

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

IN THE
Supreme Court of the United States

UNITED STATES OF AMERICA, *Petitioner*,

v.

ARTHREX, INC., ET AL.

SMITH & NEPHEW, INC., ET AL., *Petitioners*,

v.

ARTHREX, INC., ET AL.

ARTHREX, INC., *Petitioner*,

v.

SMITH & NEPHEW, INC., ET AL.

ON WRITS OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**BRIEF OF 39 AGGRIEVED INVENTORS AS
AMICI CURIAE IN SUPPORT OF ARTHREX**

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INTEREST OF *AMICI CURIAE*

The *amici curiae* are 39 inventors, entrepreneurs, principals, and founders of entities that own patents issued by the U.S. Patent and Trademark Office (“Office”) that were, or are currently, subject to *inter partes* review (“IPR”) and other post-issuance proceedings before the Office’s Patent Trial and Appeal Board (“PTAB”).¹

In light of their personal experiences in the conduct and operation of the PTAB in presiding over such proceedings, the *amici* are well suited to bring to this Court a perspective on the real-world impact of the PTAB’s unprecedented structure and its decision in this case. The list of *amici* are provided in the Appendix.

SUMMARY OF ARGUMENT

The property rights embodied in patents are vital to small businesses, independent inventors, and the startup economy that brings their patented inventions to market. Those property rights are under attack by large corporations that are motivated to devalue patents and quell competition by small-entity patent owners purportedly protected by their patents.

¹ No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person or entity other than the *amici curiae* or their counsel made such a monetary contribution. The parties have provided blanket consents to the filing of *amicus* briefs.

The PTAB is a product of these large entities' influence on legislation, as the briefest glance at the roster of *amici curiae* briefs filed in support of each side in this case makes plain. The PTAB was deliberately restructured in 2011 to administer fast-track proceedings for deciding issues of patentability, without the statutory presumption of validity afforded to patents in district court. Unsurprisingly, in these novel administrative proceedings patent challengers—overwhelmingly large corporations charged with infringing patents—enjoy a favorable likelihood of invalidating patents. And even in the so-far statistically improbable event the challengers do not succeed in the PTAB, they face minor or no consequences, for they still retain ample opportunity to challenge validity *again* in district court. Put simply, the America Invents Act (“AIA”) that established the PTAB added drastically more opportunities for large companies to invalidate patents, and no commensurate new means for small patent owners to secure, identify, or confirm “good” patents. Indeed, due in part to the overwhelming expense of these proceedings for small businesses, such businesses have little opportunity to avail themselves of any limited benefit PTAB trials might provide. What remains in the wake of creation of these PTAB trials, therefore, is unpredictability and depressed patent values.

The clear winner is large companies who use PTAB trials to eliminate upstart competitors and take the competitors' valuable, successful inventions as their own. That story plays out in the stories of *amici* like Jodi Schwendimann, Patrick Buckley, Tom Pierson, Gene Luoma, Glenn Sanders, and countless

others, which all too frequently end with small businesses overwhelmed or forced into insolvency by infringers leveraging the power of PTAB trials in wars of attrition against patent rights.

If PTAB trials are to be an extra-judicial mechanism for revoking small businesses' patent rights, the Constitution's Appointments Clause demands that the Office's Administrative Patent Judges ("APJs") rendering final decisions on patentability be constitutionally appointed with advice and consent of the Senate. When APJs make mistakes or otherwise render decisions motivated by bias—errors entitled to great deference on appeal—they are accountable to no one. And the Office's statistics show that *some* group within the Office is, in fact, erring at a high rate: either the examiners who issued the patents or the PTAB who revokes them. There is no reason to conclude that these errors, or at least many of these, are not originating within the PTAB itself, as it takes the Office's *second* or subsequent look at patents the Office itself already issued. The best way to mitigate these errors is to make the APJs' decisionmaking accountable using the established process of appointment and confirmation. Patent owners facing elimination of their rights are entitled to a hearing before such properly appointed officers.

There is no place for overlooking constitutional violations and contrived, convoluted administrative shortcuts when the future of small businesses and their owners' livelihoods hang in the balance.

Amici agree with the arguments presented to the Court in the merits brief of patent owner Arthrex

showing that in PTAB trials the APJs act as “principal Officers” under the Constitution’s Appointments Clause. This friend-of-the-court brief will focus on assisting the Court in areas not addressed in detail in Arthrex’s brief, by providing the Court with information on the real-world consequences of the unprecedented and unaccountable PTAB trial regime on small entities and individuals—and, given that APJs are unconstitutionally appointed, which potential “severance” remedies would and would not cure the constitutional problem.

ARGUMENT

I. The property rights embodied in patents are vital to small businesses, independent inventors, and the startup economy poised to compete with the large corporations currently dominating the AIA trial process.

America is at an economic crossroads: our biggest companies are bigger than ever before and getting bigger, and there are few forces left to curb their growth. The billions of dollars in fines levied against Silicon Valley’s wealthiest corporations have been ineffective at slowing their march toward domination, with attendant profits that render those fines mere pinpricks on their unprecedented balance sheets.² Indeed, the problem has become so urgent that the federal government and individual states

² Jeanne Whalen, *Europe Fined Google Nearly \$10 Billion for Antitrust Violations, But Little Has Changed*, The Washington Post (Nov. 10, 2020), <https://www.washingtonpost.com/technology/2020/11/10/eu-antitrust-probe-google/>.

recently resorted to highly publicized antitrust lawsuits against two of these giant tech companies.³ Despite their origins in the world's largest hub of innovation, these behemoths are now the biggest backers of the new unconstitutional proceedings at issue, which have left the Nation's patent system, its primary innovation engine, a shell of what it once was.

This case represents a unique opportunity to close the floodgates feeding the world's largest, most aggressive users of others' technology. A decision in favor of Arthrex will help reinvigorate the *amici* on this brief and the tens of thousands of other small businesses and independent inventors that are poised to compete with large corporations if only provided with a viable chance to protect their contributions to innovation.

