

A Straight-Forward Fix for the *Arthrex* Unconstitutionality Problem

It is now becoming clear that while the *Arthrex* Federal Circuit decision correctly concludes that the PTAB judges have been unconstitutionally appointed, its “fix” for the problem is not only ineffective and but likely to be overturned either *en banc* or on appeal to the Supreme Court. These conclusions have been driven home by the testimony of Bob Armitage and of Professors Duffy, Whalen and Rai at the recent House Judiciary Committee hearing. All four of these witnesses further testified that there will be, at the very least, several years of uncertainty as the courts work through this situation. Accordingly, unless Congress acts quickly, the IPR/PGR challenge system will at best remain in limbo for some time to come and at worst be struck down as unconstitutional.

In the opinions of the experts who testified on the *Arthrex* issue, the “remedy” of making PTAB judges employees at will who may be fired without cause by the Secretary on advice of the Director simply does not provide the kind of supervision necessary for these judges to be considered “inferior officers” who can be appointed by a department head rather than the President with Senate confirmation.¹ Nor are any of the witness’s three general approaches to fix this problem attractive. They are: (1) requiring the President to appoint and the Senate to confirm each of the 250+ PTAB judges, (2) increasing the number of Presidentially appointed and Senate confirmed officials in the USPTO (with or without creating a new court within the PTO) and making the PTAB judges report to these new appointees, who will presumably need to review, if needed revise, and approve each PTAB decision, or (3) authorizing the USPTO Director to directly review, revise as needed, and approve each PTAB decision before it issues.

What was not suggested at the hearing but would be a simple, straight-forward fix for the Constitutional problem would be to extend Section 146 coverage to PGRs (including CBMs) and IPRs so that aggrieved parties could appeal *de novo* to the district courts, as they did for decades for interferences and may still do for all other contested PTO proceedings (remaining interferences, derivation and public use proceedings). If this change were made, a Constitutionally appointed principal officer, a district court judge, would then be exercising the supervisory authority that is required to qualify existing PTAB judges as Constitutionally appointed inferior officers. Nothing more would be needed to fix the basic *Arthrex* problem.

This change to Section 146, which 21C has been recommending for several years,² is meritorious in its own right. Aside from fixing the supervision problem, vesting plenary review authority in the judiciary

¹ This is a practical problem that is not fixed by the right of appeal to the Federal Circuit, which reviews the outcomes for mistakes of law or on a substantial evidence basis.

² As 21C explained in last year’s Agenda for Patent Reform:

Other problems with PGR & IPR proceedings will require legislation to fix aspects of the America Invents Act that have been proven by experience to have been unwise. . .Another is the elimination of the former right of aggrieved

would be consistent with the principle of separating judicial functions from administrative ones.³ Review by district court judges would not only provide the Constitutionally required supervision of the PTAB, but ensure judicial consistency. District court judges would also be well positioned to ensure that due process is accorded in PGRs and IPRs. Over time, the PTAB's practices would likely further evolve to conform with district court standards to thereby minimize inconsistent results.

An additional advantage of the proposed Section 146 fix is that it is simple and takes advantage of an existing statutory framework which has worked well for decades. As such, it is a fix that Congress should be able to pass quickly and with little controversy, particularly because by doing so it will remove any possibility that the entire IPR/PRG system could be abrogated. Otherwise, it is inevitable that a cloud of uncertainty that will exist for several years as the courts endeavor to work out the *Arthrex* problem.

While critics of this fix might complain that the right of a 146 appeal will prolong these challenge proceedings, this is not a problem caused by the fix itself, but rather from the Federal Circuit's conclusion that the Constitution mandates that PTAB's decisions be further reviewed by a principal officer of the United States. Moreover, unlike other proposed fixes, about 80% of all Section 146 appeals could be consolidated with ongoing litigation between the parties involving the same patent(s), meaning that little or no additional delay may be added to the ultimate resolution of these ongoing litigations.

Petitioners, as patent challengers, generally favor delay, as it strengthens their bargaining positions, allows them to continue their allegedly infringing activities, and gives them time to adjust their behavior to mitigate future liability. Added delay is of much more concern to patent owners seeking to enforce their patents who will already have been held up for two years by the IPR/PGR process, and may have to wait several more years before reaching a final, unappealable result in their other related legal proceedings.

patent owner to appeal from contested USPTO proceedings first to a district court, where otherwise unavailable evidence may be adduced through discovery and where credibility determinations will be made on the basis of live testimony before an independent Article III judge rather than on a cold written record.

21C footnoted this statement with the following explanation:

Prior to the AIA, 35 USC 146 allowed aggrieved parties in contested USPTO proceedings, such as interferences, to appeal first to a district court, where additional evidence could be adduced through discovery. Patent owners in USPTO IPR & PGR proceedings have very little right to any discovery, and no ability to compel witnesses to testify on their behalf. Experience has shown that these time-honored rights are important to ensuring the fairness of the outcomes in IPR & PGR proceedings. In addition, as such appeals will dispose of many IPRs at the district court level, the very large number of IPR appeals now going directly to the Federal Circuit will be reduced.

³ Congress clearly had this in mind when it specified that the institution decision would be made by the Director whereas the merits decision would be made by the PTAB. The AIA makes this clear by specifically charging the Director with responsibility for deciding whether the proceeding should be instituted, and then enumerating in 35 USC 6(b) that the PTAB will have just four duties, none of which include responsibility for making institution decisions.

