that a director might be able to control the judges under the current mechanism. And you can read that portion of the oral argument

transcript. I think the Chief Justice was extremely frosty about whether this was constitutional or not. He thought that was probably not, I think, from his remarks. And so that shows the awkwardness of the current system.

Mr. JOHNSON of Georgia. Thank you. I now recognize the Ranking Member for five minutes. Mrs. Roby.

Mrs. ROBY. Thank you, Chairman. So beyond constitutional deficiencies, which I think you all have weighed in very clearly on what your suggestions may be, are there amendments to AIA that Congress should consider to ensure PTAB proceedings are fair for both parties? Anybody.

Mr. WHEALAN. So my written testimony talks about this, but I think the two things that Congress should do is it should go back and look at the debate that was going on between the IPR system, as I laid out. There was almost no debate. There was a lot of debate about the PGR second window that was taken out of the bill. And if you see some of the same problems, you could compare and contrast, are there things that you did not intend to occur that are basically occurring now.

But the second—to answer your direct question, the simplest fix, if what we have now is basically a validity challenge, not a re-exam, a straight-up validity challenge, then make the playing field fair. Presumption of validity, clear and convincing evidence, Phillips, and just make the standards what are in district court, make them the same at the PTAB.

Mrs. ROBY. That was my second question, so anybody else want to jump in? Do you think—and others can weigh in—do you think that it makes better sense, as was just suggested, to have PTAB apply the same standards district courts apply to claims invalid in those related proceedings?

Mr. ARMITAGE. Yes, absolutely. We now know from experience that 80 percent or so of IPR proceedings are actually part of the district court validity challenge to the patent, and it simply makes no sense to give the appearance of unfairness to the patent owner. Whether it is unfair or not, if these procedures are actually going to be sustainable and sustained they need to not only be fair but have the appearance of fairness, and they won't do that without the clear and convincing evidence standard.

Mrs. ROBY. I would say, Professor, you look like you want to say something.

Ms. RAI. Yes, I agree, as a policy matter, with the argument that claim construction should be the same as between Article III and the PTAB, and, in fact, submitted comments to the PTO and was very pleased that Director Iancu decided to go in that direction.

As an administrative law professor, it is not—I don't have a huge love of Congress necessarily coming in and micromanaging administrative adjudication. It seems to me that that this is the sort of thing that is appropriately delegated to the agency, which can adapt its adjudicatory practices within the limits of the Constitution to the needs before it. I think having Congress put that into statute would unduly box in the agency.

Mrs. ROBY. Should companies be allowed to bring multiple challenges to the same patent, either directly or through a follow-on attack by a surrogate, like the organizations that exist to invalidate

patents and who clearly represent the interests of the companies who fund them?

Mr. WHEALAN. Two responses to Ms. Rai's point, just a quick response. Congress put preponderance in the statute. Congress has to take it out if they want to change it.

As to your second point, estoppel is meant to be real. It was meant to be a pick-one forum. Don't let some member or organization do it for you. And so I think Congress wanted you to pick, and, you know, clearly when you have laws people figure out ways around them. You should investigate how they are going around them and put tighter estoppel in, because I think, as Arti Rai said, then you have a fair shot. You pick your shot, and that, to me, would be more balanced.

Mrs. ROBY. Anybody else?

Well, Mr. Chairman, I would just ask, I mean, there is clearly—you all have provided, both in your written testimony and here today, lots of suggestions, and I would just ask that we continue this conversation as we look to solutions. So I really do appreciate each of you coming here today and offering us very candid testimony from each of you. So thank you so much, and I yield back.

Mr. JOHNSON of Georgia. Thank you, and I now recognize the gentleman from Louisiana, Mr. Johnson, for five minutes.

Mr. JOHNSON of Louisiana. Thank you, Mr. Chairman, and thank you all again. We are all saying it but we appreciate your expertise. It is a crazy day on Capitol Hill, as you know, so do not interpret the empty seats as a lack of interest. It is just everyone is scattered to the four winds today.

The record of these proceedings, as you know, is really important to us, because this is what we go back and study, the staff and all the members, so I don't want you to think your testimony is in vain. We appreciate you being here.

I am really grateful for the level of attention that is being paid to the Appointments Clause here in the Intellectual Property Subcommittee, and we all recognize, we feel that this Subcommittee plays a key role in ensuring the U.S. remains the global leader in innovation, and we all know how important that is.

Our country is an exceptional beacon for innovation because our founders took the bold step to enshrine both property rights and a guarantee that enforcement of our laws be done in a manner that is consistent with the underlying principles that govern our republic.

I just had two pretty simple questions for you, but I am trying to summarize this for people who are not deep in the weeds on all the details. How is the background and the appointment of PTAB APJs different from the selection of ALJs appointed throughout the government? And if you have already answered this, forgive me. I have been in and out, like everybody else. But anyone, I guess. Mr. Duffy.

Mr. DUFFY. Well, from a constitutional standpoint, I think they are currently now, after the Supreme Court's decision in *Lucia* from last term, they are now quite similar constitutionally, in the sense that administrative law judges generally now must have the appointment from a head of department. Now that could be a multi-member commission like the SEC, and the Supreme Court

precedent has made that clear, but it has to be an appointment from the head of department.

The administrative patent judges have had that since 2008, because I had an article and sort of pointed out that they were not being appointed by a head of department, and the Congress changed that rather quickly to be appointment by the Secretary of Commerce. So in that sense they are similar.

The way they are different is their duties. Their duties are different because the administrative law judges are subject to plenary review, discretionary plenary review in many agencies, but plenary review at the agency head level. So there are Senate-confirmed full officers, non-inferior officers who have the final say, whereas the administrative patent judges and the PTAB that they staff really is not. And there are various ways that people can say, well, the Director could influence it this way or that way, but ultimately there is no firm control by any Senate-confirmed officer.

So that is the major difference, and that is what is causing a constitutional problem in this case.

Mr. JOHNSON of Louisiana. Thanks for that.

Ms. RAI. Can I just make one additional point? The statute does provide that the administrative patent judges have to be persons of competent scientific ability and patent ability, which is a requirement that is not there in the organic statute for many other agencies. And so to the extent we are concerned about expertise, I think it is fair to say that the statute provides for a basic level of expertise.

Mr. JOHNSON of Louisiana. Well, that actually kind of leads to my next question, and that would be, should Congress amend the statute further, define minimum qualifications to require more than just a technical degree and experience as a patent attorney? And if so, what would that criteria be? What is the ideal?

Mr. DUFFY. So I think that the Congress could do that if they found that there was a problem already with the hiring practices of the PTO. But I think that if you did want to make that change you might want to first investigate what the Administration is doing in terms of its hiring practices.

Usually this body doesn't legislate unless they think that there is a problem. I think that the administrative patent judges, I think most of them are attorneys. I would be surprised to find that they are not, or that a large number of them are not. And I think they do try to hire people who have some degree of technical expertise too.

Mr. JOHNSON of Louisiana. So if it is working well in practice we don't need to—I mean, I am not suggesting we should get into the middle of that, but I just wanted to know what you all thought, as experts in the field.

Mr. ARMITAGE. There actually appears to be very little criticism of the quality of the work because they don't have the legal expertise or the technical expertise to understand what they are doing. So I think this is not a problem in the real world.

Mr. JOHNSON of Louisiana. Good. Thanks for clarifying that.

I will yield back, Mr. Chairman. Thank you for being here.

Mr. JOHNSON of Georgia. Thank you. Next we will hear from the gentleman from Virginia, Mr. Cline, 5 minutes.

Mr. CLINE. Thank you, Mr. Chairman. I thank our witnesses for being here.

I want to take issue with the last statement that it seems to be working so well. Isn't it absurd for a Federal district court, or the Federal circuit to issue a decision upholding the validity of a patent only to have the PTAB invalidate the same patent on the grounds similar to those rejected by the courts?

Mr. WHEALAN. I think that goes to the both the purpose and how is it working, and I would say, but you can get different outcomes, unfortunately, if you have different standards. And so this might be a reason, again, another reason, to align the two standards and not have different outcomes, and essentially make whichever is the first standard—whichever is the first decision, be binding on the second decision.

Mr. CLINE. Well, does the fact that the PTAB invalidated patents upheld by Article II courts demonstrate a lack of oversight authority within the Executive branch?

Mr. WHEALAN. No, not necessarily. I mean, it is a different standard. So if you need to prove clear and convincing evidence and there is a presumption of validity in district court and you can't win, and all you need to do is prove by preponderance of the evidence, which is a lower standard, in theory they could prove it by 51 percent, and prove invalidity at the PTAB but not in district court. Whether that makes sense to have that system is a different question.

Mr. CLINE. Okay.

Ms. RAI. And I wanted to add that in addition to the difference in burden, clear and convincing versus preponderance, in the district courts, when validity is challenged, a district court can only determine that the patent is not invalid. The patent adjudication in district court does not determine that the patent is valid. So if another party comes along and challenges the patent in, for example, the PTAB, again, whatever one thinks of whether it is good as a policy matter, there is nothing illegitimate about another party challenging that patent because it has only been declared not invalid.

Mr. DUFFY. So I think that the history here is a little complicated, and you first have to go back to talking about the presumption of validity, because you talk about a lack of judicial supervision. What the Congress did in 1952 is codify a presumption of validity that had been built up by case law, but that was a massive shift in power away from the courts to the administrative agency.

So my colleagues on the panel have said there is a different standard and the court is only saying that the patent is not clearly invalid. That actually is a change that occurred in the mid 20th century that shifted power, that aggrandized the power of the administrative agency.

So if your concern is a lack of judicial supervision, you might go back and look at why an agency gets to issue a patent, oftentimes by just a single examiner, and that that actually gets an extraordinary amount of deference from the Judiciary so that they review it under this very deferential standard, and on top of that, from an administrative law standpoint, there is, under current lower court

case law, though, not Supreme Court case law, there is no judicial review of the administrative action issuing the patent.

The Federal circuit has held there is simply no way to review that. It is outside the Administrative Procedure Act, which is an extraordinary ruling. But nonetheless, that is an enormous amount of administrative power on the front end, that you can't forget about if you are trying to get back to first principles and separation of power.

