

Nos. 19-1434, 19-1452, and 19-1458

In the Supreme Court of the United States

UNITED STATES OF AMERICA.,

Petitioner,

v.

ARTHREX, INC., *et al.*,

Respondents.

SMITH & NEPHEW, INC., *et al.*

Petitioners,

v.

ARTHREX, INC., *et al.*,

Respondents.

ARTHREX, INC.

Petitioner,

v.

SMITH & NEPHEW, INC., *et al.*,

Respondents

**On Writs Of Certiorari To
The United States Court Of Appeals
For The Federal Circuit**

**BRIEF OF HIGH TECH INVENTORS ALLIANCE
AS *AMICUS CURIAE* IN SUPPORT OF
PETITIONERS IN NOS. 19-1434 AND 19-1452**

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INTEREST OF *AMICUS CURIAE*¹

High Tech Inventors Alliance (HTIA) is a consortium of some of the world's most innovative technology companies: Adobe, Amazon, Cisco, Dell, Google, Intel, Microsoft, Oracle, Salesforce, and Samsung. It supports fair and reasonable patent policy through publication of policy research, providing testimony and comments to Congress and government agencies, and sharing industry perspective with courts considering important issues to the technology industry.

HTIA's members collectively invest more than \$130 billion in research and development each year and have been granted more than 300,000 patents. Due to the complexity and success of their products, HTIA's members are also frequently the subject of patent infringement claims, and for that reason frequently invoke the *inter partes* review procedure that enables the experts at the U.S. Patent and Trademark Office (PTO) to determine whether a patent was erroneously granted. As both patent owners and significant users of *inter partes* review, these members have a unique perspective in recognizing the importance of appropriate protection for patents and at the same time ensuring that necessary procedures exist to eliminate improperly-

¹ Pursuant to Supreme Court Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus*, its members, and its counsel made a monetary contribution to its preparation or submission. All parties have filed blanket consents to the filing of *amicus* briefs with the Clerk's office.

granted patents that otherwise would obstruct innovation.

INTRODUCTION AND SUMMARY OF ARGUMENT

HTIA's members are frequent users of the *inter partes* review system—and therefore know first-hand its critical importance to ensuring that the U.S. patent system actually serves the goals of the patent law. By giving the PTO the opportunity to fix its own mistakes, *inter partes* review lowers costs, fosters consistent decision-making, and weeds out invalid patents that would otherwise obstruct innovation—goals that have long eluded policymakers.

Patent examiners on average can spend no more than 19 hours evaluating a patent application—and do not have the benefit of an adversary presentation. Those constraints result in the erroneous issuance of a substantial number of patents that, if not eliminated, prevent HTIA members, and many other companies, from engaging in entirely lawful innovation. *Inter partes* review allows third parties to identify these questionable patents that threaten innovation, and—through a fair, adversary process—give the PTO an opportunity to re-assess the correctness of its initial decision to issue the patent. The Federal Circuit affirms the PTO's *inter partes* review determinations at least as frequently, and by some measures more frequently, as that court affirms patent adjudications by district courts.

Since Congress created *inter partes* review as part of the Leahy-Smith America Invents Act (“AIA”), 125 Stat. 284 (2011), however, this Court has seen a parade of unjustified objections to various aspects of

the review process: (1) timeliness determinations by the Director of the PTO, *Thryv, Inc. v. Click-to-Call Techs., LP*, 140 S. Ct. 1367 (2020); (2) the reviewability of institution decisions, *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016); and (3) the procedure's compliance with Article III of the Constitution, *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018). The Court has also denied certiorari petitions raising purported violations of the Due Process and Takings Clauses. *E.g.*, *Celgene Corp. v. Peter*, No. 19-1074; *Enzo Life Scis., Inc. v. Becton, Dickinson & Co.*, No. 19-1097.

This case, involving claims that administrative patent judges ("APJs") on the Patent Trial and Appeals Board ("Board") are appointed in violation of the Appointments Clause of Article II, is the latest attempt to upset Congress's careful design.

The Appointments Clause challenge to *inter partes* review has no more merit than the prior challenges rejected by this Court. This Court's precedents make clear that APJs are "inferior" officers, permissibly appointed by the Secretary of Commerce in consultation with the Director of the PTO.

Even if that were not the case, the Court's well-settled severability principles mandate a targeted remedy. Congress plainly would have preferred a functioning Board to no Board at all. And there are several ways that this Court could invalidate and sever discrete provisions of the statute if necessary to achieve that result.

For example, the Court could sever the restrictions on removing APJs, 35 U.S.C. § 3(c), as the Federal Circuit concluded. Alternatively, the Court could sever the statutory requirement that at least three members of the Board hear all *ex parte* appeals, *inter partes* reviews, and other review proceedings, *id.* § 6(c), leaving it to the Director to choose both the number and composition of panels. Or the Court could strike the neighboring statutory text requiring that only the Board may grant rehearing, *ibid.*, which would have the effect of permitting the Director to grant rehearing and select the panel to make the rehearing decision. Each of these remedial approaches—if a remedy is necessary—would address any Appointment Clause concerns.

However the Court resolves the constitutional question, it should not undermine the AIA’s post-grant review procedures, which are critical to HTIA members’—and the Nation’s—ability to continue the innovation that fuels our economy.

