

STATEMENT OF JOHN M. WHEALAN  
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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.*,<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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.

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

<sup>2</sup> 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.

<sup>3</sup> 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.<sup>4</sup> 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

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<sup>4</sup> *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).<sup>5</sup>

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.<sup>6</sup> 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

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

<sup>6</sup> 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*.<sup>7</sup> 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

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<sup>7</sup> 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)<sup>8</sup> 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-

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<sup>8</sup> 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.<sup>9</sup>

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

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<sup>9</sup> U.S. Patent and Trademark Office, *Director's Forum*, [https://www.uspto.gov/blog/director//\\_parte\\_frye\\_bpai\\_s](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.<sup>10</sup> 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

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<sup>10</sup> 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 "[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.<sup>11</sup> Given the government has

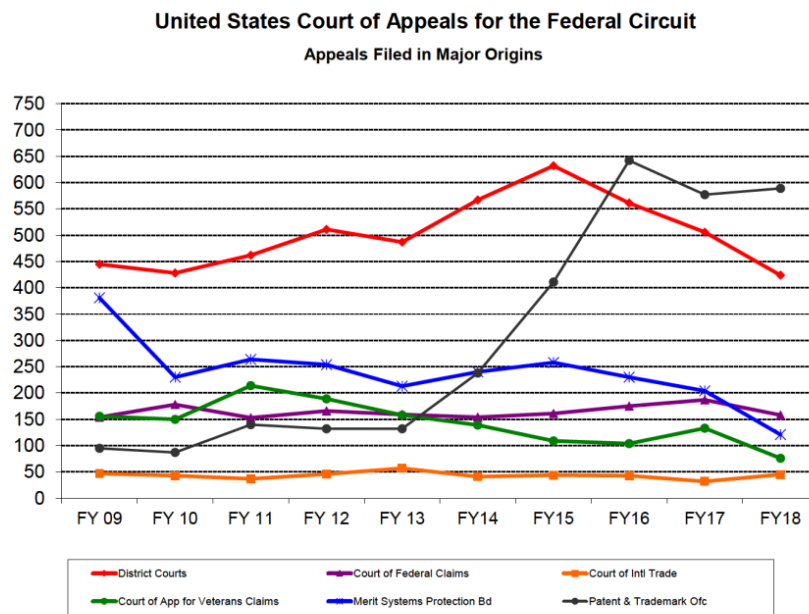
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<sup>11</sup> The timing of the Federal Circuit’s various rulings also seems a bit unusual. Generally, before a precedential opinion or order issues, non-panel members receive ten working days to review the proposed decision. Fed. Cir. IOP #10(5). 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:



Notes: Includes reinstated, cross-, and consolidated appeals.

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](http://www.cafc.uscourts.gov/sites/default/files/the-court/statistics/02-_Hist_Caseld_by_Origin)

[\\_FY18\\_-\\_Final.pdf](#).<sup>12</sup> 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.

<sup>12</sup> 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*,<sup>13</sup> 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

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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.

<sup>13</sup> 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](https://www.uspto.gov//_Statistics_2019-09-30.pdf).<sup>14</sup> 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

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<sup>14</sup> 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 (“I,” “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.