Mr. CLINE. Thank you. Yes.

Mr. WHEALAN. We talk as if once you are done with the PTAB the patentee has a valid patent. He doesn't. He just can't have it challenged again under 102 and 103, based on basically the same priority of something that would have been available. When you go to district court, they could still challenge the validity of that same patent, based on 101 or 112. So it is only a subset that the patentee is now free from challenge in the district court.

Mr. CLINE. Thank you. Mr. Chairman, I yield back.

Mr. JOHNSON of Georgia. Thank you. At this time I would like to commence a second round of questions. My first will be to the panel, and anyone who wants to respond may.

There are a number of competing theories about whether the PTAB is constitutional right now. The government has suggested that the Arthrex decision was effective immediately. Another set of judges suggested that Arthrex should apply retroactively to curing constitutional defects. Yet the mandate in the Arthrex case has not issued.

What is your view on this issue, and how disruptive could the Arthrex decision actually be?

Mr. DUFFY. So I have thought a lot about this, and I want to begin this statement by saying it is extraordinarily complex, and that is why my written statement and my oral statement talked about uncertainty and about the years that are going to—where the courts are going to have to unwind these things.

In terms of the decision, one theoretical objection to what the Arthrex panel did, which was made by a separate opinion by Judge Dyk, framed in terms of retroactivity, but it can be framed more clearly, I think, by simply saying that if you go back to *Marbury v. Madison*, all the court does, courts don't actually strike down statutes. They simply say what the law is. And if the judges cannot constitutionally have tenure, if that actually is the correct view of the Constitution and the laws and the statute, then the judges never did have tenure, because the law never was that way. Even before a court says it is the law, it still was the law. That is the sort of basic, sort of very formalistic view that judges don't make law. They simply announce what the law is and has always been. That is something Justice Scalia was a very big fan of.

Now that would mean that the judges never had tenure and, therefore, if the removal of their tenure protection solves the constitutional defect, then they never had tenure in the first place.

Now in my written statement I said that it is not clear that that is a sufficient remedy, and I think that the panel here suggested that the only sufficient remedy that is clear is having some sort of Senate-confirmed officer or officers review the decision.

But the Arthrex decision has many sub-issues, many sub-issues underneath of it, and we will eventually, in a couple of years, get a final decision on at least some of them. But I don't know if we can wait that long.

Mr. JOHNSON of Georgia. Yes.

Mr. WHEALAN. I would just add, somebody said to me recently, "It is interesting, how could the APJs previously had thought they could have been fired at will when they didn't know they could be fired at will, and then would have acted differently." So we are acting in an imaginary universe.

But I do agree with John, that the uncertainty—many people think these decisions are not correct, but talking to constitutional lawyers, administrative colleague who never talk about patent law, they are talking to me about patent law and they don't even know all the answers and everybody disagrees. So this is going to take at least a year en banc. It could be another year at the Supreme Court. And the courts could decide the judges, the APJs still have too much authority, still have too much decision-making authority, the Director is still not reviewing their work, and it is still unconstitutional unless Congress acts.

Mr. JOHNSON of Georgia. Thank you.

Mr. ARMITAGE. One of the last thing I do before I go to bed each night is hope that Judge Dyk is correct, because if we get an en banc ruling that he is correct, if nothing bad happens until the Supreme Court does something different, and that gives you all time to have a permanent fix along the lines I think we have been discussing, about review and authority.

Ms. RAI. And in terms of the permanent fix, I do think that a retroactive permanent fix would be useful as well, because I think in creating the certainty we need, we need to make sure that not simply prospectively, but retroactively the director was deemed to have the right of review.

Mr. JOHNSON of Georgia. Thank you. Professor Rai, would it raise due process concerns if the director uses his new power to remove PTAB judges without restriction, firing a judge in the middle of a case for the way the judge was inclined to handle the case?

Ms. RAI. Yes, it would. I think certainly in the middle of the case, yes, I think that would be a serious due process issue.

Now the Alappat case was a little bit different, and I am not sure if the Alappat case, which we haven't really talked about, but was a decision from the Federal Circuit, an en banc decision, from 1994, where—well, I supposed we have talked about it in that Professor Duffy talked about so-called panel stacking—I would be reluctant to call it panel stacking. There was a new panel created to rehear the case. I don't think that that is a due process problem but I do think firing somebody in the middle of his or her deciding a case is a due process problem, yes.

Mr. JOHNSON of Georgia. Anyone else?

Mr. WHEALAN. Could APJs currently argue that they had something taken away from them, by their civil service protection taken away from them, and now they can be fired at will. You know, can they argue that if they are fired for another reason? I mean, and I can't believe, you know, although I don't think that Director Iancu is going to start firing people, as a practical matter, I can't

believe it is a warm and fuzzy feeling to find out one way you were protected by the Civil Service like everybody else, like I was as a government employee, and then to find out the next day you are not.

Mr. DUFFY. I think that there is a constitutional question about the due process, but it is very complex, because it would depend on how the—the director, I think, under the current Federal circuit ruling, could do that and could fire somebody. As long as the hearing continues and, I think, the constitutional due process hearing right would be the basic right from *Morgan v. United States*, where the court said that he who decides has to be the one who hears, in other words, reads all the documents and has the briefs and everything submitted, has the oral argument, if it is statutorily available. That is the person who has to be the decider. That is a crucial feature of administrative due process, and that was established in the first half of the 20th century.

So the Director could fire somebody. Now, frankly, I don't know the Director would know somebody is going to rule—questions at oral argument, or something like that? It would be very hard to figure out how the Director would figure that out. But if the Director did do that and just substitute in a new person, it probably would be constitutional but it may raise policy concerns, which I think are certainly within the prerogative of the Congress to decide that it is not good policy.

Mr. JOHNSON of Georgia. All right.

Mr. ARMITAGE. I think that there are really two relevant hypotheticals here. The Patent Office was created largely to decide if a patent should issue. So if a patent examiner, having a patent application in front of him or her, was going to allow a patent to issue, that the Director did not want to issue, it actually wouldn't offend me if the Director took that patent application away and explained to the applicant why the patent should issue. That is fundamentally the Director's job to set policy and understand which patents should and shouldn't issue.

On the other hand, if a litigant is in a private litigation in a Federal district court, and a Federal District Court Judge is about to rule in favor of one party relative to a patent, the director of the Patent and Trademark Office should not have the ability to have that Article III Judge change because of the way that judge might rule on the patent.

So why would it appear fair if instead of having that litigation take place, as it always did before the IPR statute in the Federal District court, we now have the Patent Office conducting that before an Administrative Patent Judge, and the Director can say, "I don't like the way this private litigation issue may come out. I'm going to put someone else in." I think that is highly offensive, whether it is due process or not, as a technical matter, and does suggest that what the Patent Office does *ex parte*, in deciding if patents should issue, should not be the relevant framework for deciding the director's authority in these what otherwise would have been private litigation matters.

Mr. JOHNSON of Georgia. Thank you. Mrs. Roby.

Mrs. ROBY. Well, I just want to talk to you in terms of, you know, the matter at hand really is how this affects companies, so busi-

nesses. If it is determined that the fix is not enough then what happens to the decision? I mean, can a company rely on the decision? I think this is really the heart of the matter in terms of urgency and the need to take this up, and why today's discussion is so important, but not just ending here today but moving forward on actually putting these solutions into practice. So feel free to comment on that, but I do think it is an important question to ask. I mean, both of you can—I have got four minutes.

Mr. WHEALAN. Just quickly, the two things companies that I talk to complain about are uncertainty, and the only thing worse than uncertainty is delayed uncertainty. They need to make decisions. You tell them what the answer is, they can make a decision. If they don't know what the answer is, they can't act. A lot of money and time is being spent right now trying to figure this out, and as we have all talked about, the final answer may not be until the Supreme Court, which would take two years, and if they don't have the power to solve it, it may not even be done then.

Mr. DUFFY. And so I agree with that, and I think that my colleague, Bob Armitage, said that like that Judge Dyk's solution would work, because at least it wouldn't be a problem for another two years, until the Supreme Court said something differently.

But, since a lot of people would think that the Supreme Court might very well say something differently, the problem is still present today. It is not that it is the sword of Damocles' fault. It is that it is hanging there that is the problem. And I think the sword of Damocles is there and the uncertainty is there, unless there is some sort of legislative fix. It is not going to come from the courts. It is not going to come from Judge Dyk. It is not going to come from the Arthrex en banc panel. It would only come from the Supreme Court, and for complex reasons they may not even give a final solution because there are a variety of issues associated with remedy. They usually grant certiorari on one question and limit themselves to that question, and then that can create sub-questions that go back and be litigated for years longer.

Mr. WHEALAN. And just to complement what John said, or add to it, although Bob may like Judge Dyk to make that en banc decision, he is not going to. There are 12 of them, and if you have looked at their en banc decisions in the last 5 to 10 years, they don't always agree, and sometimes they write lots of different opinions. So you would have a decision, but it would only be until the Supreme Court took it up, and there would be ample, probably, dissenting opinions from the Federal circuit which essentially are turned into a cert petition to the Supreme Court.

Mr. ARMITAGE. Let me just clarify, if weren't clear what I hope I said. I go to bed at night hoping Judge Dyk is right, because he would do, retroactively, something that during an interim period of time would cause no harm, and give the Congress time to act, as Arti Rai says, retroactively to do some good, one of the good things would be to presumably moot the issue so the Supreme Court would actually never have to decide the current issue that we face with the current statute.

So it is really the ability of nothing bad to happen before Congress acts. And what do I mean by "bad"? For example, the PTAB decisions basically being all of questionable constitutionality, so

who knows if decisions invalidating patents really invalidated those patents? I mean, the unthinkable things need to be solved before they become thoughts we all have to live with.

Ms. RAI. And one last thing to add to the chorus that I think is being generated, that it is up to you to do the right thing and fix this, and that is that the due process issue, one component of it, which is procedural due process, is being litigated right now, and this Arthrex decision makes that procedural due process problem even more complicated because the question, if, for example, a litigant wanted to say that there is a procedural due process problem with the way that IPRs are working, they could certainly point to the fact that now judges can be fired at will.