ARGUMENT

I. *Inter Partes* Review Is Essential To Maintaining A Properly Balanced Patent System.

This Court has long recognized that patent law aims to strike a balance “between fostering innovation and ensuring public access to discoveries.” *Kimble v. Marvel Entm’t, LLC*, 576 U.S. 446, 451 (2015). Patent protection provides an essential economic incentive for innovation, but erroneously-granted patents “withdraw[] what already is known” and thus “diminish[] the resources available” for lawful innovation. *KSR Int’l Co. v. Teleflex Inc.*, 550 US 398,

415-416 (2007). As leaders in high-tech fields such as computers, software, communications, semi-conductors, and artificial intelligence, HTIA's members are keenly aware of the importance of both of these goals—and of the need to ensure the proper balance between them.

Congress has directed the PTO to ensure that patents are granted only when the subject matter is (1) eligible, (2) useful, (3) novel, (4) non-obvious, and (5) adequately described. 35 U.S.C. §§ 101, 102, 103, 112. As this Court has recognized, however, “bad patents” will “sometimes * * * slip through” the PTO’s examination process. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1353 (2018).

Unfortunately, “sometimes” is an understatement. The complexity of modern technology and the very limited time and resources available to PTO examiners make it impossible for the PTO to screen out a significant number of unpatentable claims. And these erroneously-granted patents are asserted at high rates against HTIA members, making patent quality an issue of critical concern.

Congress recognized, and addressed, this serious problem in 2011 by authorizing the PTO itself to correct erroneous patent grants through administrative procedures—most notably *inter partes* review, which has proved to be a critically-important process enabling the PTO to apply its expertise to eliminate patents that should not have been granted and that, if left in place, would prevent future innovation.

A. Erroneously-Granted Patents Obstruct Innovation By HTIA Members And Other Businesses.

The Patent and Trademark Office today receives approximately 650,000 applications and issues approximately 350,000 new patents each year. *FY 2020 U.S. Patent and Trademark Office: Performance and Accountability Report* (“PTO Report”) at 188. That is an increase of over 100% since 2000. *Id.* at 189, 192. The PTO employs approximately 8,400 patent examiners, *id.* at 231, so each examiner must review and process approximately 80 applications a year on average to keep up with the incoming flow.

Examiners therefore are able to spend just 18 or 19 hours on average to evaluate each application, search for prior art, address amendments or interview requests, and document the decision. Michael D. Frakes & Melissa F. Wasserman, *Irrational Ignorance at the Patent Office*, 72 *Vand. L. Rev.* 975, 978 (2019). Because the application process is *ex parte*, there is a natural pressure to grant rather than deny an application. After all, interested parties opposed to the grant of the patent do not appear before the examiner, and when a patent issues, “there is no losing party to appeal.” Jonathan Masur, *Patent Inflation*, 121 *Yale L.J.* 470, 474 (2011).

These constraints inevitably lead examiners to grant applications that do not meet the statutory criteria for patentability. Indeed, more experienced examiners—whose allotted time decreases with seniority—often have *higher* grant rates than their less senior colleagues. Mark Lemley & Bhaven Sampat, *Examiner Characteristics and Patent Office*

Outcomes, 94 Rev. of Econ. & Stat. 817 (2012). These patents may remain in force twenty years or more, which means that hundreds of thousands of erroneous patents will be in force at any given time.

The initial examination process is particularly error-prone in the high-tech sectors in which HTIA's members do business—and are sued. Industries like computer software and hardware evolve rapidly, making it difficult even for seasoned examiners to evaluate the claimed invention and keep up with developments in prior art. See Nat'l Research Council, *A Patent System for the 21st Century*, at 51 (Stephen Merrill et al. eds. 2004) (“NAS Report”) (observing that patent-quality problems are “more pronounced in fast-moving areas of technology * * * than in established, less rapidly changing fields”); Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Ch. 4 at 41 (Oct. 2003) (“FTC Report”) (“[t]he PTO recognized that applying patentability criteria to emerging technologies may be difficult”).

In addition, in fields such as computer software, most inventions “are not described in published journals,” a problem that—as “the PTO itself ha[s] recognized”—makes searching for prior art in the software realm difficult. Julie Cohen & Mark Lemley, *Patent Scope & Innovation in the Software Industry*, 89 Cal. L. Rev. 1, 13, 42-44 (2001). One scholar estimated that 27% of all patents are partially or entirely invalid on anticipation or obviousness grounds—with even higher rates in the software field. Shawn P. Miller, *Where's the Innovation? An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & Tech. 1, 24-27 (2013).

These erroneously-granted patents significantly obstruct innovation throughout the economy. *E.g.*, Jonathan S. Masur, *Patent Liability Rules as Search Rules*, 78 U. Chi. L. Rev. 187 (2011); Christopher R. Leslie, *The Anticompetitive Effects of Unenforced Invalid Patents*, 91 Minn. L. Rev. 101, 113-27 (2006). But the problems caused by poor-quality patents are especially pressing in high-tech sectors. See Alberto Galasso & Mark Schankerman, *Patents and Cumulative Innovation: Causal Evidence from the Courts*, 130 Q.J. Econ. 317, 321 (2015) (discussing the empirical finding that invalidation of patents has a “significant effect on cumulative innovation” in “computers and communications, electronics, and * * * biotechnology”).

That is because technology products, such as those developed and marketed by HTIA’s members, are extraordinarily complex, involving hundreds of purportedly patentable technologies. With so many different areas of potential overlap, it is much more likely that a wrongfully-issued patent will be used as the basis for an unjustified infringement claim or as leverage in cross-licensing negotiations in the high-tech industry.