It may seem counterintuitive to think of patents as promoting competition. Opponents of patents, many of them well-paid to be so, routinely deride them as a species of "monopoly." In fact, the rights conferred by patents provide their owners with a valuable foothold—but no more than that—in competitive and anticompetitive markets alike. Patents' exclusionary rights, strictly limited in scope, allow even the most impecunious patent owner to choose, for a time far shorter than the term of other time-limited intellectual property rights, whether or

³ Brian Fung, *The Antitrust Lawsuits Against Google Just Keep Coming*, CNN (Dec. 17, 2020), <https://www.cnn.com/2020/12/17/tech/google-antitrust-lawsuit/index.html>; Federal Trade Comm'n, *FTC Sues Facebook for Illegal Monopolization* (Dec. 9, 2020), <https://www.ftc.gov/news-events/press-releases/2020/12/ftc-sues-facebook-illegal-monopolization>.

how others are allowed to make, use, sell, offer to sell, or import the claimed invention.⁴ The Patent Act was intended by its drafters to provide recourse when others infringe those rights.⁵ By providing for enforceable rights to exclude others from using the claimed invention and reasonable compensation for infringement of those rights, patents provide their owners with limited power to level the playing field against would-be copyists, even large and powerful ones. And after the patent's limited term expires, everyone is free to make the now-public invention, without the patent owner's permission.

The power to level the playing field that is embodied in a U.S. patent is not immediately valuable to most small businesses, but is instead nascent. Startups need funds to grow, and those funds typically must come from others. Because startups and independent inventors lack profits and sometimes even products, investors, whether small or large, look to assets associated with their venture to hedge their risk.⁶ And patents are the primary example of such assets, for they are property rights that can be leveraged and sold. Patents gives investors greater confidence that the venture will actually receive a return on their investment.⁷ And if the startup fails, as many do, the investors can often monetize this intellectual property to recoup the funds they risked

⁴ 35 U.S.C. § 271(a) (2018).

⁵ 35 U.S.C. §§ 281, 283, 284, 285.

⁶ Judge Paul Michel, Big Tech Is Overwhelming Our Political System (Nov. 20, 2020), https://www.realclearpolicy.com/articles/2020/11/20/big_tech_is_overwhelming_our_political_system_650331.html.

⁷ *Id.*

and lost.⁸ Strong patent rights are thus critical to small business, independent inventors, and the startup economy, for they promote investment and protect small entrants' power to compete in the marketplace that would otherwise be out of reach.

Large corporations recognize the barrier patents pose to their untrammelled market dominance. So for years a movement to weaken patent rights has been underway. Deploying vast cash reserves, the market dominators have overwhelmed our political system with lobbyists, flacks, and think tanks touting a narrative of "patent trolls" filing extortionate suits based on so-called "bad" patents, which turn out to include all patents ever asserted against these entities.⁹ And it has worked. The AIA of 2011 created new, fast-track, administrative trials within the Office's freshly and vastly empowered PTAB for deciding the patentability of issued patents, including patents already in litigation. It is these unprecedented proceedings that the court of appeals found to be unconstitutionally administered.

Crucially, that administrative fast track was exempted from the statutory presumption of validity afforded to patent owners in Article III court trials. The House Report on the AIA envisioned the new Article I "trials" as "quick and cost effective

⁸ *Id.*

⁹ *Id.*; see also Eric P. Vandenberg, Note, *America Invents Act: How It Affects Small Businesses*, Idaho L. Rev. 201, 227 (2013) ("[M]any of the largest lobbyists and spenders in support of the AIA are in fact large, international corporations.").

alternatives to litigation.”¹⁰ Yet, these trials are not a true “alternative” to litigation. They are a very different animal. For instance, litigation in district court requires proof of invalidity by clear and convincing evidence in light of patents’ presumption of validity in that forum.¹¹ The petitioner’s burden of proving invalidity in AIA trials, by contrast, is a preponderance of the evidence.¹² And it is not difficult for a patent challenger to avail itself of this greatly relaxed burden. Any patent for which a patent challenger can demonstrate “a reasonable likelihood . . . [of] prevailing with respect to at least 1 of the claims challenged in the petition” satisfies the statutory threshold for institution of IPR.¹³ The Office has done little to clarify what this standard requires, except to state that “[a] reasonable likelihood standard is a somewhat flexible standard that allows the [PTAB] judge room for the exercise of judgment.”¹⁴ A precise definition has never been offered. Based on the differing burdens of proof alone, it should be far easier for a patent challenger to invalidate a patent in the Patent Office than it is to do so in district court.

The Office’s statistics support the already plain conclusion that patent challengers enjoy a favorable likelihood of invalidating a challenged patent in AIA trials. According to the Office’s website, 80 percent of

¹⁰ H.R. Rep. No. 112-98, pt. 1, p. 48 (2011) (emphasis added).

¹¹ 35 U.S.C. § 282; *Microsoft Corp. v. i4i L.P.*, 564 U.S. 91, 99–100, 103–04 (2011).

¹² 35 U.S.C. §§ 316(e), 326(e).

¹³ 35 U.S.C. § 314(a); *cf.* 35 U.S.C. § 324(a) (propounding similar threshold for post-grant reviews under “more likely than not” standard).

¹⁴ Changes to Implement *Inter Partes* Review Proceedings, 77 Fed. Reg. 7041, 7046 (Feb. 10, 2012).

the 3,414 final decision on the merits through September 30, 2020 invalidated some or all of the challenged claims.¹⁵ Indeed, the Office reports that 62 percent (2,114) of these final decisions found *all* challenged claims unpatentable.¹⁶

The Office's figures showing such peril for challenged patents are particularly attractive for petitioners, because even in the statistically unlikely event they are unsuccessful before the Board, they will face few consequences for their unsuccessful attempt, for they will still have ample opportunities to challenge validity again in district court. AIA trials are merely a prelude or concurrent path to litigation: particularly after IPR, the defendant still has innumerable additional mechanisms for challenging validity in the district court, including challenges under 35 U.S.C. §§ 101 and 112, as well as anticipation and obviousness challenges based on prior public use or knowledge and patents or printed publications that could not have been raised in the IPR.¹⁷

Small innovators might have been able to find cold comfort in these proceedings if they reaped some benefit from these “quick and cost effective” trials

¹⁵ U.S. Patent & Trademark Office, *Trial Statistics: IPR, PGR, CBM: Patent Trial and Appeal Board*, 10 (Sept. 2020), https://www.uspto.gov/sites/default/files/documents/trial_statistics_20200930.pdf.

