

## Justices, Congress Might Tackle PTAB Constitutionality Next

By Ryan Davis

*Law360 (March 23, 2020, 9:30 PM EDT)* -- The full Federal Circuit's decision Monday not to review a ruling that Patent Trial and Appeal Board judges are unconstitutionally appointed may not be the last word on the issue, attorneys say, with U.S. Supreme Court appeals and congressional action potential next steps.

While the appeals court rejected requests for en banc review of an October panel decision known as *Arthrex Inc. v. Smith & Nephew*, which held the structure of the PTAB violates the appointments clause of the U.S. Constitution, the case has facets that could catch the eye of both the justices and lawmakers.

Monday's order, over dissents by four judges, leaves intact both the panel's holding that the director of the U.S. Patent and Trademark Office lacked sufficient control over the PTAB's judges when they decide inter partes review cases and the remedy it chose to provide that control: stripping away the judges' employment protections to make it easier for the director to fire them.

The Supreme Court has taken a particular interest in patent cases and issues related to the appointment clause in recent years, so the justices could give the case a close look if one or more of the parties files a certiorari petition, said Matthew Rizzolo of Ropes & Gray LLP.

"This is a situation where the U.S. Supreme Court may be more apt to grant cert than in a typical patent matter, as it involves a constitutional issue, the appointments clause, the striking down of a portion of a federal statute, and a divided en banc appellate court," he said.

Regardless of whether the Supreme Court is asked to review the case, Congress might step in to address the issue, potentially by finding another way to make the PTAB constitutional that doesn't involve revoking the judges' employment protections.

The House Judiciary Committee convened a hearing on the decision in November, days after it was issued. Several lawmakers expressed concern that making PTAB judges subject to firing without cause by the USPTO director will undermine the board's impartiality.

"The Arthrex decision certainly doesn't stop Congress from taking action later on. Congress could always pass a law restoring the protections for the judges," said Igor Timofeyev of Paul Hastings LLP.

Doing that would require some sort of restructuring of the PTAB to give the USPTO director more control and correct the constitutional flaw the Federal Circuit identified, he noted. Lawmakers could accomplish that by giving additional authority to review the board's decisions to either the director or a new panel at the office.

For now, the PTAB will continue to operate as it has since the Federal Circuit issued its Oct. 31 decision. Since the court rejected en banc review, rulings by the board since that date will continue to be viewed as constitutional, while several dozen predating the decision either have been or will be remanded for further proceedings.

"The majority of the court, in my view, has continued what I would call a very practical approach, one that minimizes disruption and stops the uncertainty that would come if they chosen to review it en banc," said Jon Wright of Sterne Kessler Goldstein & Fox PLLC.

The case hinged on the distinction between "principal" officers of the government, who must be appointed by the president and confirmed by the Senate under the appointments clause, and "inferior" officers, who can be appointed by heads of departments.

PTAB judges are appointed by the secretary of commerce and the USPTO had treated them as inferior officers. However, the Federal Circuit held that they are in fact principal officers, because they lack sufficient oversight from the USPTO director, who cannot review or alter their decisions before they become final.

The court said making the director able to fire the judges without cause would render the judges inferior officers and solve the constitutional problem. It remanded the case before it — involving Smith & Nephew Inc.'s successful challenge to an Arthrex Inc. suture patent — to the PTAB for a new hearing before a different panel of judges, who are now constitutionally appointed.

Arthrex, Smith & Nephew and the USPTO were all dissatisfied with the decision and sought en banc review, but all were rejected on Monday.

Smith & Nephew and the USPTO had argued that PTAB judges are inferior officers who were constitutionally appointed, while Arthrex maintained that taking away judges' employment protections could not solve the problem, so the entire inter partes review system must be struck down so that Congress can revise it.

Any or all of those arguments might now be put before the Supreme Court. The USPTO has strenuously objected to the basic premise of the holding, while Smith & Nephew had its win at the PTAB wiped out. Both could be motivated to file cert petitions.

"While nothing is a sure thing with the Supreme Court, any time a court of appeals holds a federal statute unconstitutional, it makes the likelihood of cert pretty high," said William Milliken of Sterne Kessler.

For instance, the justices may want to take the case to determine exactly what makes someone a principal or an inferior officer.

The case "may give the Supreme Court an opportunity to provide valuable guidance on the distinction between these two types of officers, an issue courts have struggled with over time," Ropes & Gray's Rizzolo said.

The high court could also be interested in reviewing whether making it easier for PTAB judges to be fired was the right fix for the constitutional flaw, an issue Arthrex may press in order to argue there's nothing the courts can do to fix the inter partes review system.

"That was an interesting remedy and it was arguably a fairly aggressive way to deal with the problem," said Eliot Williams of Baker Botts LLP. "Maybe the Supreme Court will want to talk about what to do for remedies in cases like this."

Yet there could be pitfalls in seeking further review. For the USPTO, there's the risk that the justices could end up siding with Arthrex that PTAB judges were unconstitutionally appointed, then go even further, putting the inter partes review system in jeopardy.

The justices "could devise a more far-reaching remedy, and say that we cannot sever these protections and the entire scheme has to be addressed by Congress," Paul Hastings' Timofeyev said.

The case could also resonate on Capitol Hill, since Congress has already expressed concern that the board's integrity has been undermined because PTAB judges can now be fired for making decisions the USPTO director disagrees with.

At the November hearing, Rep. Hank Johnson, D-Ga., chairman of the House intellectual property subcommittee, said, "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."

If that concern is widespread enough, lawmakers could decide to enact legislation to restore the judges' job protections. At the hearing, lawmakers discussed several options, including creating a mechanism for the USPTO director to review or overturn PTAB decisions.

"The concern by the original panel, which was validated by this refusal to address it en banc, was the lack of control by the director. I would assume they would have to do something extra beyond the controls that are there," said Jonathan Link of Morris Manning & Martin LLP.

The case is *Arthrex Inc. v. Smith & Nephew Inc. et al.*, case number 18-2140, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Kelly Duncan and Emily Kokoll.