

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

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IN THE  
**Supreme Court of the United States**

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UNITED STATES,  
*Petitioner,*  
*v.*

ARTHREX, INC., ET AL.,  
*Respondents.*

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On Writs of Certiorari to the United States Court of  
Appeals for the Federal Circuit

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BRIEF OF CROSS-INDUSTRY GROUPS AS  
*AMICI CURIAE* IN SUPPORT OF  
PETITIONERS IN NOS. 19-1434 AND 19-1452,  
AND RESPONDENTS IN NO. 19-1458

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IN THE  
*Supreme Court of the United States*

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19-1434

UNITED STATES OF AMERICA,  
*Petitioner,*

*v.*

ARTHREX, INC. AND POLARIS INNOVATIONS LIMITED,  
*Respondents.*

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19-1452

SMITH & NEPHEW, INC. AND ARTHROCARE CORP.,  
*Petitioners,*

*v.*

ARTHREX, INC. AND UNITED STATES OF AMERICA,  
*Respondents.*

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19-1458

ARTHREX, INC.,  
*Petitioner,*

*v.*

SMITH & NEPHEW, INC.; ARTHROCARE CORP.; AND  
UNITED STATES OF AMERICA,  
*Respondents.*

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**INTEREST OF *AMICI CURIAE*<sup>1</sup>**

ACT | The App Association is a not-for-profit international grassroots advocacy and education organization representing more than 5,000 small business software application developers and information technology firms. The App Association is the only organization focused on the needs of small business innovators, and advocates for an environment that inspires and rewards innovation, while providing resources to help its members leverage their intellectual assets to raise capital, create jobs, and continue to grow.

Internet Association (“IA”) represents over 40 of the world’s leading internet companies. IA is the only trade association that exclusively represents leading global internet companies on matters of public policy. IA’s mission is to foster innovation, promote economic growth, and empower people through the free and open internet.

The National Retail Federation (“NRF”) is the world’s largest retail trade association, representing discount and department stores, home goods and specialty stores, Main Street merchants, grocers, wholesalers, chain restaurants, and internet retailers from the United States and more than 45 countries. NRF empowers the industry that powers the economy.

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1. Pursuant to Rule 37.6, no counsel for a party has authored this brief, in whole or in part, and no person, other than *amici* or their counsel, has made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for all parties have filed blanket consents to the filing of *amicus* briefs in these consolidated cases.

Retail is the nation's largest private-sector employer, contributing \$3.9 trillion to annual GDP and supporting one in four U.S. jobs—52 million working Americans. For over a century, NRF has been a voice for every retailer and every retail job, educating and communicating the powerful impact retail has on local communities and global economies. NRF regularly submits *amicus curiae* briefs in cases raising significant legal issues for the retail community.

The Software & Information Industry Association (“SIIA”) is the principal trade association for the software and digital information industries. SIIA’s membership includes more than 700 software companies, search engine providers, data and analytics firms, information service companies, and digital publishers that serve nearly every segment of society, including business, education, government, healthcare, and consumers. As the owners of extensive patent portfolios and the frequent targets of suits by non-practicing entities, SIIA members are keenly interested in the health of the innovation ecosystem.

United for Patent Reform is a broad coalition of diverse American businesses advocating for a patent system that enhances patent quality, advances meaningful innovation, and protects legitimate American businesses from abusive patent litigation. Our members are small and large—they range from Main Street retail shops, REALTORS®, hotels, grocers, convenience stores, and restaurants to national construction companies, automobile manufacturers, and technology businesses. Its members represent over 80

million U.S. employees, a figure that accounts for nearly two-thirds of private-sector jobs in the United States.

Between them, *amici curiae* represent a wide array of professional interests and business enterprises. They find common cause in these consolidated cases in supporting the goals and the continuing utility of the *inter partes* review procedure created by Congress in the Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 35 U.S.C.).

As *amici* will demonstrate, *inter partes* review was an urgently needed innovation to improve patent quality; to increase the efficiency of the post-grant patent review process; and to reduce civil litigation costs for both plaintiffs and defendants. And it has succeeded—providing much-needed assistance to software and internet technology companies as well as to Main Street businesses like retailers, restaurants, and hotels who had increasingly been targeted by non-practicing entities (NPEs) for nothing more than selling or using products supplied to them by another. This was especially true with respect to low-quality software patents covering basic concepts like providing business information on a webpage.

*Amici* therefore file this brief to provide this additional context for the Court, and to explain how and why it should factor into the resolution of the Questions Presented in these consolidated cases.

### SUMMARY OF ARGUMENT

These cases call upon this Court to once again consider the *inter partes* review scheme that Congress

created in the AIA. This time around, the issue is whether the administrative patent judges (APJs) who preside over *inter partes* review proceedings as members of the Patent Trial and Appeal Board (PTAB) are “inferior” or “principal” executive officers for purposes of the Appointments Clause of Article II—and the proper consequences for the AIA if the answer is the latter.<sup>2</sup>

The AIA was enacted in immediate and direct response to the intersection of two trends. The first was a continuing decline in patent quality, especially with respect to software and other internet technology patents. And the second was a rise in NPE litigation against end users—everyday businesses who, unlike the original technology provider, often lacked the resources or the expertise to vigorously defend against such claims.