¹⁶ *Id.*

¹⁷ 35 U.S.C. § 311(b) (limiting scope of IPR to §§ 102 and 103 “and only on the basis of prior art consisting of patents and printed publications”); 35 U.S.C. § 315(e)(2) (IPR estoppel only attaches to grounds that were raised or could have been raised during trial).

themselves. For example, Congress theorized that small businesses would rely upon AIA trials to combat the “patent trolls” that, according to an oft-echoed narrative, were wreaking havoc upon them. Representative Lamar Smith, the AIA’s co-sponsor, cautioned that “patent trolls can hurt small businesses and independent inventors before they even have a chance to get off the ground.”¹⁸ Senator Patrick Leahy, another co-sponsor, similarly expressed concern about “patent trolls who extort unreasonable licensing fees from legitimate businesses” with “[p]atents of low quality and dubious validity”¹⁹ Yet, as tabulated below, it is exceedingly uncommon for a small- or medium-sized business to avail itself of IPR in this way. Of the more than 11,000 IPR petitions classified on the Unified Patents website, less than two percent were filed by small- or medium-sized entities against non-practicing entities.²⁰

¹⁸ 157 Cong. Rec. H4,486 (daily ed. June 23, 2011).

¹⁹ 157 Cong. Rec. S1,362 (daily ed. Mar. 8, 2011).

²⁰ Data obtained from Unified Patents, LLC at <https://portal.unifiedpatents.com/ptab/caselist> on December 11, 2020.

Inter Partes Review Filings

Dispute	No.	% of Total
Large Operating Company v.		
Non-Practicing Entity	4,500	40.20%
Operating Company	4,586	40.97%
Univ./Gov't/NGO/Non-Profit	239	2.14%
Sub-Total	9,325	83.30%
Small or Medium Entity v.		
Non-Practicing Entity	210	1.88%
Operating Company	1,310	11.70%
Univ./Gov't/NGO/Non-Profit	38	0.34%
Sub-Total	1,558	13.92%
Membership-Based Petitioner v.		
Non-Practicing Entity	282	2.52%
Operating Company	5	0.04%
Univ./Gov't/NGO/Non-Profit	3	0.03%
Sub-Total	290	2.59%
Univ./Gov't/Non-Practicing Entity v.		
Non-Practicing Entity	7	0.06%
Operating Company	11	0.10%
Univ./Gov't/NGO/Non-Profit	3	0.03%
Sub-Total	21	0.19%
Total	11,194	100.00%

These new Article I proceedings are, instead, ordinarily the province of large companies seeking to obliterate patents they allegedly have infringed.²¹ As shown above, large operating companies file over 80

²¹ Venable Fitzpatrick, 2020 Analysis on PTAB Contested Proceedings, 13 (Nov. 24, 2020), <https://www.venable.com/-/media/files/publications/2020/11/2020-analysis-on-ptab-contested-proceedings.pdf> (Almost 90% of IPR proceedings involve patents in district court litigation.).

percent of petitions for IPR, with those petitions about evenly split between challenges to other operating companies' patents and challenges to patents of non-practicing entities. That is not surprising, for the cost structure of AIA trials make it overwhelmingly expensive for small innovators to bring (or defend) them. The average cost for an AIA trial is over \$450,000.²² That number is pocket change for billion- and trillion-dollar companies but is out of reach for most small businesses and independent inventors.

The AIA, thus, created a forum within the Office that provides a second bite at the apple for invalidating not only the alleged “bad patents” that may have improvidently issued after their original examination, but indeed any patent at all amenable to a validity challenge—which means all of them.²³ Yet it has provided no commensurate means of securing “good patents” of reasonably reliable validity: all of its provisions, and all of its results, are in the direction of cancelling patent rights with sharply limited review of these decisions. What remains in its wake is not a more stable, predictable patent system, but even more unpredictability and depressed patent values. According to economist Jianqing (“Jack”) Lu, the AIA “significantly depressed the transaction prices of patent assets,” which, on average, have fallen 60

²² Am. Intellectual Property Law Ass’n, Report of the Economic Survey, I-163 (June 2017).

²³ The probability of invalidation of all patents, even high-quality patents, begins to approach 100 percent when a patent is repeatedly subjected to challenges. Matteo Sabatini, *PTAB Challenges and Innovation: A Probabilistic Approach*, 5 (Aug. 6, 2020), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3668216.

percent.²⁴ Concomitant with that drop in value, studies found a sharp decline in venture-capital money going into technology.²⁵ The startup formation rate in the United States has been declining for four decades and has fallen even more precipitously in recent years.²⁶ It is difficult for patentees, investors, and other stakeholders in the startup economy to have reasonable confidence in U.S. patents if the Office claws back issued claims at least four-fifths of the time in final decisions and any issued patent has less than a 50 percent chance of surviving at all in these decisions.²⁷ And that statistic includes the very few patent owners who have submitted proposed amendments to their patent claims in PTAB trials, most of which the PTAB has rejected.

²⁴ Jack Lu, *Patent Market Dynamics and the Impact of Alice and the AIA*, IP Watchdog (May 17, 2015), <https://www.ipwatchdog.com/2015/05/17/patent-market-dynamics-aia-and-alice/id=57728/>.

²⁵ Alliance of U.S. Startups and Inventors for Jobs, *U.S. Startup Company Formation and Venture Capital Funding Trends 2004 to 2017*, 9 (June 2019), available at <https://www.usij.org/research/2018/7/9/us-startup-company-formation-and-venture-capital-funding-trends-2004-to-2017>.

²⁶ Eduardo Porter, *Where Are the Start-Ups? Loss of Dynamism Is Impeding Growth*, *The New York Times* (Feb. 6, 2018), <https://www.nytimes.com/2018/02/06/business/economy/start-ups-growth.html>.