Mrs. ROBY. Well again, thank you all for being here. We really appreciate your time today, and thank you, Mr. Chairman. I yield back.

Mr. JOHNSON of Georgia. Thank you. With that we will conclude today's hearing. I want to thank the panelists for their attendance today, and without objection all members will have five legislative days to submit additional written questions for the witnesses or additional materials for the record. And with that the hearing is adjourned.

[Whereupon, at 5:25 p.m. the subcommittee was adjourned.]

APPENDIX

CONGRESSMAN GREG STANTON'S STATEMENT FOR THE RECORD

EVENT: HOUSE JUDICIARY SUBCOMMITTEE HEARING ON "THE PATENT TRIAL
AND APPEAL BOARD AND THE APPOINTMENTS CLAUSE: IMPLICATIONS
OF RECENT COURT DECISIONS"
DATE: TUESDAY, NOVEMBER 19, 2019

OPENING STATEMENT AND QUESTIONS

- Thank you, Mr. Chairman.
- Good afternoon to all of the witnesses.
- Thank you for taking the time to testify before this subcommittee on the recent court decisions affecting the Patent Trial and Appeal Board (PTAB).
- As a new member to the Judiciary committee, I am continuously learning about patents and the United States Patent and Trade Office (USPTO).
- So, my questions here today are to gain a better understanding of the Arthrex decision and what it means for the PTAB going forward.

Arthrex decision

- The *Arthrex* court concluded that the Director had a good deal of authority to supervise PTAB judges, but that this supervisory authority ultimately could not outweigh the inability of the Director to reconsider a final decision on his own or to remove a judge without restrictions. Do you think this was the right result? Why or why not?

Impact of *Arthrex* on the PTAB and the USPTO

- What does the *Arthrex* decision mean for the individuals who have cases pending with the PTAB?
- What effect is *Arthrex* having on pending PTAB cases and appeals of PTAB decisions to federal court?
- From a big picture perspective, what effect does this decision have on policy administration of the Patent and Trademark Office?
- There are a number of competing theories about whether the PTAB is constitutional right now—the government has suggested that the *Arthrex* decision was effective immediately, another set of judges suggested that *Arthrex* should apply retroactively to cure any constitutional defects, yet the mandate in the *Arthrex* case has not issued. What is your view on this issue? How disruptive could the *Arthrex* decision actually be?

Legislative solutions

- One of the solutions floated is having the Director review final written decisions. What are your thoughts on this idea? How can the Director realistically handle the number of decisions in an efficient manner?
- Some patent advocates say that the *Arthrex* decision gives way for the PTAB to be analyzed and reformed to better serve the needs of inventors. In your opinion, what are some ways the PTAB can be reformed to better serve the needs of all parties?

Impact of the *Arthrex* decision on PTAB judges

- The *Arthrex* court remedied the Appointments Clause violation by removing civil service protection for PTAB judges. *Should* PTAB judges be removable at will?
 - In your opinion, how does removing civil service protections for PTAB judges affect the way the judges' approach and review cases?
-

- I yield back the balance of my time.



November 22, 2019

The Honorable Andrei Iancu
Under Secretary of Commerce for Intellectual
Property and Director of the USPTO
600 Dulany Street
Alexandria, VA 22314

The Honorable Noel Francisco
Solicitor General of the United States
950 Pennsylvania Ave., NW
Washington, DC 20530-0001

Subject: Make PTAB Advisory, Eliminate Constitutional Issues, Restore Confidence in Patent Rights

Dear Director Iancu and Solicitor General Francisco,

I am President of US Inventor—a nonprofit education and advocacy group that seeks to advance inventorship, and protection of inventors, to ensure a legal environment that creates jobs and furthers the Constitutional imperative to secure to inventors their rights. Your Honors are presently considering how the Government will respond to the Federal Circuit's invitation to brief certain issues in *Polaris v. Kingston*, No. 2018-1768. The November 8, 2019 Order asked for the Government's views on numerous issues surrounding the unconstitutional appointment of Patent Trial and Appeal Board officers, and potential remedies. The Government's brief is due on December 6, 2019.

We offer the Government our view of a response that best serves the Government's interests, while advancing the cause of invention in this country. As explained below, the Government should recommend severance of part of 35 U.S.C. § 318(b) as the appropriate constitutional remedy.

The *Polaris* Order was wise to imply that a prior panel (*Arthrex*) might have incorrectly devised the remedy for the unconstitutional appointment of PTAB APJs. Many will find it both offensive and troubling that the Federal Circuit obliterated civil service removal protections for hundreds of Government employees. Consider that, the day before *Arthrex*, every APJ reasonably believed that he or she possessed full civil service protections against removal. But after *Arthrex*, such protections vanished on a massive scale, without any representation or opportunity to be heard. In short, the *Arthrex* panel devised a remedy for one constitutional flaw, only to create another constitutional flaw—disrupting vested due process rights of hundreds of individuals.

Another omission from the *Arthrex* analysis is acknowledgment that not all APJs exercise the power named by the Federal Circuit that makes them "officers." Some APJs are not assigned to work on PTAB tribunals at all. They only perform duties incident to *ex parte* application appeals. Such APJs had no reason to be swept into the *Arthrex* ruling at all, but their vested civil service rights are gone in an instant, too.

The Supreme Court has held that while "legislature[s] may elect not to confer a property interest in [public] employment, [they] may not constitutionally authorize the deprivation of such an interest, **once conferred**, without appropriate procedural safeguards." *Cleveland Bd. Of Educ. V. Loudermill*, 470 U.S. 532, 541 (1985) (emphasis added) (quoting *Arnett v. Kennedy*, 416 U.S. 134, 167 (1974)). Such safeguards include due process. If a single employee who undisputedly has civil service status can demand various due process rights incident to that status, then certainly hundreds of employees cannot have those vested due process rights taken away by judicial fiat.

We fully understand that the *Arthrex* court felt it was hewing closely to the narrowest remedy approved in prior cases, in factually dissimilar appointments clause disputes. For example, in *Free*

Enterprise Fund v. Public Company Accounting Oversight Board, 130 S. Ct. 3138 (2010), the Supreme Court authorized a similar remedy. However, the Board officers in *FEF* had never been subject to general federal civil service protections, but rather a skeletal dual “for cause” protection, under which such officers could only be removed for cause by others who could only be removed for cause. Vested federal civil service employment rights were not at issue.

Much more relevant than the remedy in *FEF* was the legal analysis leading to the holding. Within that analysis, the Supreme Court confirmed that it will merely “try” to limit the solution to the constitutional problem, and thus “sever any problematic portions while leaving the remainder intact.” *Id.* at 3161. For that case, it meant that “removal is incident to the power of appointment.” *Id.* The key word here is “try.” There were no lurking issues in *FEF* of an unconstitutional judicial remedy fixing an unconstitutional Board structure.

Much more importantly, the Supreme Court noted its power as a constitutional court to “restrict the Board’s enforcement powers, so that it would be a purely recommendatory panel.” *Id.* at 3162. While that remedy might have been inappropriate then, it is appropriate now.

Here, the Government can easily support a much less sweeping remedy than the *Arthrex* panel created, that preserves and protects every other aspect of PTAB practice and federal employment protection. Namely, the Government can urge the Federal Circuit to sever just eleven (11) words from 35 U.S.C. § 318(b) while holding that the PTAB is a “purely recommendatory panel.” The changes are as follows:

(b)Certificate.—

If the Patent Trial and Appeal Board issues a final written decision under subsection (a) and the time for appeal has expired or any appeal has terminated, the Director shall issue and publish a certificate ~~canceled any claim of the patent finally determined to be unpatentable~~, confirming any claim of the patent determined to be patentable, and incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable.

The panel becomes recommendatory, and cancelation of claims is eliminated. Simple and clean.

This remedy ensures fairness for Government employees, while providing needed relief to the thousands of aggrieved inventors who have been subjected to an unconstitutional tribunal. This remedy also accommodates the suggestion in the fourth *Polaris* briefing topic that constitutional rulings might be retroactive. Retroactive severance as indicated above would supply needed relief not only to future patentees dragged into PTAB proceedings, but to all of them who have been through the improper process. This remedy would also comport with how Congress intends PTAB outcomes to operate. Though advisory, PTAB unpatentability recommendations would cause an average litigant to be supremely careful before bringing a federal lawsuit on such patent claims, lest they be penalized for bringing an “exceptional case” if they are unable to show legitimate flaws in the PTAB’s recommendatory analysis.

This proposed remedy is appropriate for another reason. The *Arthrex* remedy had an “alternative reality” aspect that can also be avoided if the Government takes the suggestions here. Namely, no inventor ever complained about being troubled because PTAB APJs weren’t political *enough*. If anything, their prior status was already *too* political, and subject to problems of agency capture and revolving door employment. But now, without removal protections as *Arthrex* commands, their status is *even more political*, insofar as the Appointments Clause requires principal officers to be political creatures removable at will by agency heads. The solution of making the PTAB a recommendatory board ensures that such employees are not “officers” at all when working on tribunals, whereupon they can keep their constitutional and statutory employment protections.

For these reasons, US Inventor urges the Government to answer the *Polaris* questions by acknowledging the flaws in the *Arthrex* remedy described above, while suggesting the severance of the

above-noted eleven words from Section 318(b) as a retroactive cure of the appointments clause unconstitutionality.

Sincerely,

A handwritten signature in black ink, appearing to read 'Randy Landreneau', with a long horizontal flourish extending to the right.

