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COLORADO

Federal Circuit Breaks, Fixes PTAB

Despite continued challenges like Arthrex, inter partes review and other proceedings should withstand attacks, patent attorneys say

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The Patent Trial and Appeal Board got a Halloween scare when a federal appeals court found its judge appointment framework unconstitutional. But to the relief of the PTAB, and the companies that rely on PTAB proceedings to litigate patent issues, the fallout might be minimal.

In a decision published Oct. 31, a panel at the Federal Circuit Court of Appeals determined that the way the PTAB appointed its administrative patent judges violated the U.S. Constitution's Appointments Clause. But instead of striking down the entire statute that established the PTAB, the court severed a portion of it to make the judges easier to remove.

The case stemmed from Arthrex, Inc., a Florida-based medical device company, and its appeal of an inter partes review decision. Siding with Arthrex's unconstitutionality argument, the Federal Circuit vacated the IPR decision and remanded the case to be heard again, but in front of a different panel of PTAB judges. Similar cases are already being remanded as a result of Arthrex, Inc. v. Smith & Nephew, Inc.

Parties can use IPR and other proceedings before the PTAB to litigate patent issues outside of federal district court. Arthrex's opponent sought to invalidate the company's patent for a knotless suture assembly, and a panel of judges in IPR found Arthrex's claims unpatentable.

IPR has been a useful venue for litigants to get patent claims invalidated, and the process itself has drawn ire — as well as legal challenges — from some patent owners. But few constitutional challenges against the PTAB or its proceedings have produced a legitimate threat.

"These sorts of constitutional challenges come and go," said Justin Krieger, a partner in Kilpatrick Townsend & Stockton's offices in Denver and Washington, D.C., who litigates in IPR and post-grant review. "A lot of people make them kind of superficially."

Other government agencies have sustained legal challenges to their administrative judge schemes. The Federal Circuit cited the U.S. Supreme Court's decision in Lucia v. Securities and Exchange Commission, where the court struck down the SEC's administrative law judge framework in 2018.

In its Arthrex opinion, the Federal Circuit held that administrative patent judges actually operate as "principal officers" under the Constitution; therefore, instead of being appointed by the Secretary of Commerce, they should have been appointed by the president. But the panel severed the APJs' removal restrictions from the rest of the PTAB statute. Because this effectively made the APJs "inferior officers," according to the panel, the Appointments Clause violation was therefore cured.

Other patent cases saw immediate effect from the Arthrex decision. In a decision released the same day as Arthrex,

the Federal Circuit remanded Uniloc's PTAB decision to a new panel just like Arthrex because the Uniloc raised an Appointments Clause challenge in its arguments.

But another litigant, Customedia, that tried to get the Federal Circuit to vacate a PTAB decision like Arthrex was less successful. The Federal Circuit denied Customedia's bid, also on Oct. 31, reasoning that the company hadn't raised the Appointments Clause objection in its opening brief, so the objection is considered waived.

Arthrex hadn't raised the constitutional objection while its case was still at the PTAB. But the court can still consider the challenge at its discretion, and the Federal Circuit decided to in Arthrex because "this is an issue of exceptional importance."

While the Federal Circuit ruled the appointment of the APJs unconstitutional, the panel "clearly intended to limit the universe of potentially affected cases," said Joel Sayres, an intellectual property attorney and Denver-based partner at Faegre Baker Daniels. However, Sayres added, "from a procedural standpoint, there may be some messiness in applying what the Federal Circuit has said in individual cases."

The U.S. Patent and Trademark Office is expected to issue guidance on how the PTAB will handle the Arthrex decision.

Even if cases like Arthrex and Uniloc get reheard due to Federal Circuit's PTAB shakeup, it's unlikely they will get a dif-

ferent outcome, Krieger said. It would be highly unusual for another panel to reach a wholly separate conclusion on a patent claim's validity than the preceding panel did.

"I think the vast majority of written decisions being sent down are going to get rubber-stamped by the PTAB," Krieger said.

Krieger and Sayres each said the Arthrex decision is likely to see further challenge, whether it's for rehearing en banc before the whole Federal Circuit or even to be taken up by the Supreme Court.

As for the long-term reliability of the PTAB as an institution, Krieger said he thinks "it's solid."

"I don't expect the Federal Circuit en banc, or the Supreme Court for that matter, to strike down the entire statute as unconstitutional," Krieger said. The Arthrex decision will ultimately amount to "a bump in the road that needs to be ironed out," he added.

Sayres likewise said the PTAB's long-term stability isn't in doubt, despite the legal challenges it continues to see. "There are certainly incentives for people to challenge the constitutionality of the PTAB and how it is ... functioning. That uncertainty is not going to go away with this decision."

"But at the end of the day ... I would expect that [the PTAB is] going to survive as necessary," Sayres said. •

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