²⁷ USPTO, *supra* note 15.

II. Small innovators like *amici curiae*, who disclosed their innovations to the public in return for the promise of patent protections, have seen that promise broken in IPR decisions rendered by decisionmakers insulated from accountability.

The clear winners after the AIA are large entities accused of using patented inventions without permission. They have exploited the new regime of administrative trials, that cancel patents the same agency originally issued, to weaken U.S. patents and stifle competition. Small companies and independent inventors, including the *amici*, are suffering the consequences of this topsy-turvy new system. Some of their exemplary experiences, detailed below, cannot be what Congress or the Constitution intended.

A. Jodi Schwendimann

From small-town Wisconsin, Jodi Schwendimann did not attend college; but she had the drive, ingenuity, and work ethic to succeed. Early in her career, Ms. Schwendimann joined a small local business, a paper coating company called American Coating Technologies. She worked directly for the company's founder, Bill Nasser, to learn everything she could about paper coating technology and the economics of launching new products.

American Coating's products included paper for desktop inkjet printers. Ms. Schwendimann and Mr. Nasser realized that American Coatings could serve a growing market of home hobbyists that used ordinary inkjet printers to print designs onto heat-sensitive

transfer sheets and then ironed the designs onto clothing to create custom apparel. Their innovations in this area for light-colored fabrics were awarded a number of patents. They also understood the value of developing techniques for transferring designs onto dark-colored fabrics. But it was a difficult problem because, among other challenges related to providing a white background on a dark fabric so the printed image can be seen, desktop inkjet printers do not print white ink.

Ms. Schwendimann and Mr. Nasser ultimately overcame their challenges and successfully developed techniques allowing the at-home application of high-quality inkjet-printed images onto dark fabric in a single step. Reliable customization of dark clothing was suddenly within reach of ordinary consumers. It also allowed businesses to print smaller batches of customized shirts economically. Ms. Schwendimann and Mr. Nasser applied for, and were awarded, several patents for their innovative dark fabric transfer technology.

Ms. Schwendimann eventually obtained control of the rights to her dark-fabric transfer inventions. She commercialized those inventions, consumers embraced her products, and her business grew.

Unsurprisingly, competitors wanted to appropriate that market for themselves. In 2008, she was forced to sue one of those competitors for patent infringement. Nine years later, an Article III district court ruled that the competitor had willfully infringed her patents. That verdict was affirmed by another Article III court on appeal. The suit vindicated Ms. Schwendimann as the true inventor of the patented

technology and its validity over the prior art. Yet, even with a willful-infringement verdict against it, the misappropriation turned out to be very lucrative for the defendant, based on its profits minus legal fees and payment to Ms. Schwendimann.

Her measured victory was short-lived. Ever-larger competitors continued (as alleged) to appropriate her technology without permission and gobble up her market as their own. These competitors included some of the largest heat-transfer materials manufacturers in the world—major stakeholders in the U.S. patent system in their own right—who (like the defendant in the first case) found it more efficient to infringe her patents than innovate their own solutions.

To protect her business, Ms. Schwendimann initiated three more lawsuits. Groups of alleged infringers responded with a combined *fifteen* petitions for IPR against eight of her patents. Three of the petitions are currently awaiting a decision on whether to institute review, but of the remaining five patents, four are subject to an astonishing *ten* concurrent IPRs. Only one patent has so far avoided institution of review of the two petitions against it.

Ms. Schwendimann's story is, unfortunately, typical. And it demonstrates how large corporations can exploit IPRs in a way that far exceeds the Office's role in refining patent quality. Ms. Schwendimann's patents can hardly be said to represent the hazy, yet constantly invoked, category of "bad patents" that occasionally, and inevitably, slip through the Office without adequate scrutiny. The four patents that are currently subject to IPR trials *already* survived the

rigors of litigation against a motivated challenger. Based on the scrutiny these patents received in district court, the Office should be amply satisfied that the examiner who issued the patents acted reasonably. But the PTAB has signaled it is for some reason not satisfied—ten times over. So, Ms. Schwendimann must defend these patents *yet again*, over and above the cost of her litigations. Instead of the Office supporting innovators like Ms. Schwendimann, it actually has become an obstacle to innovators like her from realizing the value of their innovations in a timely manner.

The large entities bringing these IPRs are plainly using the Office's resources to make an end-run around the statutory presumption of validity applicable in district court, resolving the same questions that a jury would otherwise answer, and at the small business owner's expense. That piling-on strategy is not in the public's or the Office's interest. It wrongly evinces a lack of faith in the American system—both a lack of faith in lay juries to decide patent cases, and a lack of faith in the expertise of the Office to issue valid patents. And it consumes the Office's resources in redundant proceedings for no identifiable benefit—all on the premise that it is, somehow, good public policy for insulated, unaccountable PTAB judges to be asked to decide, again and again, whether the Office's previous decisions are wrong.

B. Patrick Buckley

Patrick Buckley is a graduate of MIT and the inventor of several patented smartphone accessories, including a virtual reality (VR) headset manufactured

by his company DODOcase in its San Francisco factory.

MerchSource, owner of the Sharper Image, approached DODOcase to license its VR patents in 2016. The parties enjoyed robust sales under their agreement. Then, MerchSource was acquired by a \$15B private equity group, empowering the company to renege on the agreement. MerchSource filed three petitions for IPR on the licensed patents and began a war of attrition against Mr. Buckley's small company.

Although he successfully convinced a district court to force MerchSource to withdraw these petitions based on the agreement's forum-selection clause (a decision the Federal Circuit affirmed on appeal), that victory came too late, at too great a cost. DODOcase was out of resources to fund the battles in the PTAB and federal court and was forced to sell its patents.

And the battles against MerchSource were not the end of his troubles. Within a year of sharing his prototype with a tech giant to enthusiastic response by its head of VR and top engineers, and less than a year after launching his own commercial embodiment of the patented technology, DODOcase VR, the company introduced its own infringing product and partnered with over ten companies to give the infringing product away. The company declined Mr. Buckley's offer to license the patents and instead threatened to bury him in IPRs if he attempted to enforce his patent rights. Out of money, he could only helplessly watch DODOcase flooded out of the very market it created.