Randy Landreneau
President

Cc (via email):

Melissa N. Patterson, Attorney
Department of Justice
Civil Division, Appellate Staff

Courtney Dixon
Department of Justice
Civil Division, Appellate Staff

Joseph H. Hunt, Assistant Attorney General
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Thomas W. Krause, Solicitor
United States Patent and Trademark Office
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QUESTIONS AND ANSWERS FOR THE RECORD

**Questions Submitted for the Record from Rep. Jerrold Nadler, Chairman
Committee on the Judiciary**

**Hearing on The Patent Trial and Appeal Board and the Appointments
Clause: Implications of Recent Court Decisions**

1. Are there any adjudicatory bodies in the Executive Branch that you would recommend Congress consider as a model for how the Patent Trial and Appeal Board (PTAB) should be reorganized to be consistent with the requirements of the Appointments Clause?
2. Following the logic in *Arthrex, Inc. v. Smith & Nephew, Inc.*,¹ do you believe that the judges of the Trademark Trial and Appeal Board (TTAB) are operating in violation of the Appointments Clause?
3. If the PTAB were divided into separate tribunals, one to hear appeals from denials of the grant of a patent, and one to hear contested proceedings (derivations, post-grant reviews, and inter partes reviews), do you believe a Presidentially-appointed officer would need to be able to review the final decisions from both new tribunals to be consistent with the Appointments Clause?
4. There are a number of competing theories about whether the PTAB is operating constitutionally following the *Arthrex* decision. For example, the government has suggested that the *Arthrex* decision was effective immediately notwithstanding that no mandate in the *Arthrex* case had issued.² Other Federal Circuit judges have stated that *Arthrex* should apply retroactively to cure any constitutional defects.³ What is your view?
5. After *Arthrex*, what checks, if any, remain to prevent political pressure from influencing the outcome of a particular case?

¹ No. 2018-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019).

² Oral Argument at 36:14, *Polaris Innovations Limited v. Kingston Technology Co. Inc.*, 2018-1768, http://cafc.uscourts.gov/oral-argument-recordings?title=&field_case_number_value=2018-1768&field_date_value2%5Bvalue%5D%5Bdate%5D=.

³ *Bedgear, LLC v. Freeman Bros. Furniture Co., Inc.*, No. 2018-2082, 2019 WL 5806893 (Fed. Cir. Nov. 7, 2019).

6. Would it raise due process concerns if the Director uses his new power to remove PTAB judges without restriction by firing a judge in the middle of a case for the way the judge was inclined to handle the case?

7. Do you believe the *Arthrex* court's remedy of removing civil service protection for PTAB judges could lead to other situations where there are due process concerns in post-issuance proceedings? If yes, can you elaborate?

Questions Submitted for the Record from Ranking Member Collins

**“The Patent Trial and Appeal Board and the Appointments Clause:
Implications of Recent Court Decisions”**

Question for All Witnesses

1. Was the Federal Circuit correct to hold that the constitutional defect in the appointment of PTAB APJs is cured by making them terminable at will? If not, is the fact that decisions of the PTAB are still not reviewable by any Senate confirmed individual within the agency, but instead the PTAB has last word on behalf of the Executive Branch, the main reason their appointment is still unconstitutional?
2. Does the uncertainty surrounding the constitutionality of the appointment of PTAB APJs create a cloud of uncertainty hanging over the decisions of the PTAB?
3. Would the defect in the appointment of PTAB APJs be cured by the enactment of legislation requiring each PTAB decision be reviewed by the PTO Director vested with the authority to reverse a decision of a panel of PTAB judges, or vacate and remand where further deliberation is required? Should Congress consider including provisions to ensure the policies of the PTAB do not change with the appointment of a new PTO Director and, if so, how could that be accomplished?
4. Is it preferable to fix this constitutional defect through legislation establishing within the PTAB an odd numbered panel of Presidentially appointed and Senate confirmed PTAB APJs who would have the authority to reverse a decision of a panel of inferior PTAB APJs, or vacate and remand where further deliberation is required, to insulate the PTAB from having the policies of the PTAB change with the appointment of a new PTO Director? If so, should the panel of principal PTAB APJs be term limited, to avoid those principal APJs from becoming too powerful? Under what circumstances should these principal APJs be removable, at the will of the Director, for cause, after a specific term?
5. If Congress was to amend the laws to require review by Senate confirmed officials within the agency of the decisions of panels of PTAB APJs, should inferior PTAB APJs be made removable for cause only? What are the risks of allowing inferior PTAB APJs be removable at the will of the Director?
6. Should Congress also amend the Patent Act to prohibit panel stacking by the PTAB?

**Questions Submitted for the Record from Rep. Jerrold Nadler, Chairman
Committee on the Judiciary**

**Hearing on The Patent Trial and Appeal Board and the Appointments
Clause: Implications of Recent Court Decisions**

Answers by Arti K. Rai, Elvin R. Latty Professor, Duke Law School

1. Are there any adjudicatory bodies in the Executive Branch that you would recommend Congress consider as a model for how the Patent Trial and Appeal Board (PTAB) should be reorganized to be consistent with the requirements of the Appointments Clause?

Any executive branch agency that uses formal adjudication and administrative law judges (ALJs) under sections 556 and 557 of the Administrative Procedure Act (APA) could serve as a model. Under the APA, an ALJ makes an “initial” decision, which is then appealable (whether as a matter of right or in the agency head’s discretion) to the agency head. *See* 5 U.S.C. § 557(b) (An initial decision “becomes the decision of the agency without further proceedings unless there is an appeal to, or review on motion of, the agency . . . On appeal from or review of the initial decision, the agency has all the power which it would have in making the initial decision except as it may limit the issues on notice or by rule.”)

Because the patent statute does not require adherence to sections 556 and 557 of the APA (and, relatedly, because PTAB is staffed by scientifically expert administrative patent judges (APJs) rather than ordinary ALJs), Congress could also look to agencies that use non-ALJ judges.

For non-ALJ adjudication, one option is the Executive Office of Immigration Review (EOIR). In that case, the agency head is the Attorney General, and he or she has discretionary review of decisions by the Board of Immigration Appeals (BIA). The Chair of the BIA or a majority of the BIA can also request such review by the Attorney General.

The BIA reviews decisions of front-line immigration judges, and therefore could be considered similar in some respects to the current Precedential Opinion Panel (POP) at the PTAB. Pursuant to authority under section 6 (c) of the patent statute, the POP grants “rehearings” of initial PTAB panel decisions. Accordingly, Congress could apply the EOIR model to confer upon the Director a unilateral, discretionary right to review any POP rehearing decision.

To be sure, many commentators have criticized immigration adjudication. But the structural model it provides for winnowing cases could be useful.

- 2) Following the logic in *Arthrex, Inc. v. Smith & Nephew, Inc.*,¹ do you believe that the judges of the Trademark Trial and Appeal Board (TTAB) are operating in violation of the Appointments Clause?

To the extent TTAB judges enjoy the same civil service protections as PTAB judges, the logic of *Arthrex* applies to them. Indeed, under the *Arthrex* logic, because TTAB operations do not appear to involve rehearings through a Precedential Opinion Panel of which the Director is a member, the Director has *less* supervisory authority over the TTAB than he has over the PTAB.

That said, as various briefs in the petition for rehearing *en banc* point out, the *Arthrex* panel's decision to interpret ordinary civil service protection to require a very high bar for removal is a controversial move. Similarly, the panel's dismissive view of what power is entailed by the Director's ability to designate which administrative judges should be on a panel is controversial.

3. If the PTAB were divided into separate tribunals, one to hear appeals from denials of the grant of a patent, and one to hear contested proceedings (derivations, post-grant reviews, and inter partes reviews), do you believe a Presidentially-appointed officer would need to be able to review the final decisions from both new tribunals to be consistent with the Appointments Clause?

As a preliminary matter, the need to divide PTAB into separate tribunals has not, in my view, been clearly established. Answers to the question of whether a Presidentially-appointed officer would be needed to review decisions from both new tribunals may vary depending on whether one adheres to the view that the scope of duties given to the administrative judge mark only the line between officer and non-officer status (*Edmond*) or whether such scope can also inform the line between principal and inferior (*Morrison v. Olson*). If the latter, it is possible that judges whose responsibilities were limited to reviewing appeals from denials of patent applications would be deemed inferior officers only.

4. There are a number of competing theories about whether the PTAB is operating constitutionally following the *Arthrex* decision. For example, the government has suggested that the *Arthrex* decision was effective immediately notwithstanding that no mandate in the *Arthrex* case had issued.² Other Federal Circuit judges have stated that *Arthrex* should apply retroactively to cure any constitutional defects.³ What is your view?

I associate myself with the views expressed by Judge Dyk. My written testimony expressed concern regarding tension between the Supreme Court's decision in *Lucia* and Judge Dyk's view that the *Arthrex* remedy should be applied retroactively. I have since come to the conclusion that my concern was overstated. Not only did *Lucia* involve an agency fix (as Judge Dyk notes) but the *Lucia* Court's argument that remanding to a new judge provides an "incentive" for litigants to raise Appointments Clause challenge applies (at best) only to the first successful challenger. Subsequent claimants don't bear the burden of making the challenge and there don't need incentives in the form of a new judge.

5. After *Arthrex*, what checks, if any, remain to prevent political pressure from influencing the outcome of a particular case?

A major check is judicial review by Article III. First, and most obviously, to the extent that a particular decision is factually or legally incorrect as a consequence of having been influenced by political pressure, the Federal Circuit could overturn

the outcome using the powers it has to review incorrect decisions. Additionally, in cases of political influence, the agency may fail to meet the requirement that it engaged in the “reasoned decision making” required by standard administrative law. Finally, as discussed in my answer to question 6, excessive political interference may raise procedural due process concerns.

¹ No. 2018-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019).

² Oral Argument at 36:14, *Polaris Innovations Limited v. Kingston Technology Co. Inc.*, 2018-1768, http://cafc.uscourts.gov/oral-argument-recordings?title=&field_case_number_value=2018-1768&field_date_value2%5Bvalue%5D%5Bdate%5D=.

³ *Bedgear, LLC v. Freeman Bros. Furniture Co., Inc.*, No. 2018-2082, 2019 WL 5806893 (Fed. Cir. Nov. 7, 2019).

6. Would it raise due process concerns if the Director uses his new power to remove PTAB judges without restriction by firing a judge in the middle of a case for the way the judge was inclined to handle the case?

