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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

Are PTAB Appointments Unconstitutional? A Closer Look

By **Ryan Davis**

Law360 (September 5, 2018, 9:14 PM EDT) -- Patent owners in two cases have recently urged courts to rule that the way Patent Trial and Appeal Board judges are appointed violates the U.S. Constitution. Here's a breakdown of the theory behind this effort to curtail the board's authority, and how it could shake up patent law.

What Is the Argument Here?

This spring, the U.S. Supreme Court's Oil States decision rejected a challenge to the PTAB that argued only the courts, not executive branch tribunals, have constitutional authority to invalidate patents. Now critics of the board have launched a new attack.

PTAB judges are appointed by the secretary of commerce to review the validity of patents challenged in America Invents Act reviews and other proceedings. Two companies appealing PTAB decisions have argued that the way the judges are selected violates the Constitution's appointments clause and thus the board has no legal authority to invalidate patents.

The appointments clause identifies two types of government officials and specifies how they must be appointed. "Principal" officers like Supreme Court justices and Cabinet secretaries must be appointed by the president and confirmed by the Senate, while "inferior" officers can be appointed by either the president, the courts or "heads of departments" like the commerce secretary, at the discretion of Congress.

Polaris Innovations Ltd., in an appeal to the Federal Circuit in July, and Smartflash LLC, in a petition to the Supreme Court last month, maintain that PTAB judges are principal officers because they issue final decisions about patents that are not subject to further review by the director of the U.S. Patent and Trademark Office.

The companies argue that the appointment of the board's administrative patent judges would be appropriate if they were inferior officers, but since they are not, they need to be appointed by the president and confirmed by the Senate. Therefore, the appointment of every PTAB judge has been unconstitutional and all the board's decisions are legally void, they claim.

That's a Bold Position. Could It Succeed?

There's a chance this argument could resonate with the courts, although attorneys who have examined the issue note that legal precedent does not provide a clear distinction between principal and inferior officers.

"The existing Supreme Court precedent for this is really murky," said Christopher Walker, a professor at Ohio State University's Moritz College of Law.

The patent owners challenging the PTAB's constitutionality maintain that under Supreme Court precedent dealing with the appointments clause, the key to determining whether someone is an inferior officer is whether that person has a superior who directs and supervises their work and who was appointed by the president and confirmed by the Senate.

PTAB judges work under the USPTO director, who is a presidential appointee, but the director has no power to review or change the board's decisions once they are issued. The patent owners argue that means the judges have no meaningful supervision of their work, making them principal officers who require presidential appointment.

The patent owners "seem to do a very nice job of aligning the facts with other Supreme Court decisions to show how the PTAB judges got to where they are in a way the Supreme Court has said is inappropriate," said Jason Eisenberg of Sterne Kessler Goldstein & Fox PLLC.

If a court decides that the issue hinges on whether the PTAB's decisions can be altered or overruled by the USPTO director, the patent owners may have a strong case, he said, noting that as it stands "there's no required review of the board's decision. It goes straight out as the final decision of the agency."

However, exactly what constitutes direction and supervision for the purposes of the appointments clause is not clearly defined. A court could rule that even though the PTAB's decisions are not subject to further review within the USPTO, the administrative patent judges are supervised in other ways that pass constitutional muster.

"The fact that APJs can be removed by the secretary of commerce, from a policy and staffing perspective means that they are in the control of the secretary of commerce, and that could be dispositive," said John O'Quinn of Kirkland & Ellis LLP.

He also noted that PTAB decisions are subject to appeal, so "if their decisions need to be reviewed by people appointed by the president and confirmed by the Senate, the Federal Circuit could potentially check that box."

According to Walker, the patent owners' criticism of the way PTAB judges are appointed could find a welcoming audience in the conservative justices on the Supreme Court, some of whom have expressed skepticism about the power of administrative tribunals.

"This is an issue the Supreme Court would be very interested in," he said. "I think there would almost for sure be five votes to say this is unconstitutional, and that administrative patent judges are principal officers and the head of the agency has to have final decision-making authority."