Often the threat of litigation by itself obstructs innovation, because a company will choose to remove or re-design an innovative feature rather than expending millions of dollars defending a patent infringement lawsuit. In the years leading up to the enactment of the AIA, for instance, one HTIA member—faced with a highly burdensome set of patent infringement lawsuits—elected simply to remove the challenged technology to mitigate its exposure. When the *inter partes* review process

became available, the member successfully filed a petition and invalidated the asserted claims. But by then, the product had evolved in a different direction, and—because of a wrongfully-issued patent—the public was unable to benefit from a useful innovation.

The increasing assertiveness of non-practicing entities compounds these problems. See *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1935 (2016) (noting that such entities acquire and hold patents “for the primary purpose of enforcing them against alleged infringers, often exacting outsized license fees on threat of litigation”); *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930 (2015) (recognizing that “companies may use patents as a sword to go after defendants for money, even when their claims are frivolous,” in effect “impos[ing] a ‘harmful tax on innovation’”). Recently, nearly 90% of patent litigation in the high-tech industry has involved non-practicing entities. Unified Patents, *2019 Patent Dispute Report—Year in Review* fig. 8 (Jan. 1, 2020), <https://bit.ly/2H0LUy4>.

B. Judicial Assessment Of Patent Validity By Itself Is Inadequate For Weeding Out Unjustified Patents.

Companies accused of infringement can challenge the validity of the patent, but the realities of litigation make it an expensive and risky means of weeding out wrongly-issued patents.

Once a patent is granted, it receives a presumption of validity, 35 U.S.C. § 282, placing on alleged infringers the burden of showing by clear and convincing evidence that the patent is *invalid*. *Microsoft Corp. v. i4i Ltd. P’ship*, 564 U.S. 91, 97-98

(2012). The justification for that evidentiary burden is “that the PTO, in its expertise, has approved the [patent] claim.” *KSR Int’l Co.*, 550 U.S. at 426. But, as a result of the inherent limitations of the examination process just discussed, much of the information relevant to that expertise may not be available to, or considered by, the examiner when he or she decides that the application should be granted.

Moreover, litigation is complex and expensive. Litigating an infringement case to judgment typically requires fact and expert discovery on a range of issues—infringement, validity, and damages—followed by a time-consuming trial and verdict by lay decision-makers without a prior background in the relevant technology. Typical fees to trial exceed \$5 million. When there is a clear validity problem that an expert agency could efficiently resolve, allowing a skilled agency adjudicator to consider the validity challenge is far superior from a cost, efficiency, and accuracy perspective.

Litigation also is extremely risky for defendants, with some patent cases resulting in enormous damages awards. See PwC, 2018 Patent Litigation Study, at fig. 2 (May 2018) <https://pwc.to/38BlfmJ>. That creates significant incentives to settle even where the underlying patent claims are dubious.

Plaintiffs frequently increase the settlement pressure by asserting treble damages claims, which have a significant *in terrorem* effect. 35 U.S.C. § 284; see Scott Baker, *Can the Courts Save Us From the Patent Crisis?*, 88 Tex. L. Rev. 593, 598 (2010) (describing how entities will “use[] the threat of a punitive remedy” like treble damages “to extract a settlement that exceeds what [they] would have

gotten if [they] licensed [their] patent ex ante); *Halo*, 136 S. Ct. at 1937-38 (Breyer, J., concurring) (recognizing the “risk” that enhanced damages awards may mean that patents “will reach beyond [their] lawful scope to discourage lawful activity, and . . . frustrate, rather than ‘promote,’ the ‘Progress of Science and useful Arts’”).

Non-practicing entities have no operating business, no exposure to a counterclaim of infringement, and no real costs other than the fees needed to prosecute infringement litigation—fees that often are provided by a third-party funder. These realities also feed the impulse to settle. As a report from the Executive Office of the President explained, this persistent asymmetry between plaintiffs and defendants often results in settlements “for amounts that have not so much to do with the economic value of [the] patents or the probability that [the defendants] have infringed,” but the “the parties’ relative opportunity costs of going to trial and attitudes towards risk.” Executive Office of the President, Patent Assertion & U.S. Innovation, at 6 (2013); see also Joseph Farrell & Robert Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review May Help*, 19 Berkeley Tech L.J. 943, 968 (2004) (describing how the “grave imbalance of incentives between a patentee and a potential challenger to the patent . . . makes litigation an inadequate substitute for adequate patent examination at the USPTO”).

Event studies estimate that lawsuits by non-practicing entities resulted in nearly half a trillion dollars in wealth transfers from 1990 to 2010,

virtually none of which benefitted inventors. Michael Meurer, James Bessen, & Jennifer Ford, *The Private and Social Costs of Patent Trolls*, Regulation 26 (Winter 2011-2012). Put another way, the potential gains from patent litigation channel investment dollars into low-quality patents—because of the possibility of litigation returns—and divert investment away from the research and development that fuels actual innovation, which harms consumers and our entire economy.

In sum, the inherent characteristics of the litigation process make lawsuits an inadequate mechanism for weeding out unjustified patents that chill genuine innovation.

C. Congress Crafted *Inter Partes* Review To Give The PTO An Effective Process For Correcting Its Erroneous Patent Grants.