Mr. Buckley's win in district court was a pyrrhic victory: the IPRs filed against him by MerchSource and threat of even more to be filed ultimately cost Mr. Buckley his patents and his own commercial product, even though the patents he no longer possesses are still deemed valid. But for PTAB trials, Mr. Buckley would have profited from his invention, invented and launched more products, and created more American jobs.

C. Tom Pierson

In 1999, Tom Pierson founded TAS Energy to develop and commercialize a cooling technology for the power-generation industry. Since then, TAS has created hundreds of jobs in Houston, and the U.S. Department of Commerce awarded the company with the President's "E" Award for its export achievements multiple times over.

Mr. Pierson eventually obtained five patents to protect TAS's intellectual property in the innovative cooling technology. This protection allowed TAS to attract investment capital to create new products and develop a market for the technology.

Beginning in late 2013, Mr. Pierson's five patents were attacked with fifteen petitions for IPR. TAS spent over \$2M defending them, with little to show. Although nine IPRs settled and one was not instituted, the PTAB handed TAS across-the-board losses in the four remaining IPR "trials."

After TAS lost its patent protection on the original core technology, the company elected to stop spending money to develop new market opportunities

in the power-generation market. And without TAS's market development efforts spurring growth in this technology, there have been no new domestic projects in it for anyone to bid on, including TAS's own competitors. So, it was not merely TAS that suffered a loss at the hands of the PTAB. American rate payers, competitive utilities, and even TAS's own competitors also lost opportunities. TAS ultimately survived by moving into different businesses, such as modular data centers, that rely primarily on trade secrets, confidentiality, and partnerships, and not public intellectual property like patents. And because of that, TAS's innovations in these areas may never enter the public domain. Mr. Pierson has since stopped inventing and left the company he founded to go into real estate, due to his belief that it offered stronger property rights and better returns than intellectual property.

Mr. Pierson's story shows how IPRs increases the likelihood of uncompensated infringement, quashes incentives to innovate, and reduces the amount of valuable technical knowledge made public.

D. Gene Luoma

Gene Luoma has worked on many inventions over the years and has obtained a dozen patents. One of his inventions became a runaway hit: a simple-to-use gadget for unclogging drains, which he named "Zip-It." He successfully licensed his patent on the Zip-It product to a major retailer, and Mr. Luoma reaped significant royalties from its commercial success. He was grateful for the windfall because he and two of his three children suffered from facioscapulohumeral muscular dystrophy. His royalty

checks helped cover the family's hefty medical bills and expensive mobility devices.

Then, everything changed: the licensee's top salesman left for a competitor that slavishly knocked off Mr. Luoma's invention.

Mr. Luoma sued the competitor for patent infringement, expecting an easy case against such a blatant misappropriation. The competitor responded with a request for *inter partes* reexamination. Even though his licensee had previously agreed to defend against any patent disputes, the licensee disappeared when Mr. Luoma needed help defending the reexamination, leaving him to fight the infringing competitor on his own. Ultimately, the PTAB found all of Mr. Luoma's issued patent claims to be insufficiently meritorious, a fate common to many seemingly "low tech" inventions. In fact, after an Office examiner confirmed some of his claims as patentable after reexamination, the PTAB reversed the examiner and rejected those claims on appeal. His licensee then terminated the royalty payments, even though it continues to sell millions of units. Mr. Luoma continues to fight, although he has invested virtually all of his savings with no resolution in sight.²⁸

The PTAB once again provided an easy path for a large corporation to erase the seemingly illusory rights of an independent inventor—one of the "non-practicing entities" maligned in Congress and modern media—and obliterate his livelihood.

²⁸ Mr. Luoma is a respondent in this Court's Case Number 20-74.

E. Glenn Sanders

Glenn Sanders is the president of Zaxcom, a New Jersey-based manufacturer of audio products for the television and motion picture industries. Mr. Sanders invented and patented body-worn recording wireless microphones and audio recorders. He was awarded an Emmy Award by the Television Academy and an Academy Award by the Academy of Motion Picture Arts and Sciences for these technical achievements, as his inventions solved a long-standing need in the industry to eliminate lost audio from the use of inherently unreliable wireless transmission microphones.

Unsurprisingly, a much larger competitor started misappropriating Mr. Sanders's patented technology for its own benefit. When licensing discussions with the infringing competitor broke down, Zaxcom sued to enforce its patent rights in April 2017. Exactly one year later, the competitor initiated a series of three petitions for IPR based on obviousness combinations bearing little resemblance to Mr. Sanders's inventions. The PTAB nevertheless instituted the IPRs and ultimately found all challenged claims unpatentable. The very inventions lauded by the industry with an Emmy and an Oscar did not pass muster before the PTAB. The PTAB granted Zaxcom's conditional motions to amend the now-invalidated claims, both parties have appealed the mixed outcome, and the appeals are currently winding their way through the Federal Circuit.

The infringement suit has been stayed in district court awaiting final decisions before the PTAB. Far from providing a "quick and cost effective

alternative” to litigation, the PTAB proceedings have added only complexity, years of delay, and expense. If the case returns to district court, any additional validity challenges will effectively begin the process anew, compounding these problems. Mr. Sanders’s story reveals, yet again, how difficult it is for inventors and their small companies to assert patent rights in the United States.

Depressed patent values have dramatically impacted early-stage investment in U.S. businesses. AIA trials contribute to this ongoing devaluation of U.S. patents because it makes their presumption of validity in district court effectively meaningless and adds enormous expense and uncertainty to litigation. Investors have little confidence in their value as a barrier to entry and are choosing to spend their venture capital on safer investments. Independent inventors and entrepreneurs justifiably have little expectation that they can effectively compete against large competitors. The American economy suffers due to lost future innovation for lack of diverse and unconventional approaches to solving technical problems. And large corporations reap a benefit at the public’s expense, enjoying the fruits of their anticompetitive behavior.

III. For AIA trials to be an extra-judicial mechanism of revoking patent property rights, the Appointments Clause requires that the agency decisionmakers rendering the final decisions be constitutionally appointed.

