

Latest Ruling On PTAB Constitutionality Tees Up More Fights

By Ryan Davis

Law360 (October 14, 2021, 8:26 PM EDT) -- The lengthy string of challenges to the constitutionality of the Patent Trial and Appeal Board appears set to continue after a dissent by a Federal Circuit judge on Wednesday identified another potential flaw in the board that seems likely to spur more litigation, attorneys say.

A 2-1 majority of a panel of the appeals court rejected arguments by Mobility Workx LLC that the PTAB has a financial interest in the outcome of cases that makes it biased against patent owners. However, U.S. Circuit Judge Pauline Newman's dissent raised a separate issue to suggest the way the board institutes reviews does not comport with a recent U.S. Supreme Court ruling.

The high court held in June in *U.S. v. Arthrex* that the board's structure violated the Constitution's appointments clause because PTAB judges are inferior officers whose final decisions are not reviewable by the director of the U.S. Patent and Trademark Office. The justices granted the director that power to rectify the problem.

But Judge Newman pointed out that the board's decisions on whether to institute patent reviews are also not reviewable by the director, so the practice "appears likely to violate the appointments clause" and that concern "cannot, after *Arthrex*, be dispatched as a non-issue."

That issue was brushed aside by the majority, but it seems likely to be the focus of future petitions for review by the full Federal Circuit or the Supreme Court, said Emer Simic of Neal Gerber & Eisenberg LLP.

"Rather than shutting the door on further constitutional challenges, Judge Newman's dissent certainly opens the door to a new approach," she said.

Mobility, the patent owner, and Unified Patents, which successfully challenged its wireless patent, hadn't addressed the potential *Arthrex* appointments clause issue with institution decisions. Judge Newman brought it up on her own and said it could benefit from further briefing, "so I think that people will take her up on that invitation," Simic said.

She added that since *Arthrex* held that PTAB final decisions are subject to review by the director, "there certainly is a question in my mind" about whether the judges can make institution decisions "without having the director review that decision, in the same way as the director now has the authority to review any final written decision."

Matthew Rizzolo of Ropes & Gray LLP said "it's a really interesting question that's posed by Judge Newman in light of Arthrex."

Under the America Invents Act, the board's decision to institute review of a patent "is on one hand an interim decision because it just sort of gets the proceeding started," he said. "But on the other hand it's expressly said to be final and not reviewable by anyone else, whether that's the director or a federal court. Does that accord with the appointments clause?"

Instead of pointing to that part of the Constitution, Mobility argued that it creates an appearance of bias that violates the due process rights of patent owners for the same PTAB panel to decide whether to institute review of a patent and issue the final decision. The majority dispensed with that concern in a few sentences, saying it had rejected the same argument in a 2016 decision.

However, that ruling didn't deal with the appointments clause and was also issued years before Arthrex delineated the proper roles of the board and the director. As a result, "Arthrex really opened the door for this argument" that there is a constitutional flaw in the board's institution decisions, Simic said.

"Whether it succeeds or not is another question," she added.

When the board institutes review of a patent, its final decision on validity is now subject to review by the director under Arthrex, so there's potentially an argument that having the director review the final decision cures any constitutional flaw at the institution stage.

But when an inter partes review petition is denied, that decision cannot be appealed in nearly all cases. That could make the appointments clause argument floated by Judge Newman appealing to petitioners, even though in the Mobility and Arthrex cases it was patent owners challenging the PTAB's constitutionality.

"I could certainly see someone whose petition was denied institution taking up this baton that's been lifted by Judge Newman and carrying it forward to try to get the same sort of Supreme Court review of the institution aspect of the IPR process as they did the final decision process," said Scott Hejny of McKool Smith PC.

Since institution decisions are not appealable, raising the issue would likely have to involve a mandamus petition to the Federal Circuit, which has to date been reluctant to hear challenges to most aspects of institution decisions.

"That's going to be a significant hurdle, but clearly Judge Newman at least appears to be open to considering this argument, so it may be worth a try," Simic said.

If there does turn out to be a constitutional flaw with institution decisions, it could further complicate the IPR system. The board would decide whether to institute an IPR, which would then be reviewed by the director, and then issue a final decision that would also be subject to review.

"It seems like that's an unwieldy process," Hejny said.

Noted Simic, "that potentially undermines the goal of the AIA, which was to create an alternative, faster, cheaper, more efficient way to resolve patent disputes."

The Federal Circuit remanded the Mobility case for review by the director under Arthrex, so it's possible that the company might raise the appointments clause issue with institution decisions in that process, or when the case returns to the Federal Circuit, if the invalidity decision is sustained.

But Mobility has raised yet another issue, claiming that Drew Hirshfeld, the commissioner for patents who is leading the USPTO since no director has yet been appointed, has no authority to review IPR decisions under Arthrex because he wasn't confirmed by the Senate.

Mobility or another patent owner could also ask the full Federal Circuit or the Supreme Court to review its main arguments that PTAB judges are biased against patent owners because the reviews generate money for the USPTO, and judges can receive bonuses based on how many decisions they author. But attorneys said that seems like more of a long shot.

The Federal Circuit majority said that any financial interests of the board and judges are "too tenuous" to amount to a constitutional violation, citing the facts that Congress controls the USPTO's budget and that the judges' bonuses are not based on the outcome of decisions.

Ropes & Gray's Rizzolo said the bias issue is "exactly the type of argument that resonates" with Supreme Court Justice Neil Gorsuch in particular, but "beyond that it's going to be tricky" for it to get traction on appeal "unless a litigant can talk about how the PTAB fee and compensation structure might have broader implications for other government agencies."

Since the Federal Circuit majority rejected the claim that the PTAB has a financial interest that makes it biased, "I suspect that would be upheld," McKool Smith's Hejny said.

"But I think the point that could potentially really get taken up would be the Arthrex point," he said.

The case is Mobility Workx LLC v. Unified Patents LLC, case number 20-1441, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Alanna Weissman and Kelly Duncan.