Congress recognized the problems resulting from the significant number of low-quality patents—and sought to address them by enacting the AIA in 2011. The Act’s principal purpose was to “improve patent quality and restore confidence in the presumption of validity that comes with issued patents.” *Cuozzo*, 136 S. Ct. at 2139-40; *see also* H.R. Rep. 112-98, Pt. I, at 39 (2011) (describing the “growing sense that questionable patents are too easily obtained and are too difficult to challenge”).

Congress “meticulously documented” the problems in the patent system over the course of 23 House and Senate hearings. H.R. Rep. 112-98, pt. I, at 38-39. These hearings demonstrated widespread dissatisfaction with existing procedures for PTO reassessment of granted patents, expressed in

numerous fora, including seminal reports by the National Academy of Sciences and the Federal Trade Commission. NAS Report at 95-101 (recommending new post-grant procedures before an APJ or panel of APJs); FTC Report, Exec. Summ. at 7-8 (calling on Congress to enact “a new administrative procedure to allow post-grant review of an opposition to patents”).

Congress recognized that “[p]atent examiners are facing a difficult task” in weeding out unjustified patent applications “given the explosion in the number of applications and the increasing complexity of those applications.” 155 Cong. Rec. 6,270 (Mar. 3, 2009) (remarks of Sen. Leahy); accord 153 Cong. Rec. 23,941 (Sept. 7, 2007) (“The rapid pace of innovation and increasingly complex patent filings have strained the Patent and Trademark Office and patent claims of questionable validity have been granted.”) (remarks of Rep. Eshoo).

Moreover, Congress found it “unrealistic to believe a patent examiner would know all of the places to look for [relevant] information” at the examination stage; indeed, “even if the examiner knew where to look, it is unlikely he or she would have the time to search all of these nooks and crannies.” 157 Cong. Rec. 2,843 (Mar. 1, 2011) (remarks of Sen. Klobuchar). “The people who know where to look are the other scientists and innovators who also work in the field. But current law doesn’t allow participation by third parties in the patent application process despite the fact that third parties are often in the best position to challenge a patent application.” *Ibid.*

Congress also recognized the adverse consequences of the PTO’s errors. “Patents of low quality and dubious validity” enable the strategic use

of infringement litigation, or threats of such litigation, to “extort unreasonable licensing fees from legitimate businesses,” producing “a drag on innovation.” 157 Cong. Rec. 3,413-414 (Mar. 8, 2011) (remarks of Sen. Leahy).

To address these problems, Congress created new administrative procedures providing for PTO review of the validity of the agency’s prior decision to grant a patent, including *inter partes* review. 35 U.S.C. § 311.² Congress deliberately structured the *inter partes* review procedure to avoid the flaws in two earlier post-grant review processes Congress had created to encourage administrative challenges as a means of addressing the problem of unlawfully-granted patents.³

² The AIA also created the post-grant review procedure, which allows a broader range of patentability challenges but must be brought within nine months of issuance, 35 U.S.C. § 321, and covered-business-method review, which was available only to a party charged with infringement and which sunset in September 2020. *Return Mail, Inc. v. United States Postal Svc.*, 139 S. Ct. 1853, 1860 & n.1 (2019). *Inter partes* review is by far the most commonly invoked of the AIA’s new procedures—because of the characteristics discussed in the text. U.S. Patent and Trademark Office, *Trial Statistics: IPR, PGR, CBM* at 3 (Sept. 2020) (“PTO Trial Statistics”), <https://bit.ly/3kE5sWt> (93% of all filed petitions).

³ The first procedure, *ex parte* patent reexamination, was introduced in 1980. See Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015; 35 U.S.C. § 302. But it had a number of limitations, particularly the absence of any provision for third-party participation. H.R. Rep. 112-98, pt. I, at 45. The second procedure, *inter partes* reexamination, was introduced in 1999, American Inventors Protection Act, Pub. L. 106-113, 113 Stat. 1636, but also had procedural limitations that prevented its

First, to ensure that decisions would be made by personnel with appropriate expertise, Congress provided that reviews would be conducted by technically trained administrative patent judges, who together with the Director of the PTO and certain other officials make up the newly formed Patent Trial and Appeal Board (“Board”). 35 U.S.C. § 6. As a former Director of the PTO explained, the PTO “is a particularly appropriate venue for making validity determinations in a cost-effective and technically sophisticated environment.” *Perspective on Patents: Harmonization and Other Matters: Hearing Before the Subcomm. on Intellectual Prop. of the S. Comm. on the Judiciary*, S. Hrg. 109-182, at 51 (2005) (statement of Q. Todd Dickinson).

Second, Congress prescribed procedural standards to make *inter partes* review fair and efficient. For example, Congress raised the threshold for instituting *inter partes* review to require a stronger showing from the petitioner; expanded estoppel and timeliness provisions to prevent the procedure from being employed to harass patent owners or for tactical purposes; and allowed for discovery and oral hearing rights to enhance third-party participation. *SAS*, 138 S. Ct. at 1353-54; *Cuozzo*, 136 S. Ct. at 2137.