Sections I and II illustrate that the property rights embodied in patents are vital to small businesses, independent inventors, and the startup economy. When the PTAB chooses to revoke these property rights after issuance, they are not merely canceling claims as a clerical matter, they are often erasing businesses and livelihoods built upon a reasonable faith in patents' presumption of validity. At the very least, this flood of administrative reversals of patent issuances, and revocation of patent rights after the same agency issued them in the first place, badly erodes public faith in the Office's ability to issue valid patents. If the PTAB is to continue as an extra-judicial mechanism making final agency decisions revoking patent rights, the Appointments Clause demands that the PTAB's APJs be constitutionally appointed with advice and consent of the Senate.

All U.S. patents are originally issued by examiners acting as delegates of the Office's Director. If IPR proceeds on a patent, it is because the Director, a federal official appointed by the President with the advice and consent of the Senate, or his delegate, has authorized institution of that proceeding.²⁹ Yet, any final decision on patentability of the challenged claims

²⁹ 35 U.S.C. § 3(a)(1); *see also St. Regis Mohawk Tribe v. Mylan Pharms., Inc.*, 896 F.3d 1322, 1327 (Fed. Cir. 2019), *cert. denied*, 139 S. Ct. 1547 (2019).

is then rendered solely by the PTAB, without any provision for that final decision being overruled or even reheard by the Director.³⁰ In its decision below, the Federal Circuit found that this legal structure provided the PTAB with enormous power to adjudicate the rights to patented inventions. In fact, the PTAB's APJs can even effectively overrule Article III judges and juries on questions of anticipation and obviousness and have actually done so.³¹

Amicus briefs filed in this Court in support of reversal, and specifically that of a group calling itself the Coalition Against Patent Abuse ("CAPA"), posit that the PTAB's structure is constitutional because "courts, not political officers, supervise Board decisions that are largely matters of pure law"³² and contend that PTAB members "enjoy no discretion and receive no deference for their opinions on patentability other than to the extent that their experience renders them persuasive."³³ Not so. In fact, the APJs' findings on anticipation and obviousness receive an exceedingly deferential standard of review: the only review that parties may obtain as of right is an appeal to the Federal Circuit,³⁴ where that court affords the PTAB broad discretion in

³⁰ 35 U.S.C. §§ 318(a)-(b).

³¹ *Compare Novartis AG v. Noven Pharm. Inc.*, 853 F.3d 1289 (Fed. Cir. 2017) (affirming final decision of obviousness after IPR) *with Novartis Pharm. Corp. v. Watson Labs., Inc.*, 611 Fed. Appx. 988 (Fed. Cir. 2015) (unpublished) (affirming district court did not err in concluding defendant failed to prove invalidity of claims for obviousness).

³² CAPA Br. at 26 (capitalization removed).

³³ *Id.* at 26–27.

³⁴ 35 U.S.C. § 319.

determining whether to institute review,³⁵ does not reweigh evidence,³⁶ and upholds all factual findings supported by substantial evidence in the record.³⁷

When APJs make mistakes, or otherwise render decisions motivated by bias, they are virtually unaccountable. Such errors cannot be overturned within the Office, and they are scrutinized only with great deference on appeal. And there can be no dispute that some group in the Office is, in fact, erring at a significant rate: either the examining corps that issues the patents or the PTAB that revokes them. If neither group were erring, decisions instituting review would be the rare exception and final decisions finding claims unpatentable would be even rarer. The Office's troubling statistics, however, reveal the opposite.³⁸ And if the Office is truly erring at such an incredible rate in its *first* look at patents, after examination, there is hardly a good reason to assume a dramatically lower error rate in its *second* look, in a PTAB trial. That is exactly why the great power granted to the PTAB needs to be conferred in a constitutional manner.

³⁵ *Thryv, Inc. v. Click-to-Call Techs., LP*, 140 S. Ct. 1367, 1373–74 (2020).

³⁶ *Impax Labs. Inc. v. Lannett Holdings Inc.*, 893 F.3d 1372, 1382 (Fed. Cir. 2018).

³⁷ *Randall Mfg. v. Rea*, 733 F.3d 1355, 1362 (Fed. Cir. 2013) (“On appeal, we review the Board’s compliance with governing legal standards [for obviousness] de novo and its underlying factual determinations for substantial evidence.”); *In re Morsa*, 713 F.3d 104, 109 (Fed. Cir. 2013) (“Anticipation is a question of fact reviewed for substantial evidence.”).

³⁸ See Section I, *supra*.

The Office’s decisions instituting AIA trials provide little insight into the Board’s view of the examination process, or whether or when errors may have occurred. Notably, these decisions rarely, if ever, discuss the reasonableness of the examiner’s efforts in the Office’s first look at the patent, and only infrequently discuss the merits of rejections or notices of allowance during the original examination. The Federal Circuit’s high affirmance rate of PTAB decisions, which the CAPA Amicus characterizes as exceeding 80 percent,³⁹ also does not support a conclusion that APJs err less frequently than the examining corps. That statistic merely begs the question of whether the PTAB is making mistakes, for the highly technical questions of fact in these cases are reviewed only under the highly deferential substantial-evidence standard. And, amid a drastic increase in the Federal Circuit’s workload from PTAB appeals (mostly by aggrieved patent owners), over 40 percent of Federal Circuit affirmances are without opinion, providing no insight whatsoever into the Federal Circuit’s reasons for affirming the PTAB.⁴⁰

Absent any data showing otherwise, it is unreasonable to think that APJs make mistakes less frequently or are more impartial than the examining corps. For example, although the patent statute requires APJs to be “persons of competent legal knowledge and scientific ability,”⁴¹ no one has ever

³⁹ CAPA Br. at 2, 15.

⁴⁰ Gene Quinn & Steve Brachmann, *No End In Sight for Rule 36 Racket at Federal Circuit*, IP Watchdog (Jan. 29, 2019), <https://www.ipwatchdog.com/2019/01/29/no-end-sight-rule-36-racket-cafc/>.