These concerns should, however, be mitigated by other features of the 146 appeal. First, the 146 statute already mandates that:

In such suits the record in the Patent and Trademark Office shall be admitted on motion of either party upon the terms and conditions as to costs, expenses, and the further cross-examination of the witnesses as the court imposes, without prejudice to the right of the parties to take further testimony. The testimony and exhibits of the record in the Patent and Trademark Office when admitted shall have the same effect as if originally taken and produced in the suit.

Thus while under 35 USC 115(e)(2) and 325(e)(2), the AIA would normally prohibit the petitioner from presenting the same issues it raised and those it reasonably could have raised in the IPR or PGR proceedings to the district court, in a Section 146 appeal the record below including the previously taken testimony and exhibits, “when admitted” would “have the same effect as if originally taken and produced in the suit.” In addition, the admission of the record would be “without prejudice to the right of the parties to take further testimony.” With the ability of the parties to subpoena witnesses, gain previously unavailable discovery, supplement the evidentiary record, and confront the witnesses against them live before the trier of fact, the parties will gain advantages that should more than offset the disadvantage of having the PTAB final decision subject to further review. Moreover, compared to the PTAB, district court judges are far more skilled in trial practice and in assessing the credibility of witnesses.

This Section 146 approach should also lessen the number of PGR and IPR appeals to the Federal Circuit. Parties who lose both at the PTAB and then again in front of a district court are more likely to accept the such an outcome as fair, and less likely to further appeal to the Federal Circuit. In addition, more of these cases will end up being settled at the district court level, reducing the current stress on the Federal Circuit from the deluge of IPR cases it now handles.

The proposed Section 146 approach could also mitigate another problem of Constitutional concern --- that for the past 5+ years improperly appointed PTAB judges have been deciding IPRs and PGRs. The Federal Circuit’s *Arthrex* “fix” does nothing to address the fact that over this time period, many patentees have been deprived of their patents by the actions of unconstitutionally appointed judges. Nor do the fixes suggested by the hearing witnesses propose any solution for this problem. But Congress could make Section 146 appeals available for a limited time to all patentees previously aggrieved by PGR/IPR decisions, thereby providing the necessary Constitutional supervision on a *post hoc* basis to affirm (or reverse) the PTAB’s prior determinations. While this solution is not ideal, it is likely preferable to dealing with a multitude of remands to the PTAB to redo their determinations and/or a wave of takings cases brought by aggrieved patent owners seeking redress for unconstitutional invalidations of their patents.

In summary, of the available alternatives for dealing with the *Arthrex* unconstitutionality problem, the simplest and most straight forward fix would be to extend the right to Section 146 reviews by the district courts to parties who are dissatisfied with the outcome in a PGR or IPR. The following is the

current statute showing what amendments should be made to remedy the current *Arthrex* problem in redline:

35 U.S.C. 146 Civil action in case of post-grant, inter partes, and derivation proceedings.

Any party to a *post grant review, inter partes review or* derivation proceeding dissatisfied with the final decision of the Patent Trial and Appeal Board in the proceeding, may have remedy by civil action, if commenced within such time after such decision, not less than sixty days, as the Director appoints or as provided in section 141, unless he has appealed to the United States Court of Appeals for the Federal Circuit, and such appeal is pending or has been decided. In such suits the record in the Patent and Trademark Office shall be admitted on motion of either party upon the terms and conditions as to costs, expenses, and the further cross-examination of the witnesses as the court imposes, without prejudice to the right of the parties to take further testimony. The testimony and exhibits of the record in the Patent and Trademark Office when admitted shall have the same effect as if originally taken and produced in the suit.

Such suit may be instituted against the patentee or petitioner involved in the post grant or inter partes review, or against a party in interest in the derivation proceeding as shown by the records of the Patent and Trademark Office at the time of the decision complained of, but any party in interest may become a party to the action. If there is an infringement action pending in a federal court asserting the same patent that is the subject of the final decision against the petitioner or the real party in interest or privy of the petitioner, then such suit shall be brought in the district where that infringement action is pending and be consolidated with that action for all purposes, including trial and appeal. If there be adverse parties residing in a plurality of districts not embraced within the same state, or an adverse party residing in a foreign country, the United States District Court for the Eastern District of Virginia shall have jurisdiction and may issue summons against the adverse parties directed to the marshal of any district in which any adverse party resides. Summons against adverse parties residing in foreign countries may be served by publication or otherwise as the court directs. The Director shall not be a necessary party but he shall be notified of the filing of the suit by the clerk of the court in which it is filed and shall have the right to intervene. Judgment of the court in favor of the right of an applicant to a patent or in favor of the patentee on validity shall authorize the Director to issue such patent or confirm the validity of such patent on the filing in the Patent and Trademark Office of a certified copy of the judgment and on compliance with the requirements of law.

35 USC 141 Appeal To Court of Appeals for the Federal Circuit

(a) Post-Grant and Inter Partes Reviews. A party to an inter partes review or a post-grant review who is dissatisfied with the final written decision of the Patent Trial And Appeal Board under section 318(a) or 328(a) (as the case may be) may appeal the Board's decision ~~only~~ to the United States Court of Appeals for the Federal Circuit.