Third, Congress streamlined the process to provide for a single level of administrative review, with direct appeal to the Federal Circuit. H.R. Rep. 112-98, pt. I, at 47; see also *id.* at 45 (noting that third parties were dissuaded from using earlier

significant use to challenge questionable patents. H.R. Rep. 112-98, pt. I, at 46 (noting that the PTO received only 53 requests for *inter partes* reexamination from 1999 to 2004).

reexamination proceedings that required “two rounds of administrative review”); S. Rep. 110-259, at 19 (2008) (calling the prior system “troublesomely inefficient and ineffective as a truly viable alternative for resolving questions of patent validity” due to “reexamination first being conducted by a patent examiner” followed by “an appeal to the Patent Board”). Supporters of the bill expressed the hope that eliminating additional levels of appellate review would “substantially accelerate the resolution of *inter partes* cases.” 157 Cong. Rec. 3,430 (Mar. 8, 2011) (statement of Sen. Kyl).

D. *Inter Partes* Review Has Proven Successful In Identifying And Invalidating Unjustified Patents.

Congress deliberately crafted *inter partes* review to “improve[] patent quality and provid[e] a more efficient system for challenging patents that should not have issued.” H.R. Rep. 12-98 at 39-40. And that is exactly what has happened. In sharp contrast to prior administrative review procedures, which were consistently underutilized, *inter partes* review has become a popular and evenhanded alternative to full-blown litigation.

Precisely because HTIA’s members often have been subjected to baseless patent infringement claims, they have been among the most frequent users of *inter partes* review. Since 2012, members have filed over 1,900 petitions, resulting in approximately 1,000 institutions and over 650 final written decisions.

These statistics are consistent with the data from the *inter partes* review process more broadly. Since 2012, third parties have filed over 12,000 petitions for

inter partes review and the PTO has instituted over 6,000 reviews. PTO Trial Statistics at 10. The Board has issued over 3,400 final written decisions during this period. *Ibid.* In FY2020, the Board instituted review in response to approximately 55% of petitions. *Id.* at 6.

Of the 551 cases that proceeded to trial, the Board found roughly 55% of patents invalid at least in part. PTO Trial Statistics at 6. And, demonstrating that the Board is reaching appropriate conclusions in post-grant proceedings, the Federal Circuit has affirmed over 90% of final written decisions in *inter partes* reviews. Matthew G. Sipe, *Experts, Generalists, Laypeople—and the Federal Circuit*, 32 Harv. J. L. & Tech. 575, 604 (2019). Indeed, Board decisions are affirmed at higher rates than validity decisions by district courts. *Id.* at 610. At the same time, only 22% of the patents asserted in litigation since 2012 have been challenged at the Board, demonstrating that administrative review has complemented, not displaced, traditional litigation. Unified Patents, *Patent Quality Initiative Statistics—Dispelling PTAB Myths* (Feb. 5, 2020), <https://bit.ly/2IqT1jz>.

The efficiency gains from *inter partes* review have been equally significant. A single patent case in court typically costs HTIA members on the order of \$2 million or more, but the median estimated total cost of litigating an *inter partes* review petition through a hearing is just \$250,000. Am. Intellectual Prop. Law Ass'n, *2017 Report of the Economic Survey* 43, 51 (2017). One analysis estimates that *inter partes* review eliminated over \$2 billion in litigation costs by 2017. Josh Landau, Patent Progress, *Inter Partes*

Review: Five Years, Over \$2 Billion Saved (Sept. 14, 2017), <https://bit.ly/3pjar2F>.

By enabling PTO review of a patent grant when there is at least a reasonable likelihood that the patent will be determined to be at least partially invalid, *inter partes* review provides a remedy for unjustified patents that are most likely to obstruct innovation. *Inter partes* review is therefore operating just as Congress intended, providing an essential mechanism for the PTO to correct its own mistakes.

II. The Appointments Clause Challenge Need Not, And Should Not, Disrupt *Inter Partes* Review.

This case brings before the Court the most recent in a series of a constitutional challenges seeking to disrupt *inter partes* review—notwithstanding its critical role in improving patent quality and eliminating obstacles to U.S. innovation. Neither the Constitution nor this Court’s severability precedents require that result.

A. APJs Are Validly Appointed Inferior Officers.

The Appointments Clause provides that “[o]fficers of the United States” shall be nominated by the President and appointed with the advice and consent of the Senate, but provides that Congress may vest authority to appoint “inferior” officers “in the President alone . . . or in the Heads of Departments.” U.S. Const. art. II, § 2, cl. 2.

The Clause’s purpose is to prevent “the diffusion of the appointment power” and inter-branch “aggrandize[ment].” *Freytag v. Commissioner*, 501

U.S. 868, 878 (1991). At the same time, the Clause was intended “to inaugurate a new system of government” and provide “for the more convenient exercise of [executive] power.” *United States v. Germaine*, 99 U.S. 508, 510 (1878).

Similar to the Patent Clause in Article I, therefore, the Appointments Clause aims to balance two competing goals: ensuring accountability and separation of powers, while allowing for the reality that government must be flexible and responsive to the needs of the moment. Congress heeded both of those goals when it gave APJs the responsibility to hear and resolve claims in *inter partes* review.

1. APJs fit comfortably into the framework this Court generally uses to identify government officials who are “inferior” officers for purposes of Article II. Although this Court has not “set forth an exclusive criterion for distinguishing between principal and inferior officers,” *Seila Law LLC v. Consumer Fin. Prot. Bureau*, 140 S. Ct. 2183, 2199 n.3 (2020), it has described “inferior officers” as officers whose work “is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.” *Edmond v. United States*, 520 U.S. 651, 662-62 (1997). And it is indisputable that the Director of the PTO has broad supervisory authority over APJs.