Firing a judge in the middle of the case and replacing her with another judge could be problematic from a due process perspective. A definitive answer is difficult because the standards for what constitutes a due process violation are notoriously vague. To my knowledge, the Supreme Court has not addressed due process in the context of firing a judge midstream. In *Utica Packing Co. v. Block*, 781 F.2d 71 (6th Cir. 1984), however, the appellate court found a due process violation when the Secretary of Agriculture replaced an administrative judicial officer midstream because of disagreements about his handling of a case.

In my view, such firing in the middle of a case is different from the Director calling for a rehearing that results in an expanded panel. Although this sort of procedure has been attacked as “panel stacking” that contravenes due process, expanding a panel on rehearing strikes me as a procedure closer to the well-regarded Precedential Opinion Panel (POP) review now in place at the USPTO than to illegitimate interference in the work of administrative judges.

7. Do you believe the *Arthrex* court's remedy of removing civil service protection for PTAB judges could lead to other situations where there are due process concerns in post-issuance proceedings? .If yes, can you elaborate?

If the Director fired an administrative judge *after* she had spearheaded a “bad” ruling, that might pose a policy problem. (The “bad” decision would still be out there.) But I don’t think that would be a due process problem.

Questions Submitted for the Record from Ranking Member Collins

**"The Patent Trial and Appeal Board and the Appointments Clause:
Implications of Recent Court Decisions"**

Answers by Arti K. Rai, Elvin R. Latty Professor, Duke Law School

1. Was the Federal Circuit correct to hold that the constitutional defect in the appointment of PTAB APJs is cured by making them terminable at will? If not, is the fact that decisions of the PTAB are still not reviewable by any Senate confirmed individual within the agency, but instead the PTAB has last word on behalf of the Executive Branch, the main reason their appointment is still unconstitutional?

If the current Supreme Court were to agree with the *Arthrex* panel on its reasoning regarding constitutional defects in PTAB appointments, it would also likely agree with the panel's cure. As a policy matter, however, the panel's cure is suboptimal, as it creates opportunities for nontransparent political pressure.

By explicitly providing for unilateral discretionary review by the Director (discretionary review that could be layered on top of the current Precedential Opinion Panel procedure, for example), Congress could provide a cure that was unequivocally constitutional and also wise as a policy matter.

2. Does the uncertainty surrounding the constitutionality of the appointment of PTAB APJs create a cloud of uncertainty hanging over the decisions of the PTAB?

Yes. Moreover, as many commentators have noted, this cloud is unlikely to be lifted by the courts any time soon. Accordingly, Congress needs to provide a surgical fix.

3. Would the defect in the appointment of PTAB APJs be cured by the enactment of legislation requiring each PTAB decision be reviewed by the PTO Director vested with the authority to reverse a decision of a panel of PTAB judges, or vacate and remand where further deliberation is required? Should Congress consider including provisions to ensure the policies of the PTAB do not change with the appointment of a new PTO Director and, if so, how could that be accomplished?

Yes, any constitutional defect would be cured through the provision of a unilateral right of review PTO Director. A *requirement* of review would, however, be overly burdensome.

Legislative provisions that limited the power of a new (Presidentially appointed) PTO Director to change policy direction would be vulnerable to challenge on the grounds that they improperly contravene Article II executive power.

4. Is it preferable to fix this constitutional defect through legislation establishing within the PTAB an odd numbered panel of Presidentially appointed and Senate confirmed PTAB APJs who would have the authority to reverse a decision of a panel of inferior PTAB APJs, or vacate and remand where further deliberation is

required, to insulate the PTAB from having the policies of the PTAB change with the appointment of a new PTO Director? If so, should the panel of principal PTAB APJs be term limited, to avoid those principal APJs from becoming too powerful? Under what circumstances should these principal APJs be removable, at the will of the Director, for cause, after a specific term?

As far as I am aware, other executive branch agencies don't use ALJs or administrative judges who are principal officers. (Indeed, I don't think even independent agencies have such ALJs or administrative judges.) To be sure, this is not a dispositive argument against such use. But a group of executive branch principal APJs that could not be fired at will (even during a limited term) would seem anomalous.

5. If Congress was to amend the laws to require review by Senate confirmed officials within the agency of the decisions of panels of PTAB APJs, should inferior PTAB APJs be made removable for cause only? What are the risks of allowing inferior PTAB APJs be removable at the will of the Director?

Requiring review by a Senate-confirmed official may be less desirable than providing a discretionary right of review. But, yes, if Congress were to amend the law to provide for review by a Senate confirmed official, best practices would counsel that inferior PTAB APJs be provided some protection from at-will removal. As noted earlier, at-will removal creates opportunities for nontransparent political pressure.

6. Should Congress also amend the Patent Act to prohibit panel stacking by the PTAB?

In my view, commentators have used the term "panel stacking" a bit loosely. The patent statute explicitly provides for rehearing of PTAB decisions. Accordingly, a decision by the Director to expand a panel to review a previously decided case is not, in and of itself, illegitimate. To the contrary, like *en banc* review in Article III courts, some sort of additional review is necessary for purposes of providing consistency across decisions and producing precedent that binds the agency. Clear rules for such review, together with a standing body with pre-specified composition that performs such review, are desirable, however. Although past practice may have not conformed to clear rules, the current Precedential Opinion Panel rules are thorough and explicit. Accordingly, Congressional action on this front is not necessary.

**RESPONSES BY ROBERT A. ARMITAGE
CONSULTANT, IP STRATEGY & POLICY
MARCO ISLAND, FLORIDA**

Set out below are responses to questions submitted for response in Chairman Nadler's letter of December 16, 2019.

**QUESTIONS SUBMITTED FOR THE RECORD FROM REP. JERROLD NADLER, CHAIRMAN
COMMITTEE ON THE JUDICIARY
HEARING ON THE PATENT TRIAL AND APPEAL BOARD, AND THE APPOINTMENTS CLAUSE:
IMPLICATIONS OF RECENT COURT DECISIONS**

1. Are there any adjudicatory bodies in the Executive Branch that you would recommend Congress consider as a model for how the Patent Trial and Appeal Board (PTAB) should be reorganized to be consistent with the requirements of the Appointments Clause?

RESPONSE: Yes. A model of sorts, with somewhat similar jurisdiction over patent validity issues, can be found in the International Trade Commission's appointment of administrative law judges to hear patent validity issues in connection with allegations of unfair trade practices under 19 U.S.C. § 1337 (Section 337 Actions). The ALJ's of the ITC, however, have no authority to make final decisions "invalidating" patent claims, only recommendations to the Commission (consisting of six Commissioners who are appointed by the President and confirmed by the Senate) with respect to such validity issues.

In addition, other key differences exist between the ALJ's of the ITC and the Administrative Patent Judges of the PTAB. The Commission's decisions do not have the same collateral estoppel effects as determinations in civil actions in which patent invalidity defenses are successfully raised.¹ As a result, unlike the ITC, when PTAB judgment of invalidity of a patent claim becomes final, the patent claims are canceled—the ultimate in a *res judicata* effect, precluding any future efforts to enforce such a canceled patent claim. For this reason, any Appointment Clause concerns over the PTAB structure and its judges' accountabilities can be no less significant than those applying to the ITC's ALJs.² In short, PTAB decisions should require at least the same *review and approval* by Presidential appointees who are Senate-confirmed as the ITC decisions in Section 337 Actions. The challenge is finding the optimal mechanism for doing so.

¹ The Federal Circuit has held that the "decisions of the ITC involving patent issues have no preclusive effect in other forums." *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996). The Federal Circuit relied upon the legislative history of Section 337 is clear that Congress did not intend for the ITC's patent decisions to "have res judicata or collateral estoppel effect" in district courts. *Id.* (quoting S. Rep. No. 1298, 93d Cong., 2d Sess. 196 (1974)). In contrast, in contested proceedings before the PTAB, Congress authorized cancellation of patent claims—the ultimate finality and preclusive effect on thereafter raising infringing allegations tied to canceled claims.

² Recently, the ITC has addressed Appointment Clause issues with the ALJs that make recommendations to it on patent validity issues. See *The Appointment of the Commission's Administrative Law Judges for Section 337 Investigations* <https://www.govinfo.gov/content/pkg/FR-2018-09-10/pdf/2018-19584.pdf>.

The task of finding an optimal mechanism is simplified because such a mechanism may need to apply to only two potential issues where the authority of the PTAB APJs could be inconsistent with the Appointments Clause. One of these two situations involves the USPTO's decision-making process to issue a U.S. patent.

Appointment Clause considerations would suggest that the Director should be given authority to nullify any such decision to grant, whether the decision to do so is made by a patent examiner or an APJ. Patent examination takes place to determine if there are sufficient reasons to deny an inventor a patent that the Office is otherwise required by statute to issue to the inventor or the inventor's assignee.

The Director should have authority in all cases—to determine whether a basis exists to allow a patent to issue, including negating a decision of the PTAB or an individual patent examiner that would allow a patent to issue. When an application is denied, the public is in the same posture as though the application had never been filed in the first instance—there is no *affirmative act* under the Appointment Clause that has been undertaken by an “inferior officer” that is binding on the government or limits members of the public from engaging in certain commercial acts.

The second of these two situations involves the authority of the PTAB to issue a “final written decision” in an inter partes review, post-grant review, derivation, or covered business method patent proceeding that would declare an issued patent claim *unpatentable*. If such a decision becomes final, the Director must cancel the claim from the issued patent.

In contrast, a decision finding an issued claim in a patent not to be unpatentable produces the same result as though no proceeding before the Office been conducted. Such a decision—having no effect on an inventor's patent rights or the rights of members of the public to engage in commercial activities—should not implicate the Appointments Clause for the same reason as not issuing a patent in the first place is not an affirmative act by the Office undertaken by an inferior officer contrary to the Appointments Clause.