⁴¹ 35 U.S.C. § 6(a).

argued or found that their scientific ability and competency for technical factfinding exceeds that of the examining corps. Examiners are domain experts:

When an inventor submits a patent application to the [Office] it is not randomly assigned to an examiner. Rather, an initial examiner will assign the application to a technology center. The examiners are organized into specialized “art units” that are responsible for examining applications within a specific subset of technology classes associated with these technology centers. Examiners within each art unit specialize in the technologies that their unit is responsible for.⁴²

There are currently nine technology centers, comprised of hundreds of art units, staffed by over 8,000 patent examiners.⁴³ Even non-legal outsiders consider these examiners to be “expert[s] trained in the [relevant] subject matter.”⁴⁴ In contrast, only about 221 APJs are responsible for trials and appeals

⁴² Ryan Whalen, *Complex Innovation and the Patent Office*, 17 Chi.-Kent J. Intell. Prop. 226, 237 (2018) (citing MPEP §§ 903.08(a)-(b), 904, 904.01(c)).

⁴³ U.S. Patent & Trademark Office, Performance and Accountability Report, 17 (2020), <https://www.uspto.gov/sites/default/files/documents/USPTOFY20PAR.pdf>; U.S. Patent & Trademark Office, Patent Technology Centers Management, <https://www.uspto.gov/patent/contact-patents/patent-technology-centers-management>.

⁴⁴ Jeff Alstott, Giorgio Triulzi, Bowen Yan & Jianxi Luo, *Inventors' Explorations Across Technology Domains*, 3 Design Science e20, 20 (2017).

on these patents.⁴⁵ These APJs thus necessarily in comparison must be generalists, who assess patents and applications from many art units. Although the APJs may have more *legal* training than examiners, they overwhelmingly rule on questions of fact underlying anticipation and obviousness in AIA trials—the same issues considered by examiners, who have, statistically, more specific technical training and expertise in that subject than the APJs.

Although the PTAB has been given expansive new power to finally cancel patent claims and revoke property rights without accountability for mistakes, the Office has not adequately ensured the APJs rendering the final decisions are unbiased or competent. Ordinarily, careful vetting by the Executive and Legislative branches commensurate with nomination and confirmation under the Appointments Clause “eliminate[s] the shadow of secrecy and the obvious pale of cronyism, where exposure of bias and corruption is more likely to occur than if a confirmation was based on only a unilateral nomination and approval by the same branch.”⁴⁶ To survive such scrutiny, the “Senate must be convinced that a nominee is impeccably competent.”⁴⁷ No such scrutiny occurred when the PTAB was hastily created and dozens of judges were hired to fill its seats; and

⁴⁵ Performance Report, *supra* note 43.

⁴⁶ Steven E. Friedland, “*Advice and Consent*” in *the Appointments Clause: From Another Historical Perspective*, 64 Duke L.J. 173, 178 (2015).

⁴⁷ Sen. Charles McC. Mathias, Jr., *Advice and Consent: The Role of the United States Senate in the Judicial Selection Process*, 54 Univ. Chi. L. Rev. 200, 205 (1987).

stakeholders were afforded no insight into the Office's hiring decisions.⁴⁸

IV. The remedy for the decisionmakers' improper appointment must eliminate final cancellation of patent rights by non-Senate confirmed officers, which the Federal Circuit's remedy failed to ensure.

The appropriate remedy for the Appointments Clause violation here must be one that actually eliminates the core of the problem—that officers who are not confirmed by the Senate can issue final agency decisions canceling patent rights. The Federal Circuit's curious so-called “severance” remedy—which slashed Title 5 tenure protections, passed years ago by a different Congress, in an attempt to rescue the constitutionality of Title 35 provisions passed many years later by a completely *different* Congress—is not only unprecedented in the annals of severance, but fails to eliminate the basic problem—that APJs are issuing *final* decisions for the agency *canceling patent property rights* without having been confirmed by the Senate. Either the patent owner challenging constitutionality in this case should be granted dismissal of this unconstitutional challenge to its rights—leaving it to face later, constitutionally valid challenges available before other tribunals—or the

⁴⁸ The Patent Act eliminated nomination and confirmation in 1975, 35 U.S.C. § 3 (1975), when APJs had less power to remove patent rights than they enjoy today through post-grant proceedings like reexamination (introduced in 1981) and AIA trials (introduced in 2012).

PTAB's power to eliminate patent rights should be trimmed back to its constitutional limits.

In *Lucia v. SEC*, this Court recently granted “a new ‘hearing before a properly appointed’ official” other than the officials who already “heard [the] case and issued [the] decision appealed from.”⁴⁹ Yet here, that remedy would bring the case right back to non-Senate confirmed officers who are still able to finally eliminate patent rights. The CAPA Amicus acknowledges that “one would think it preferable to make [the PTAB] as objective and impartial—like Article III judges—as possible.”⁵⁰ Absolutely correct. Yet, the PTAB was not structured to allow the public to have confidence that APJs are objective *or* impartial, and making the APJs more fearful of being fired by their politically appointed Director is hardly the way to increase that confidence. To ensure commensurate confidence in the impartiality and competence of the PTAB, final decisions to eliminate patent rights should only be made by officers who are Senate-confirmed.

The current remedy that severs the PTAB's protections from at-will termination is inadequate for still more reasons. First, the remedy theoretically may address a harm that has occurred *ex post facto* but not *ex ante* the harm occurring. APJ candidates are not publicly vetted for bias, and the Office has no established public procedures for rooting out bias after hiring.⁵¹ Critically, if a hypothetical biased or

⁴⁹ 138 S. Ct. 2044, 2055 (2018).

⁵⁰ CAPA Br. at 25.

⁵¹ The Office's rules at 37 C.F.R. § 11.803 contemplate the existence of “applicable rules of judicial conduct” for its APJs.

incompetent APJ panel renders a final decision—a decision in which the APJs’ findings are entitled to substantial deference on appeal—that harm in allowing the PTAB to render that final decision cannot be remedied on appeal, even if the APJs are later terminated. Second, it is a remedy without any practical effect. Circuit Judge Dyk called the Director’s new-found ability to fire APJs at will and without cause “draconian.”⁵² Although the Director now enjoys broad authority to fire APJs, however, there is no indication he has done so, or that any Director ever will. The surest way to mitigate the possibility that a biased or incompetent APJ renders a final decision is not through entertaining a theoretical possibility of firing but to vet the APJ through the process of nomination and confirmation, consistent with this Court’s precedent.