As a general matter, the Director is tasked with providing policy direction and management supervision for the PTO, providing broad authority to regulate the manner in which the Board operates. 35 U.S.C. § 3(a)(2), (b)(2)(A). These directives are binding on APJs, and if APJs disregard them, the APJs are subject to removal by the Secretary of Commerce

pursuant to the “efficiency of the service” standard. 5 U.S.C. § 7513(a). In addition, the Director sets the APJs’ basic pay. 35 U.S.C. § 3(b)(6).

With respect to *inter partes* review specifically, Congress gave the Director the power to institute reviews, including to determine whether the reasonable-likelihood standard has been met. 35 U.S.C. §§ 312, 314. Congress also gave the Director discretion to consolidate or keep separate related proceedings as he sees fit. *Id.* § 315(c), (d). It also gave him extensive control over the conduct of *inter partes* review proceedings, including authority to establish evidentiary and other procedures, prescribe sanctions, and set the terms of hearings. *Id.* § 316(a).⁴

Congress provided that panels must consist of at least three members of the Board, but the Director has unfettered authority to designate (or de-designate) which APJs will hear any given case. 35 U.S.C. § 6(c); Patent Trial and Appeal Board, *Standard Operating Procedure 1* (Rev. 15) (Sept. 20, 2018). Further, the Director has issued procedures for the creation of a Precedential Opinion Panel that designates final written decisions as precedential and binding on the Board. See Patent Trial and Appeal Board, *Standard Operating Procedure 2* (Rev. 10) (“SOP 2”) (Sept. 20,

⁴ These powers are not just relevant to APJs status as “inferior” officers; they are central to Congress’s goal of creating an efficient and meaningful post-grant procedure. See S. Rep. 111-18 at 16-17 (2009) (“under the revised procedures, reexamination will be heard by an administrative patent judge (APJ) under procedures established by the Director,” and “the USPTO will have authority to reshape the procedures for *inter partes* reexamination in ways that address inefficiencies with the current proceeding”).

2018); Alphabetical Listing of Precedential Decisions, <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/precedential> (listing the roughly 50 decisions designated as precedential post-AIA). These procedures also authorize the Director to convene a panel to decide whether to rehear a decision in any case. SOP 2 at 5, 7.

Together, these features easily show that APJs' work is "directed and supervised at some level" by a principal officer: the Director. *Edmond*, 520 U.S. at 663. In *Edmond*, the Court found that judges on the Coast Guard Court of Criminal Appeals were inferior officers because they were subordinate to the Judge Advocate General, who like the Director of the PTO was charged with prescribing "uniform rules of procedure" and had the power to "remove a Court of Criminal Appeals judge from his judicial assignment without cause." 520 U.S. at 664.

That here the Director's removal authority is exercised through his power to control panel composition makes no difference. *See Edmond*, 520 U.S. at 664 (recognizing that the Judge Advocate General's control over Court of Criminal Appeals judges was "not complete"). At-will removal has never been essential to establish inferior officer status—and it should not be here, particularly in view of the Director's robust ability to exercise other levers of authority to direct and supervise the work of his subordinates.⁵

⁵ In *Lucia v. SEC*, this Court addressed whether it was material for Appointments Clause purposes that SEC administrative law judges lacked the power to enforce their discovery orders through

The court below placed considerable reliance on the fact that the decisions of Court of Criminal Appeals at issue in *Edmond* were subject to review by the Court of Military Appeals, 520 U.S. at 665, while here there is no automatic right to review of the APJs' decision. No. 19-1434 Pet. App. 9a-14a. But the Director's creation of a Precedential Opinion Panel (with members designated by the Director) to decide whether to rehear a case has given him a very significant degree of oversight and control and provides a path for further agency review of an Board decisions where needed.

That conclusion is supported by comparing the Director's supervision of APJs to his supervision of patent examiners. There can be no dispute that examiners decide whether to issue a patent—the Director's authority to withdraw an application allowed for issuance is virtually never exercised. See *BlackLight Power, Inc. v. Rogan*, 295 F.3d 1269, 1273 (Fed. Cir. 2002). If that theoretical authority (which the Director has no practical means of exercising given the 350,000 patents issued each year) is sufficient to support a determination that patent

contempt proceedings. 138 S. Ct. 2044, 2054 (2018). As the Court explained, although “the power to toss malefactors in jail is an especially muscular means of enforcement,” contempt authority was not necessary so long as the officials were able to “exclud[e] the wrongdoer (whether party or lawyer) from the proceedings—a powerful disincentive to resist a court order.” *Ibid.* *Lucia* addressed the distinction between an “officer” and an “employee,” rather than the distinction between an “inferior officer” and “principal officer,” but its logic regarding the various ways in which an official can exercise authority, rather than focusing only on particular types of authority, applies here with equal force here.

examiners are not principal officers—which must be true given the governing appointment and removal provisions, which are effectively identical to those for APJs—then the Director’s very significant practical ability to oversee Board decisions surely is sufficient to conclude that APJs fall into the same category.

2. Moreover, classifying APJs as inferior officers accords proper respect to the determinations of the political branches. Because “[t]he line between ‘inferior’ and ‘principal’ officers is one that is far from clear,” *Morrison v. Olson*, 487 U.S. 654, 671 (1988), the judgments of the other branches deserve significant weight. See *Weiss v. United States*, 510 U.S. 163, 194 (1994) (Souter, J., concurring) (agreeing that “in the presence of doubt deference to the political branches’ judgment is appropriate”).