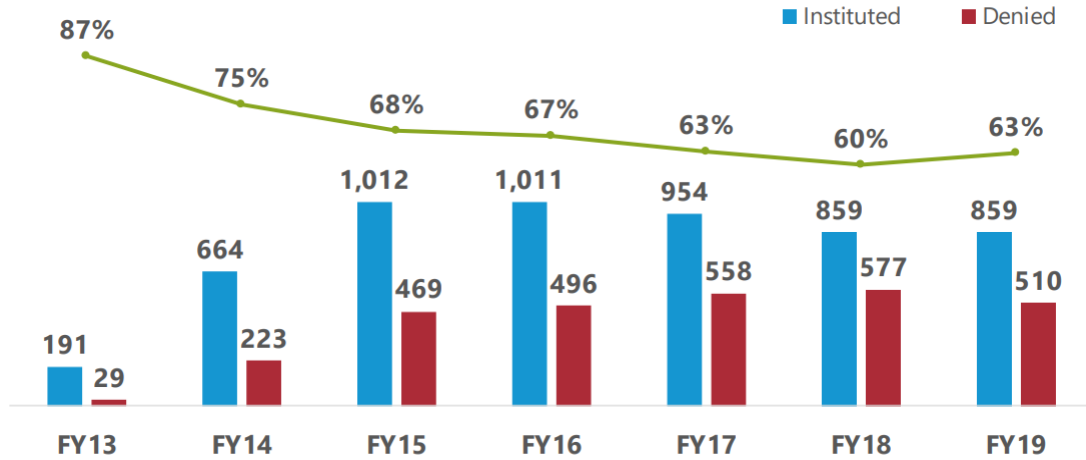
The numbers confirm the effects. Whereas the USPTO had initially estimated that parties would file about the same number IPRs as reexamination requests—which were roughly 400 per year at the time—the number of IPRs actually filed annually is over *three and a half times* what the USPTO predicted, on 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.<sup>15</sup> Indeed, the creation of a PTAB Bar Association is a mark of the influence of IPRs, PGRs and CBMs.<sup>16</sup> Challengers, moreover, fare well and, on average, better than patentees. Institution rates are above 60%:

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<sup>15</sup> 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>.

<sup>16</sup> <https://www.ptabbar.org/>.

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



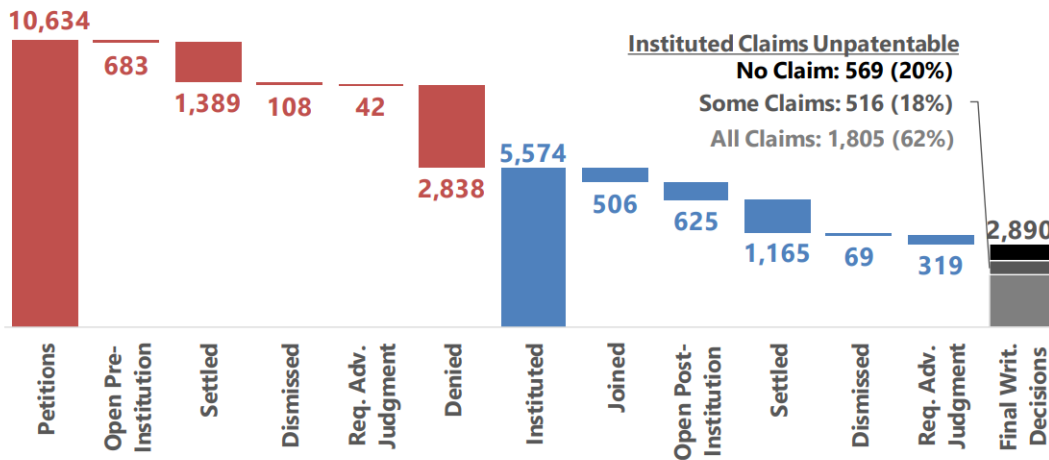
Institution rate for each fiscal year is calculated by dividing petitions instituted by decisions on institution (i.e., petitions instituted plus petitions denied). The outcomes of decisions on institution responsive to requests for rehearing are excluded.



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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](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.*<sup>17</sup>

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

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<sup>17</sup> 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.<sup>18</sup> 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.<sup>19</sup> 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

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<sup>18</sup> 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.

<sup>19</sup> 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,<sup>20</sup> I have had no involvement with that piece of legislation.

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<sup>20</sup> 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.<sup>21</sup>

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.

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<sup>21</sup> 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.<sup>22</sup> 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.<sup>23</sup> 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

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<sup>22</sup> 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.

<sup>23</sup> 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](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 it 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 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.