Thus, one possibility to address the PTAB Appointments Clause issue would be to give the Director more explicit authority to *review* and *reverse*, such as that exercised by the International Trade Commission over its ALJs. It could do so under 35 U.S.C. § 3(a)(2)(A).³

³ Two sentences could be added to subparagraph (A) at the end: “The Director shall be responsible for providing policy direction and management supervision for the Office and for the issuance of patents and the registration of trademarks. The Director shall perform these duties in a fair, impartial, and equitable manner. One mechanism would be to add at the end of subparagraph (A) two sentences: *Such management supervision shall include the Director's authority in any proceeding before the Office to review and vacate any final written decision of the Patent Trial and Appeal Board to the extent it finds that a claim in a patent is unpatentable and to review and reject any claim in an application for patent in which it would appear, following examination or upon appeal to the Patent Trial and Appeal Board, that the applicant was otherwise entitled to a patent on the application. In the exercise of such management supervision under the preceding sentence, the Director shall provide a detailed statement of the facts and law relied upon for the action taken and such action shall constitute the final agency determination with respect to the proceeding before the Office in which the claim was involved and shall be treated otherwise as though such action had been the final determination of the issue by the Patent Trial and Appeal Board.*”

However, as discussed below, such a model is far from optimal. A more optimal model would be to have one or more additional Senate-confirmed USPTO employees, specifically to have at least a new Chief Patent Judge head the PTAB with responsibilities, perhaps together with not more than two Senate-confirmed Deputy Patent Trial Judges, that would include selection of APJ panels to hear contested cases, to review of final written decisions in contested cases, and to order rehearing or reversal of decisions holding issued patent claims invalid in such cases. This would allow the Director, Deputy Director, Commissioner of Patents, and Commissioner of Trademarks to be removed as PTAB members, with the Director then being give new express statutory authority under § 3(a)(2)(A), if any, only to reverse decisions to issue U.S. patents made by either patent examiners or by PTAB APJs.

2. *Following the logic in Arthrex, Inc. v. Smith & Nephew, Inc.,*⁴ do you believe that the judges of the Trademark Trial and Appeal Board (TTAB) are operating in violation of the Appointments Clause?

RESPONSE: Based on the testimony at the hearing, there is a high likelihood that the Supreme Court would find a violation of the Appointment Clause given the complications that the Director of the United States Patent and Trademark Office—the only Senate-confirmed Presidential appointee in the Office—would experience in reviewing and approving PTAB decisions in contested matters in which claims of issued patents may be canceled as a consequence of a final written decision by a panel of PTAB judges finding such claims invalid.

3. *If the PTAB were divided into separate tribunals, one to hear appeals from denials of the grant of a patent, and one to hear contested proceedings (derivations, post-grant reviews, and inter partes reviews), do you believe a Presidentially-appointed officer would need to be able to review the final decisions from both new tribunals to be consistent with the Appointments clause?*

RESPONSE: At the outset, the PTAB currently consists of multiple divisions, with the appeals jurisdiction and trial jurisdiction of the PTAB being already being administered in separate divisions. Thus, no further or more formal “division” of the PTAB is needed into separate tribunals for the PTAB to continue to function with its jurisdiction in contested cases being administered separately, *i.e.*, in a separate division from its administration of ex parte patent appeals.

That said, such a Presidentially-appointed officer, if required for constitutional purposes to review and reverse decisions of a panel of PTAB APJs in a “trial division” (*i.e.*, its “contested cases” jurisdiction), would need to be a *Senate-confirmed* officer in order to address Appointment Clause issues. Although not an optimal solution, the Director could serve this purpose if it were given some type of express 35 U.S.C. § 3(a)(2)(A) authority, such as that described in response to Question #1.

The key question for Congress to grapple with, however, is the advisability of having the Director serve in this “principal officer” role in contested case, rather than having this responsibility assigned by law to the head of the PTAB, *i.e.*, its Chief Patent Judge.

⁴ No. 2018-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019).

4. *There are a number of competing theories about whether the PTAB is operating constitutionally following the Arthrex decision. For example, the government has suggested that the Arthrex decision was effective immediately notwithstanding that no mandate in the Arthrex case had issued.⁵ Other Federal Circuit judges have stated that Arthrex should apply retroactively to cure any constitutional defects.⁶ What is your view?*

RESPONSE: Any individual view (however informed) is ultimately helpful only if it ultimately becomes the view of the Supreme Court—*should the Court eventually determine that it would address this issue*. That said, my view is that the Executive Branch, for the present, should take the position of Judge Dyk in his non-precedential *per curiam* concurrence in *Bedgear*.⁷ His view is that the present statute can be construed to be a constitutional exercise of authority by Congress and, if so, it was constitutional *retroactively* relative to the date of the *Arthrex* interpretation of title 35. In contrast, Congress might best take the view that this outcome is fraught with sufficient uncertainty that legislative action is warranted, and urgently so.

5. *After Arthrex, what checks, if any, remain to prevent political pressure from influencing the outcome of a particular case?*

RESPONSE: After *Arthrex*, as briefly discussed above, the administration of the patent system now has two issues that clearly merit attention by Congress. First, in part to address “political pressures,” the PTAB might be trimmed to exclude as members the Director, Deputy Director, Commissioner of Patents, and Commissioner of Trademarks. In place of these members, Congress could provide that a Commerce Secretary-appointed (or a Presidentially-appointed) Chief Patent Judge be substituted, subject to the same removal provisions as the Director if Presidentially-appointed.⁸

Were this to be done, the Chief Patent Judge could be given the authority under 35 U.S.C. § 6(c) to name the 3-member panels who decide matters before the PTAB.⁹ Such a reform would be consistent both with giving the Director additional authority under 35 U.S.C. § 3(a)(2)(A) as described in response to Question #1 (in which case, the Chief Patent Judge could be appointed by the Secretary of Commerce) or with leaving the Director’s current authority unchanged (in

⁵ Oral Argument at 36: 14, *Polaris Innovations Limited v. Kingston Technology Co. Inc.*, 2018-1768, http://cafc.uscourts.gov/oral-argument-recordings?title=&field_case_number_value=2018-1768&field_date_value2%5Bvalue%5D%5Bdate%5D=.

⁶ *Bedgear, LLC v. Freeman Bros. Furniture Co., Inc.*, No. 2018-2082, 2019 WL 58.06893 (Fed. Cir. Nov. 7, 2019).

⁷ “I agree that the panel here is bound to follow *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019). But, even putting to one side the question of whether Administrative Patent Judges (‘APJs’) would have been improperly appointed (if not subject to at will removal), it seems to me that the remedy aspect of *Arthrex* (requiring a new hearing before a new panel) is not required by *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018), imposes large and unnecessary burdens on the system of inter partes review, requiring potentially hundreds of new proceedings, and involves unconstitutional prospective decision-making.”

⁸ See 35 U.S.C. § 3(a)(4), “The Director may be removed from office by the President. The President shall provide notification of any such removal to both Houses of Congress.”

⁹ “Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings.”

which case, Appointments Clause issues would indicate that the Chief Patent Judge should be both Presidentially-appointed and Senate-confirmed.)

In either case, the Director should not be given direct authority to name panels of administrative patent judges in contested cases or manipulate the panel composition in an individual case by removing judges for the purpose of affecting the outcome of a contested case. This would assist in the process of limiting the effect of political pressure, which—of course—would be *minimized* if a Chief Patent Judge of the PTAB were a Senate-confirmed USPTO employee.

6. *Would it raise due process concerns if the Director uses his new power to remove PTAB judges without restriction by firing a judge in the middle of a case for the way the judge was inclined to handle the case?*

RESPONSE: The contested proceedings of the PTAB, like all proceedings before the Office, need to be both fair and have the appearance of complete fairness. Whether due process concerns are raised or not by the power to discharge a judge, were the Director to do so, it would raise unfairness concerns, or at a minimum the appearance of same. Moreover, it is problematic to recruit the high-caliber adjudicators into such government service given the prospect of being summarily dismissed for reasons unrelated to substantive concerns over job performance.

For these reasons, Congress should consider prioritizing some alternative solution to *Arthrex* than having a cadre of hundreds of APJs who are each employees at will. As noted above, one option, although not an ideal one, would be grounded on affording the Director more explicit authority to *review* and *vacate* PTAB decisions to invalidate patent claims following final written decisions in contested cases. Ideally, however, any action by Congress should deter Director machinations that could appear to some to “rig” APJ panels prior to issuance of a final written decision—including by designating the Administrative Trial Judges who would serve in any particular 3-member panel. While such may not rise to the level of a “wrong” or a due process violation, it nonetheless would create avoidable “appearance” issues.

Thus, it is the avoidance of *unfairness appearance* issues, more than any possible due process concerns, that might lead Congress to create at least one Senate-confirmed “principal officer” to head a PTAB freed from Director, Deputy Director, and Patent/Trademark Commissioner membership.

7. *Do you believe the Arthrex court’s remedy of removing civil service protection for PTAB judges could lead to other situations where there are due process concerns in post issuance review proceedings?*

RESPONSE: Again, in my view, the principal concerns of the *Arthrex* “employees at will” remedy relate to the appearance of unfairness to patent owners. The Director takes an oath (35 U.S.C. § 3(a)(3)) to faithfully discharge the duties of the office that include acting in a “fair, impartial, and equitable manner.” A super-human Director, acting in consonance with his oath of office, could fairly, impartially, and equitably hear all the relevant evidence and personally decide each contested proceeding that comes before the Office.

However, the merely-human Directors of the Office are political appointees. Their actions are the subject of extensive commentary in the patent community. Some of that commentary centers on whether they are acting to sufficiently secure exclusive rights for inventors. Other commentary centers on whether they are sufficiently attuned to the issues of possible abusive litigation arising from the issuance of “overly broad” patents. Having these merely-human Directors take direct control over the outcome of patent disputes between private litigants is fraught with the potential for unwarranted criticism of bias or expediency borne of considerations other than the legal question of whether contested claims of an issued U.S. patent should be found to be invalid.

In this real-world context, merely-human Directors should be insulated from any possible criticism that they are taking actions that might tilt the outcome in individual patent disputes between competitors in contested proceedings before the Office. Congress, in removing the Director, the Director’s Deputy, and the two Commissioners from the PTAB, would be removing one source of such possible criticism. If, as the Appointment Clause appears to require, a Senate-confirmed USPTO official should have final review and reversal authority over a decision in a contested case involving an issued patent, then Congress should consider giving a Chief Patent Judge heading the PTAB that responsibility as a Senate-confirmed Presidential appointee. As needed for administrative purposes, that responsibility might be shared with up to two similarly appointed Deputy Chief Patent Trial Judges.