There are two strong indications that Congress properly determined that APJs are validly appointed under the Appointments Clause.

First, just a few years before Congress passed the AIA, Congress modified the patent laws to vest APJ-appointment authority in the Secretary of Commerce in response to criticism that appointment by the Director raised Appointments Clause issues.⁶ Pub. L. No. 110-313, § 1(a)(1), 122 Stat. 3014, 3014 (2008). Because Congress did not make additional modifications to the appointment process when it

⁶ This criticism charged that APJs appointments were invalid because APJs were “officers,” not “employees”; and further that the exception for “inferior offices” did not apply because the Director was not a “head of department.” See John F. Duffy, *Are Administrative Patent Judges Unconstitutional?*, 77 Geo. Wash. L. Rev. 904, 905-07 (2009).

passed the AIA just a few years later, 35 U.S.C. § 6(a), the strong inference is that in Congress's judgment the AIA did not transform APJs into principal officers.

Second, history shows that Congress did not view provisions that might appear to limit the Director's authority vis-à-vis APJs as actually derogating the Director's plenary authority. Take, for example, 35 U.S.C. § 6(c), which delegates rehearing decisions only to the Board, rather than to the Director. As the Federal Circuit has explained, Congress added this limitation to reduce an "onerous" burden on the Director (formerly known as the "Commissioner of Patents and Trademarks"):

The 1927 Act * * * eliminated the right of an applicant to appeal to the Commissioner from an adverse Board decision, by adding to the statute the language "[t]he Board of Appeals shall have sole power to grant rehearings," essentially the same provision as in today's § 7(b). Act of March 2, 1927, ch. 273, § 3, 44 Stat. 1335. Prior to this amendment, the Commissioner acted on petitions for rehearing of adverse Board decisions. Through this amendment, Congress effectively eliminated the onerous burden placed on the Commissioner regarding reviewing such appeals, instead steering applicants to the Board with such requests.

In re Alappat, 33 F.3d 1526, 1534 (Fed. Cir. 1994) (en banc).

The 1927 Congress specifically dismissed concerns that by giving the Board sole power to grant "rehearings," it was "lessen[ing] the present

supervisory power of the commissioner”; “the supervisory power of the commissioner, as it has existed for a number of decades, remains unchanged by the bill.” *Alappat*, 33 F.3d at 1534 (quoting S. Rep. No. 1313, 69th Cong., 2d Sess. 4 (1927)). As one early twentieth-century court observed, moreover, that supervisory power was extensive. “The law has provided certain official agencies to aid and advance the work of the Patent Office, such as the Primary Examiners * * * and the Examiners-in-Chief; but they are all subordinate * * * . The Commissioner is the head of the bureau, and he is responsible for the general issue of that bureau.” *Moore v. United States*, 40 App. D.C. 591, 596 (D.C. Cir. 1913). As explained above, that remains equally true today.

B. Any Appointments Clause Violation Could Be Addressed By Severing APJ Tenure Or Rehearing Restrictions.

The Court explained last Term that “[c]onstitutional litigation is not a game of gotcha against Congress, where litigants can ride a discrete constitutional flaw in a statute to take down the whole, otherwise constitutional statute.” *Barr v. Am. Ass’n of Political Consultants, Inc.*, 140 S. Ct. 2335, 2351 (2020) (“AAPC”). “Even in the absence of a severability clause,” the “traditional” rule is that “the unconstitutional provision must be severed unless the statute created in its absence is legislation that Congress would not have enacted.” *Seila Law*, 140 S. Ct. at 2209.

The AIA unmistakably embodies Congress’s intent to provide a meaningful process for third parties to challenge questionable patents without resort to full-blown litigation. Thus, if the Court

determines that APJs are not inferior officers, it can apply well-established severability principles to ensure that the Director or Secretary have any necessary additional authority over APJs while leaving in place a functioning *inter partes* review process.

1. To begin with, as the Federal Circuit concluded, the Court could invalidate the tenure protections APJs enjoy under 5 U.S.C. § 7513(a)—which would make them removable at will. See 35 U.S.C. § 3(c) (incorporating Title 5’s protections for PTO officers and employees). It is clear that “[t]he power to remove officers * * * is a powerful tool for control.” *Edmond*, 520 U.S. at 664. And Congress plainly would prefer to have the *inter partes* review system remain in force: nothing in the AIA indicates that Congress sought to guarantee for-cause removal protection for APJs. Cf. *Seila Law*, 140 S. Ct. at 2209 (“there is nothing in the text or history of the Dodd-Frank Act that demonstrates Congress would have preferred no CFPB to a CFPB supervised by the President.”).

Alternatively, the Court could delete 35 U.S.C. § 6(c)’s requirement that the Board hear *ex parte* appeals, derivation proceedings, post-grant reviews, and *inter partes* reviews in panels of “at least 3 members.” The Federal Circuit agreed that this would cure the constitutional defect, but thought that “severing three judge review from the statute would be a significant diminution in the procedural protections afforded to patent owners.” No. 19-1434 Pet. App. 24a-25a. That concern appears misplaced, given the fact that patent owners receive their patents in *ex parte* proceedings before a single examiner, in which there are no opportunities for participation by

third parties whose interests are threatened by the erroneous issuance of a patent. This remedy also would leave the Director free, in the exercise of his statutory powers to “prescribe regulations” governing *inter partes* review and provide “policy direction and management supervision” for the PTO, 35 U.S.C. §§ 3(a)(2)(A), 316(a), to continue to use three-member panels for initial *inter partes* reviews, consistent with past practice.