What Happens If the Appointments Are Unconstitutional?

Something would need to change in how PTAB judges are appointed, most likely through legislation by Congress, but exactly what that would look like and what would happen to all the patents the board has already invalidated is open to question.

The most dramatic response would be to void all of the PTAB's decisions and replace the board's judges with people who were constitutionally appointed. Such a sweeping move "would wreak havoc. It would be chaos," Eisenberg said.

At one end of the spectrum, Congress could mandate that the president appoint all of the board's nearly 300 judges, subject to a Senate confirmation hearing, but that is likely too unwieldy to be realistic.

Faced with a legal command to rectify a constitutional deficiency at the board, Congress could instead give the USPTO director the authority to review the PTAB's decisions. That would in effect make them inferior officers, whose appointment by the commerce secretary would be legal.

"It's not hard to imagine a change that would permit the director to receive petitions for review," O'Quinn said. "My guess is that they would be frequently filed and rarely acted upon as a practical matter."

Even if the USPTO director only infrequently reviewed or altered PTAB decisions after being given the authority to do so, letting every losing party request review from a single person might still be impractical, Walker said.

An alternative would be to create a system similar to the one for immigration appeals, in which the U.S. attorney general can personally choose to review certain decisions. Jeff Sessions used that authority this year when he restricted asylum for domestic violence victims and others.

"That would be the model that Congress would likely adopt," Walker said. "There are so many cases at the PTAB that I can't imagine they would want to put the pressure on the director to review every case."

While every patent owner whose patent was invalidated by the PTAB would likely seek to have them revived if the board's structure were found unconstitutional, it is likely that only those who preserved the argument would be permitted to make it, attorneys say.

Didn't the Board Have a Problem Like This Before?

Indeed it did. Judges on the board, then known as the Board of Patent Appeals and Interferences, used to be appointed by the USPTO director. However, a patent owner argued in litigation about a decade ago that the director is not a "head of department" under the appointments clause, since that category properly includes only Cabinet officers.

Months later, then-President George W. Bush signed a law in 2008 providing that the judges be appointed by the secretary of commerce instead, and all of them were retroactively reappointed. The law was based on the idea that the judges were inferior officers who could be appointed by a department head. The new challenges call that assumption into question.

"From the get-go, the PTAB had a structure that seemed a little bit odd," Walker said.

What Are the Next Steps?

While there are at least two cases now pending that raise the appointments clause issue, the one at the Federal Circuit may be more likely to move forward, attorney say.

Smartflash's Supreme Court petition acknowledges the company didn't previously raise its appointments clause challenge to the board or the Federal Circuit. It cites precedent it says shows arguments about defects in the composition of tribunal can be raised at any time, but the justices are usually not inclined to take up issues that were never addressed by a lower court.

In contrast, Polaris made the appointments clause argument in its opening brief in a Federal Circuit appeal, and on Tuesday, the U.S. government intervened in the case to address the constitutional challenge.

The government did not indicate what position it will take, and it seems reasonable to expect it will defend the current system. However, some vocal PTAB critics have directly urged President Donald Trump to embrace the position that the board is unconstitutional.

A group of inventors who have had patents invalidated by the PTAB sent a letter to Trump last week telling him that "you alone can swiftly instruct your lawyers to enforce America's laws" and that "unaccountable administrative patent judges must not be allowed to destroy billions of dollars investment in our inventions."

Whatever happens at the Federal Circuit, attorneys say the question of whether PTAB judges are properly appointed might eventually catch the high court's eye.

"It's a pretty hot issue and it would be interesting if the Supreme Court does take it up," Eisenberg said.

The cases are Polaris Innovations Ltd. v. Kingston Technology Co. Inc., case number 18-01768, in the U.S. Court of Appeals for the Federal Circuit and Smartflash LLC v. Samsung Electronics America Inc., case number 18-189, in the Supreme Court of the United States.

--Editing by Brian Baresch and Alanna Weissman.