**QUESTIONS SUBMITTED FOR THE RECORD FROM RANKING MEMBER COLLINS
“THE PATENT TRIAL AND APPEAL BOARD AND THE APPOINTMENTS CLAUSE:
IMPLICATIONS OF RECENT COURT DECISIONS”**

Question for All Witnesses

1. Was the Federal Circuit correct to hold that the constitutional defect in the appointment of PTAB APJs is cured by making them terminable at will?

RESPONSE: Based on the testimony at the hearing, there is a risk that the “cure” in *Arthrex* will not suffice to assure constitutionality under the Appointments Clause. The Supreme Court may ultimately rule on the sufficiency of the remedy. In the meantime, PTAB decisions will be under a cloud of questionable authority until a final judicial determination is made.

If not, is the fact that decisions of the PTAB are still not reviewable by any Senate confirmed individual within the agency, but instead the PTAB has last word on behalf of the Executive Branch, the main reason their appointment is still unconstitutional?

RESPONSE: Again, based on the testimony at the hearing, the lack of a clear, statutory path to review and reverse certain decisions by a Senate-confirmed, Presidential appointee appears to be the core of the constitutional defect. While this issue arises to some extent with a decision by the PTAB to reverse a patent examiner’s rejection and to allow a patent to issue, it is most significant when the PTAB issues a final written decision to cancel claims of issued patents.

2. *Does the uncertainty surrounding the constitutionality of the appointment of PTAB APJs create a cloud of uncertainty hanging over the decisions of the PTAB?*

RESPONSE: Yes. The uncertainty is sufficiently great—and the possible outcomes if the issue ever reaches the Supreme Court sufficiently wide-ranging—that Congress should prioritize removing the uncertainty through legislation.

3. *Would the defect in the appointment of PTAB APJs be cured by the enactment of legislation requiring each PTAB decision be reviewed by the PTO Director vested with the authority to reverse a decision of a panel of PTAB judges, or vacate and remand where further deliberation is required?*

RESPONSE: Yes, based upon the testimony at the hearing. However, it would appear that the Director needs the *opportunity* to review and *reverse* rather than a statutory *requirement* to conduct such a review. For example, 35 U.S.C. § 3(a)(2)(A) could be amended to include such authority.¹⁰

Should Congress consider including provisions to ensure the policies of the PTAB do not change with the appointment of a new PTO Director and, if so, how could that be accomplished?

RESPONSE: This first aspect of this question is difficult to answer with a simple yes/no response. As an overarching policy matter, the potential for political pressure being exerted on the decisions of PTAB judges in contested cases should be minimized. That said, it cannot be eliminated altogether. Hence, the objective should be to find the path of optimal minimization of the Director's role in impacting the outcome of contested cases involving issued U.S. patents.

A first step down the *minimization* path would be to remove the Director, Deputy Director, Commissioner of Patents, and Commissioner of Trademarks from the PTAB. A second step would be to codify in legislation that the PTAB would be effectively organized with two divisions, a Patent Trial Division and a Patent Appeal Division, with a Chief Patent Judge heading the PTAB. The Chief Patent Judge could be joined by not more than two Deputy Chief Patent Trial Judges who would collectively head the Patent Trial Division. This would allow for the Chief Patent Judge and not more than two Deputy Chief Patent Appeal Judges to similarly head the Patent Appeal Division. The Chief Patent Judge could have the statutory authority currently vested in the Director to appoint 3-member panels of APJs to hear matters coming before the PTAB.

¹⁰ Subparagraph could add at the end two sentences: "Such management supervision shall include the Director's authority in any proceeding before the Office to review and vacate any final written decision of the Patent Trial and Appeal Board to the extent it finds that a claim in a patent is unpatentable and to review and reject any claim in an application for patent in which it would appear, following examination or upon appeal to the Patent Trial and Appeal Board, that the applicant was otherwise entitled to a patent on the application. In the exercise of such management supervision under the preceding sentence, the Director shall provide a detailed statement of the facts and law relied upon for the action taken and such action shall constitute the final agency determination with respect to the proceeding before the Office in which the claim was involved and shall be treated otherwise as though such action had been the final determination of the issue by the Patent Trial and Appeal Board."

As for contested cases, the Chief Patent Judge and Deputy Chief Patent Trial Judges would be given review authority over all decisions in contested cases that come before the PTAB. Each could be a Senate-confirmed, Presidentially-appointed member of the PTAB.

Other than the PTAB APJs “calling balls and strikes” in contested cases—and its Senate-confirmed leadership reviewing decisions of other administrative trial judges in contested cases—all rulemaking and policy-setting authority could and should remain with the Director. This division of responsibility is consistent with the overall supervisory management authority of the Director under 35 U.S.C. § 3(a)(2)(A).

The tenure of office for Senate-confirmed leadership of the PTAB, by statute, could match that of the Director. However, as appointees with no policymaking remit, they might be expected to continue in office beyond the Presidential Administration under which they were appointed and confirmed.

This organizational structure, then, would moot the need for giving the Director any authority to either review or revise any PTAB decision in any contested case for any Appointment Clause purpose. The Senate-confirmed Chief Patent Judge and the Deputy Chief Patent Trial Judges would be given this *review* and *revise* authority any decision of a 3-judge panel of APJs in any contested case involving an issued U.S. patent.

The above structure could be reinforced with additional express statutory authority under which the Director could review and bar the issuance of any patent that the examination and appeal processes within the USPTO would otherwise have allowed to be issued. If this were done, the USPTO Director could most completely exercise its policy-setting role and assure no patent could be issued inconsistent with the Director’s understanding of which patents by law ought to issue or not. As noted above, however, sound policy reasons suggest that the Director’s authority should not extend to negating PTAB decisions to invalidate patent claims in contested cases between private litigants.

35 U.S.C. § 3(a)(2)(A) could be amended to accomplish affording the Director more explicit statutory authority over ex parte decisions to allow patents to issue.¹¹

4. Is it preferable to fix this constitutional defect through legislation establishing within the PTAB an odd numbered panel of Presidentially appointed and Senate confirmed-PTAB APJs who would have the authority to reverse a decision of a panel of inferior PTAB APJs, or vacate and remand where further deliberation is required, to insulate the PTAB from having the policies of the PTAB change with the appointment of a new PTO Director?

¹¹ This could be done by adding to the end of Subparagraph (A): “Such management supervision shall include the Director’s authority to review and reject any claim in an application for patent in which it would appear, following examination or upon appeal to the Patent Trial and Appeal Board, that the applicant was otherwise entitled to a patent on the application. In the exercise of such management supervision, the Director shall provide a detailed statement of the facts and law relied upon for the rejection and such action shall constitute the final agency determination with respect to the application and shall be treated otherwise as though the rejection had been the final determination in an appeal under section 134(a).”

RESPONSE: Yes. The hypothetical example that I sometimes reference to make this point involves the CEO of Airbus contacting a friendly White House for assistance in a patent dispute with Boeing where Airbus believes that it could extract a more favorable settlement of the dispute if the USPTO were able to use an ongoing inter partes review proceeding to authorize cancellation a key Boeing patent infringed by Airbus, and thereby force Boeing into an appeal of the IPR decision that might enhance Airbus's settlement leverage. Just as the Airbus would be upset of Boeing were able to pull such a stunt—or the United States would be upset of Airbus could use such a political tactic in Europe—the United States should not have its own patent laws opened to any type of avoidable political influence over disputes between private litigants.

If so, should the panel of principal PTAB APJs be term limited, to avoid those principal APJs from becoming too powerful?

RESPONSE: Not necessarily, although steps need to be taken to address—and limit—the authority of a Chief Patent Judge and Deputy Chief Patent Trial Judges who might be Presidential appointees. The simplest limitation is to vest in the Director oversight of the procedural aspects of contested cases. The Chief Patent Trial Judges and the deputies would be sources of expertise, but not final rulemaking or policy setting.

If such a limitation were in place, the Chief Patent Judge (and up to two Deputy Chief Trial Judges) would be Senate-confirmed appointees) might not serve for time-specific terms but would serve, as the Director serves, until removed by the President pursuant to 35 U.S.C. § 3(a)(4). Given the non-political, non-policymaking nature of this position, it is possible that Chief Patent Judges would, once appointed, continue to serve for extended tenures.

Under what circumstances should these principal APJs be removable, at the will of the Director, for cause, after a specific term?

RESPONSE: The Senate-confirmed Chief Patent Judge and the one or two Senate-confirmed Deputy Chief Patent Trial Judges might serve as other Senate-confirmed, Presidential appointees serve, at the pleasure of the President, as noted above. The specialized and focused nature of the responsibilities (*i.e.*, heading a trial group making validity/invalidity decisions in individual contested proceedings) should attract to the leadership of the PTAB skilled APJs with good trial management skills. By minimizing the political and policymaking aspects of the leadership roles in the PTAB, there is no compelling need for either a limited term or for at-will removability by the Director.

5. If Congress was to amend the laws to require review by Senate confirmed officials within the agency of the decisions of panels of PTAB APJs, should inferior PTAB APJs be made removable for cause only?

RESPONSE: Yes. First, there would be only a theoretical Appointments Clause issue with respect to APJs whose only responsibilities would ever have been or ever will be to decide ex parte patent appeals. Such APJs who would have responsibilities limited to ex parte decisions on whether or not to issue a patent would, by definition, have no authority over issued U.S. patents,

particularly the ability to cancel such patents. In addition, in rejecting a patent application, they do not require that the USPTO take an affirmative act, *i.e.*, issue a U.S. patent.