A third potential remedy would be severing the neighboring requirement in 35 U.S.C. § 6(c) that “[o]nly the Patent Trial and Appeal Board may grant rehearings.” As explained above, when Congress enacted the limitation on rehearing authority in 1927, it did so to ease the day-to-day burdens on the Director, not to make it more difficult for him to superintend his subordinates. *Alappat*, 33 F.3d at 1534. And when Congress enacted the AIA in 2011, it merely transferred this pre-existing limitation into the post-grant context as part of a general update of the Board’s organic statute.⁷

⁷ The parallel provision in the statute governing the Board’s predecessor applied to appeals from adverse decisions in the initial patent examination only. See 35 U.S.C. § 6(b) (2001) (“The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners. * * * Each appeal and interference shall be heard by at least three members of the Board, who shall be designated by the Director. Only the Board of Patent Appeals and Interferences may grant rehearings.”). In the AIA, Congress replaced the Board of Patents Appeals and Interferences with the Patent Trial and Appeal Board and bifurcated this provision, expanding the new Board’s duties to encompass derivation proceedings and *inter partes* and post-grant review, 35 U.S.C. § 6(b), and

Absent this specific statutory grant of rehearing authority to the PTAB, the power to grant rehearings would naturally fall to the Director, who has already promulgated rules to, among other things, govern “the procedure for requesting rehearing of decisions.” *Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions*, 77 Fed. Reg. 48,612 (Aug. 14, 2012). The Director thus would have ultimate authority to call for rehearing of any final written decision, and to select the rehearing panel, making it clear that APJs could not “render a final decision” on behalf of the PTO without the Director’s assent. *Edmond*, 520 U.S. at 665. Faced with a choice between removing the Board-rehearing provision or invalidating the AIA’s entire post-grant structure, therefore, there is no question that Congress would have preferred a system in which the Director (as opposed to only the Board) could call for rehearing of the Board’s decisions.

2. Any of the foregoing options are vastly preferable to the supposed solution of leaving the fix to Congress (No. 19-1458 Pet. 33-34)—which is no answer at all. Doing so would invite delay and confusion and inject tremendous uncertainty into the *inter partes* review process.

Concurring in the denial of the petitions for rehearing *en banc*, three judges below pointed out (No. 19-1434 Pet. App. 257a-258a) that this Court has on occasion entered a “temporary stay” to allow Congress an opportunity correct the statutory

providing for similar 3-member panels and rehearing procedure. 35 U.S.C. § 6(c) (2018).

scheme. *E.g.*, *N. Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 88 (1982).

Even if the Court could take that step, however, it still would have to address the severability issue to provide the legal rule applicable if Congress did not act within the specified period. And, as discussed, it is clear that the proper course is to sever the limitations on the Director’s authority and leave the *inter partes* review process in existence. Where, as here, “nothing in the statute’s text or historical context makes it ‘evident’ that Congress, faced with the limitations imposed by the Constitution, would have preferred no Board at all to a Board whose members” are validly appointed, the proper course is for the Court to sever the offending provision—not to hand the problem to Congress. *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 509 (2010); see also *Seila Law*, 140 S. Ct. at 2210-11 (“We think it clear that Congress would prefer that we use a scalpel rather than a bulldozer in curing the constitutional defect we identify today.”).

Moreover, given the absence of any statutory authority to suspend the effectiveness of the Court’s judgments, it is not at all apparent that the Judicial Power by itself could authorize the Court to delay the effect of its decision—which of course simply declares what the law is—any more than the Court has the power to limit the effect of its decisions on pending cases. See *Harper v. Va. Dep’t of Taxation*, 509 U.S. 86 (1993).

There also is no guarantee that Congress would act quickly on these matters—and leaving the AIA’s post-grant procedures in limbo for an extended period could significantly hamper U.S. innovation. HTIA’s

members and others rely heavily on the *inter partes* review procedure; thousands of petitions are filed and hundreds of reviews instituted each year. Already many proceedings have been ordered held in abeyance due to the pendency of this case. The cloud over *inter partes* review proceedings—not to mention APJs’ other important work with respect to adverse patents decisions and derivation proceedings—will also have significant follow-on effects in related patent litigations. Waiting for Congress to correct any constitutional problem thus would be unusually disruptive in these circumstances.

Finally, it is telling that opponents of *inter partes* review have seized upon the supposed Appointments Clause issue to hint, not-so-subtly, that “Congress could abandon *inter partes* review entirely.” No. 19-1458 Pet. 34. That reveals the real motivation of this constitutional claim: to use any Appointments Clause violation as a lever to eliminate *inter partes* review.

As explained above, that would be a grave mistake. Since 2012, *inter partes* review has addressed thousands of erroneously-granted patents, reduced litigation costs, and begun to reverse a patent-quality crisis. Of course, Congress *could* decide to abandon post-grant review—it always has the power to revise its own statutes.

But unless and until Congress chooses to take that step, this Court’s longstanding severability principles focus on the objectives of the statute Congress actually enacted—even if some litigants might prefer a different course as a policy matter. See *AAPC*, 140 S. Ct. at 2351; *Seila Law*, 140 S. Ct. at 2210-11.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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