If not dismissal, another sufficient remedy would be to sever subsection (b) of Section 318 of Title 35 from the statute, which would eliminate the Director’s issuance of certificates canceling claims based on IPRs, thereby making IPR determinations of unpatentability nonbinding. These AIA proceedings are the first time in history (other than a short, disputed period as to reexamination proceedings) that the Board has ever issued decisions denying patent rights that are not subject to de novo review in federal

Yet, the Office has not promulgated any such rules; rather, the APJs are subject to the same standards of ethics conduct as any other employee of the executive branch. U.S. Patent & Trademark Office, Ethics Guidance, <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/ethics-guidance>.

⁵² *Arthrex, Inc. v. Smith & Nephew, Inc.*, 953 F.3d 760, 769 (Fed. Cir. 2020) (denying en banc rehearing) (Dyk, J., dissenting).

court.⁵³ If the PTAB’s IPR decisions are nonbinding, it would allow Article III courts to give them due consideration, yet decide validity *de novo*, eliminating the constitutional problem—similar to the treatment of decisions by non-Senate confirmed magistrate judges.

In the legislative history of the foundational Administrative Procedure Act that applies to this Article I proceeding, both the House and Senate observed that “[w]here the adjudication is subject to a judicial trial *de novo* . . . whatever judgment the agency makes is effective only in a *prima facie* sense at most and the party aggrieved is entitled to complete judicial retrial and decision.”⁵⁴ And indeed the APA exempts from its strict formal adjudication procedures those adjudications that are “subject to a subsequent trial of the law and the facts *de novo* in a court.”⁵⁵ Soon afterward, the Attorney General’s APA Manual observed that there was no need for a full administrative hearing where the party aggrieved by an agency’s “final” decision had a right to full judicial retrial, citing the legislative history above.⁵⁶

⁵³ See *In re Gartside*, 203 F.3d 1305, 1313 (Fed. Cir. 2000) (indicating that all decisions of predecessor Board of Patent Appeals and Interferences were “subject to a subsequent trial *de novo*”).

⁵⁴ S. Rep. No. 79-752, at 16 (1st Sess. 1945), *reprinted in* Administrative Procedure Act Legislative History, S. Doc. No. 79-248, at 202 (2d Sess. 1946) [hereinafter APA Legislative History]; H.R. Rep. No. 79-1980, at 26 (2d Sess. 1946), *reprinted in* APA Legislative History, at 260.

⁵⁵ 5 U.S.C. § 554(a)(1).

⁵⁶ U.S. Dep’t of Justice, Tom C. Clark, A.G., Attorney General’s Manual on the Administrative Procedure Act, 43 (1947); *see also id.* at 109 (noting examples of administrative “orders” that “have

Members of the Federal Circuit have commented on the prima facie nature of Board decisions subject to de novo Article III review as well.⁵⁷

While the correct remedy may not be the “narrowest remedy,”⁵⁸ it will hardly result in chaos, as some have warned. Either the case should be dismissed, or a constitutionally appointed Article I or Article III tribunal should hear these cases de novo.

only prima facie weight” as they are “reviewable de novo” in court).

⁵⁷ See *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1351 n.9 (Fed. Cir. 2017) (en banc) (opinion of Taranto, J., for 4-6 judges) (noting IPRs would not be “adjudications subject to 5 U.S.C. § 554” or, for that matter, § 556 if they were “subject to a subsequent trial of the law and the facts de novo in a court,” 5 U.S.C. § 554(a)(1), and (b)"); see also *Fregeau v. Mossinghoff*, 776 F.2d 1034 (Fed. Cir. 1985) (Newman, J., concurring-in-part and dissenting-in-part).

⁵⁸ Cf. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320, 1338 (Fed. Cir. 2019).

CONCLUSION

The supposed inconvenience of requiring that final decisions eliminating patent rights be heard and decided by Senate-confirmed officers is a feature of the constitutional system, not a bug. The future of small businesses, and inventors' livelihoods, deserve at least that much protection from errors by Article I officers that would otherwise eliminate their rights.

Respectfully submitted,

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APPENDIX

APPENDIX — LIST OF AMICI CURIAE

Affiliations Listed for Identification Purposes Only

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J. Carl Cooper

John D'Agostino

Joe De Bellis
Vilox Technologies LLC

Gene Dolgoff
Cascades Projection LLC

Stuart Douglass
Roller Clutch Tools, LLC

James P. Elwell
Putco, Inc.

Daniel Flamm

David Furry
Leak Surveys, Inc.

Larry Golden

Mark Goodson
Goodson Holdings LLC

Appendix-2

LeRoy Hagenbuch

Paul Hayes
Smart Meter Technologies Inc.

Matt Jarman
Clearplay, Inc.

Nader Asghari-Kamrani

Michael Kintner
360Rize

Michael Klicpera
Rein Tech, Inc.

Steven LeBoeuf
Valencell, Inc.

Gene Luoma

Ramzi Maalouf
Dareltech, LLC

Chris McCutchen
Christy, Inc.

David McKnight
WorldSource Enterprises, LLC

David A. Monroe
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William O’Keeffe
O’Keeffe’s, Inc.

Ray Perkins
WorldSource Enterprises, LLC

David Petite
Formerly with SIPCO, LLC

Tom Pierson
TAS Energy, Inc.

Mark J. Reed
Traxcell Technologies, LLC

Ari Rosenberg
Performance Pricing Holdings, LLC

Glenn Sanders
Zaxcom, Inc.

Jodi Schwendimann
NuCoat Inc.

Andrew Sherman
Terves LLC

Gurvinder Singh
Cellspin Soft, Inc.

Roy R. Smith III
Shoes by Firebug LLC

Appendix-4

Hugh Svendson
Ikorongo Technology LLC

Tom Waugh

Frank Weyer
EveryMD.com LLC

Emily White
NetSoc, LLC