The Director of the United States Patent and Trademark Office has—in all likelihood under current law—complete control over the decision to issue a U.S. patent, even after a PTAB panel has reversed an examiner's rejection and would be prepared to issue a patent. For this reason, it would be desirable that *PTAB judges deciding ex parte patent appeals* be subject to the same employment protections as other USPTO employees, and not be removable at will. If there were a Patent Appeal Board and a separate Patent Trial Board, all the APJs on the Patent Appeal Board, without any action by Congress, would today almost certainly be under civil service protections given the authority of the Director over the appeals function already sanctioned by the Courts.¹²

Since it would also be desirable for panels of PTAB judges be fungible—so that trial judges could hear appeals and appeals judges could conduct trials, any solution to the Appointments Clause issue should have *all PTAB judges treated as other USPTO employees*. This would include PTAB judges making decisions requiring the affirmative act by the USPTO of canceling claims of issued patents.

What are the risks of allowing inferior PTAB APJs be removable at the will of the Director?

RESPONSE From the standpoint of optimizing the administration of the patent system, much of the risk is a “human resource” concern. These positions should be made optimally attractive to highly qualified candidates who gain deep expertise handling such matters. These objectives are complicated if the APJs are “at will” employees shorn of civil service protections. Moreover, a new Director should not have the ability to arbitrarily “start fresh” with a new cadre of APJs or cull from the ranks of APJs those seen as too patent-friendly or too patent-skeptical.

6. Should Congress also amend the Patent Act to prohibit panel stacking by the PTAB?

RESPONSE: Yes. This could be done, for example, by removing the Director, Deputy Director, Commissioner of Patents, and Commissioner of Trademarks from the PTAB and having all panels of administrative trial judges assigned by a Presidentially-appointed, Senate-confirmed Chief Patent Judge who would head the PTAB, but have no policymaking role otherwise.

¹² *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

**Hearing on the Patent Trial and Appeal Board and the Appointments Clause:
Implications of Recent Court Decisions
Associate Dean John M. Whealan's
Responses to Questions Submitted After the Judiciary Committee Hearing**

Before I answer the specific questions, I wish to point out that the United States Supreme Court has granted certiorari in three related cases—and consolidated them—as *United States v. Arthrex Inc.*, No. 19-1434.¹ The questions presented in this consolidated case now before the Supreme Court are:

1. Whether, for purposes of the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, administrative patent judges of the U.S. Patent and Trademark Office are principal officers who must be appointed by the President with the Senate's advice and consent, or "inferior Officers" whose appointment Congress has permissibly vested in a department head.
2. Whether, if administrative patent judges are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 U.S.C. § 7513(a) to those judges.

On November 25, 2020, Petitioners (including the United States) filed their opening brief. Therefore, it is likely that this case will be argued—and decided—by the end of the Court's term in the Summer of 2021. As a result, Congress may wish to defer any related legislation until after the Supreme Court decision issues. For example, if the Supreme Court reverses the Federal Circuit and finds that Administrative Patent Judges (APJs) are "inferior officers" as the Solicitor General argues, Congress may not need to act at all. And if the Supreme Court affirms, affirms-in-part, or reverses-in-part, Congress will be aware of the current state of the law and can respond accordingly. Therefore, I would strongly recommend Congress not take any further action until after the Supreme Court decision issues.

**I. Answers to Questions Submitted for the Record by
Rep. Jerrold Nadler, Chairman, Committee on the Judiciary**

1. Are there any adjudicatory bodies in the Executive Branch that you would recommend Congress consider as a model for how the Patent Trial and Appeal Board (PTAB) should be reorganized to be consistent with the requirements of the Appointments Clause?

There are several executive agencies Congress can look to that are consistent with the requirements of the Appointments Clause, e.g., the International Trade Commission (ITC), the Securities and Exchange Commission (SEC), the Social Security

¹ Briefs and related documents can be found at the following two websites:
<https://www.supremecourt.gov/docket/docketfiles/html/public/19-1434.html>
<https://www.scotusblog.com/case-files/cases/united-states-v-arthrex-inc/>

Administration (SSA) as well as others. If the Supreme Court holds that APJs are principal officers, Congress should look at these other agencies and commissions to structure the PTAB at the PTO. Note the PTO currently has over 250 APJ's, which is different than the number of administrative law judges (ALJs) at the agencies I list.

2. Following the logic in *Arthrex, Inc. v. Smith & Nephew, Inc.*, do you believe that the judges of the Trademark Trial and Appeal Board (TTAB) are operating in violation of the Appointments Clause?

I believe the upcoming Supreme Court decision in *Arthrex* will apply the same to APJs at the PTO as it will to the Administrative Trademark Judges of the TTAB.

3. If the PTAB were divided into separate tribunals, one to hear appeals from denials of the grant of a patent, and one to hear contested proceedings (derivations, post-grant reviews, and inter partes reviews), do you believe a Presidentially-appointed officer would need to be able to review the final decisions from both new tribunals to be consistent with the Appointments Clause?

The upcoming Supreme Court decision in *Arthrex* should shed light on this question. But today it is my opinion that PTAB APJs are clearly inferior officers for all ex parte decisions. In an ex parte decision, the PTAB is usually denying claims in a pending patent application. For an ex parte reexam, the PTAB would be denying claims when that patent is reexamined. In all such cases, there are only two parties involved: (i) the patentee, and (ii) the Director of the PTO. When such cases are appealed to the Federal Circuit, it is the Director who is represented by its lawyers (the Solicitor's Office). If the Director decides that a PTAB decision is incorrect, then they do not have to defend that decision. I was the Solicitor for seven years, and during that time (as well as for all twelve years I worked in that office), the agency would from time to time decide not to defend a PTAB decision.

4. There are a number of competing theories about whether the PTAB is operating constitutionally following the *Arthrex* decision. For example, the government has suggested that the *Arthrex* decision was effective immediately notwithstanding that no mandate in the *Arthrex* case had issued. Other Federal Circuit judges have stated that *Arthrex* should apply retroactively to cure any constitutional defects. What is your view?

I have no opinion on this issue.

5. After *Arthrex*, what checks, if any, remain to prevent political pressure from influencing the outcome of a particular case?

I believe the proposed remedy by the Federal Circuit—denying PTAB judges their civil service protection and allowing them to be fired at will—is wrong. Congress never intended this and never would. Thus, if the Supreme Court determines that APJs are principal officers, Congress should come up with a better solution. That said, in my

twelve years of working at the PTO, I never once saw “political pressure . . . influencing the outcome of a particular case.”

6. Would it raise due process concerns if the Director uses his new power to remove PTAB judges without restriction by firing a judge in the middle of a case for the way the judge was inclined to handle the case?

Yes, there are due process concerns.

7. Do you believe the *Arthrex* court’s remedy of removing civil service protection for PTAB judges could lead to other situations where there are due process concerns in post- issuance proceedings? If yes, can you elaborate?

Yes, there are due process concerns. The Federal Circuit’s attempted remedy is a bad one. APJs were not hired believing that they could be fired at will. Most (if not all) civil service employees are hired expecting similar civil service protections. APJs are no different and should not be treated as such.

II. Answers to Questions Submitted for the Record by Ranking Member Doug Collins

1. Was the Federal Circuit correct to hold that the constitutional defect in the appointment of PTAB APJs is cured by making them terminable at will? If not, is the fact that decisions of the PTAB are still not reviewable by any Senate confirmed individual within the agency, but instead the PTAB has last word on behalf of the Executive Branch, the main reason their appointment is still unconstitutional?

The Federal Circuit was wrong to try and remedy any constitutional defect by making APJs terminable at will. Congress never intended this and never would. APJs were hired with the expectations of the same civil service protections as other government employees. They should be treated as such. If the Supreme Court determines that APJs are indeed principal officers (something the government argues against), Congress should come up with a more appropriate remedy.

2. Does the uncertainty surrounding the constitutionality of the appointment of PTAB APJs create a cloud of uncertainty hanging over the decisions of the PTAB?

Yes. Hopefully, the Supreme Court decision will shed some light on these issues.

3. Would the defect in the appointment of PTAB APJs be cured by the enactment of legislation requiring each PTAB decision be reviewed by the PTO Director vested with the authority to reverse a decision of a panel of PTAB judges, or vacate and remand where further deliberation is required? Should Congress consider including provisions to ensure the policies of the PTAB do not change with the appointment of a new PTO Director and, if so, how could that be accomplished?

I do think a review of PTAB decisions by the Director or a larger group of presidentially appointed (and Senate-confirmed) people would be a good idea for many reasons. It would cure any problems if the Supreme Court holds APJs to be principal officers. It would also add a level of review and scrutiny to PTAB decisions that do not currently exist: the PTAB rarely—if ever—grants motions for reconsideration. Everyone's work is better when they know it will be reviewed, and the PTAB is no different.

4. Is it preferable to fix this constitutional defect through legislation establishing within the PTAB an odd numbered panel of Presidentially appointed and Senate confirmed PTAB APJs who would have the authority to reverse a decision of a panel of inferior PTAB APJs, or vacate and remand where further deliberation is required, to insulate the PTAB from having the policies of the PTAB change with the appointment of a new PTO Director? If so, should the panel of principal PTAB APJs be term limited, to avoid those principal APJs from becoming too powerful? Under what circumstances should these principal APJs be removable, at the will of the Director, for cause, after a specific term?

If a fix is needed, I think it would best *not* to situate the presidentially appointed and Senate-confirmed reviewer within the PTAB. I believe the PTAB is already too insular. Any such review should be done by a group of people who are not part of the PTAB. This is also consistent with how other executive branch agencies and commissions do the review of their respective judges. For example, at the ITC, six Commissioners review the ALJ decisions; they do not have a chief ALJ doing so.

5. If Congress was to amend the laws to require review by Senate confirmed officials within the agency of the decisions of panels of PTAB APJs, should inferior PTAB APJs be made removable for cause only? What are the risks of allowing inferior PTAB APJs be removable at the will of the Director?

APJs should have the same civil service protection as other government employees, which includes that they may only be terminated for cause and may not be terminated at will.

6. Should Congress also amend the Patent Act to prohibit panel stacking by the PTAB?

I do not think any evidence has shown "panel stacking" by the PTAB. But I do not think panel stacking is a good practice. So, if Congress eventually drafts legislation, it may wish to preclude this practice.