And the AIA has had the effects Congress intended: numerous studies undertaken since the statute’s enactment make clear that it has had a significant impact on patent quality (including improvements to the quality of patent *examination*), all while dramatically reducing the costs of litigating patent validity—to as little as 10%

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2. The Questions Presented in these cases necessarily implicate APJs’ role in all three sets of proceedings that the AIA authorized the PTAB to hear. *Amici* nevertheless focus on *inter partes* review proceedings because (1) covered business method review’s sunset has passed; and (2) post-grant review has “been used infrequently, due in large measure to greater restrictions on [its] availability.” Brian J. Love, Shawn P. Miller & Shawn Ambwani, *Determinants of Patent Quality: Evidence from Inter Partes Review Proceedings*, 90 U. COLO. L. REV. 67, 96 (2019).

of the average costs of pre-AIA civil litigation. The upshot has benefitted not only the *amici* represented herein and other American businesses, but their customers.

Congress’s intent (and its success) in creating *inter partes* review provides more than just relevant *background* to the issues now before this Court. As *amici* demonstrate, it *foregrounds* the limited and discrete functions of APJs compared to both other administrative law judges and other officers this Court has previously held to be “inferior” for purposes of the Appointments Clause. Indeed, the Federal Circuit panel’s central error in *Arthrex* was its failure to account for the targeted, discrete role that APJs were intended to play—and have played—in *inter partes* review proceedings. Finally, even if this Court nevertheless concludes that APJs are principal officers, the intent of the AIA underscores why the *Arthrex* panel’s narrow severability analysis was correct—and why this Court should leave as much of the *inter partes* review regime intact as is possible.

## ARGUMENT

### I. As Intended, *Inter Partes* Review Has Significantly Increased the Accuracy and Efficiency of the Patent System

To this point, *inter partes* review has been something of a *rara avis*—a meaningful legislative success story. Not only has it significantly improved patent quality, but it has dramatically reduced the costs of litigating low-quality patents—in a manner that has directly inured to the benefit of the diverse businesses *amici* represent.

**A. The America Invents Act Was Largely a Response to the Rise in Suits By Non-Practicing Entities Against End Users**

As Justice O'Connor explained for the Court over three decades ago, “[f]rom their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy.” *Bonito Boats, Inc. v. Thunder Crafts Boats, Inc.*, 489 U.S. 141, 146 (1989). Put another way, “[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.” *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892). Patent law has thus long tried to strike a cost-driven balance—with protection of innovation on one side and the cost to the public of undeserving patents on the other.

By the 2000s, though, this balance had swung out of equilibrium. One study of patent infringement lawsuits filed in 2008 and 2009, for instance, found that “roughly 43.0 percent of patents that went to a final judgment on validity were invalidated.” John R. Allison, Mark A. Lemley & David L. Schwartz, *Our Divided Patent System*, 82 U. CHI. L. REV. 1073, 1099 (2015). Another study estimated that 27% of *all* patents could be

invalid—and that, for software or business method patents, between 38% and 53% could likewise be invalid.<sup>3</sup>

Software patents have been especially prone to these validity issues because of the unique difficulties of finding good “prior art” in such cases. As the U.S. Patent and Trademark Office explained in 2013, “[s]oftware-related patents pose unique challenges from both an examination and an enforcement perspective,” because “[s]oftware by its nature is operation-based and is typically embodied in the form of rules, operations, algorithms or the like.” *Request for Comments and Notice of Roundtable Events for Partnership for Enhancement of Quality of Software-Related Patents*, 78 Fed. Reg. 292, 294 (Jan. 3, 2013). Thus,

[u]nlike hardware inventions, the elements of software are often defined using functional language. While it is permissible to use functional language in patent claims, the boundaries of the functional claim element must be discernible. Without clear boundaries, patent examiners cannot effectively ensure that the claims define over the prior art, and the public is not adequately notified of the scope of the patent rights.

*Id.*

As a result of these low-quality patents, the 2000s also saw a dramatic uptick in civil suits by non-practicing

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3. Shawn P. Miller, *Where's the Innovation? An Analysis of the Quantity and Quality of Anticipated and Obvious Patents* (Feb. 10, 2012), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2029263](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2029263).

entities (NPEs)—known in some corners as “patent trolls”—against technology businesses that produced innovative software and hardware products, as well as a relatively new target: the end users of that software and those products. Instead of directly suing just the manufacturer who allegedly infringed the patent (an entity that was usually well-versed in patent law and that had plenty of reasons to address infringement allegations), these suits deliberately targeted restaurants, grocery stores, and hotels for offering Wi-Fi access to customers; scanning documents and attaching them to emails; using Quick Response (QR) codes in promotional materials; and so on. *See, e.g.*, Brian J. Love & James C. Yoon, *Expanding Patent Law’s Customer Suit Exception*, 93 B.U. L. REV. 1605, 1610–11 (2013).

Poor quality patents were affecting businesses well beyond the software industry. Virtually overnight, small and large businesses alike found themselves spending enormous sums either to litigate patents of questionable validity or, more often than not, to settle these cases rather than defend technology that wasn’t theirs, and with respect to which they had no relevant stake or expertise. Gaia Bernstein, *The Rise of the End User in Patent Litigation*, 55 B.C. L. REV. 1443, 1456–58 (2014). Indeed, as the Federal Trade Commission found in a wide-ranging, multi-year study, NPEs would (and, even after the AIA’s passage, still do) often offer to settle their infringement suits for just under the projected cost



of discovery.<sup>4</sup> One expert testified before Congress that “[b]etween 50 and 60 percent of patent infringement cases are brought by NPEs.” *The State of Patent Eligibility Law in America: Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary*, 116th Cong. (2019) (statement of Stephanie Martz, General Counsel, Nat’l Retail Federation).<sup>5</sup>

In testimony to Congress on the problem of abusive patent litigation, one retailer shared that it had experienced a tremendous growth in patent litigation—and NPE suits in particular—on software patents that purported to cover displaying catalog images and having drop-down menus on a website, activating gift cards at the point-of-sale, being able to browse a mobile website on a phone, or the use of electronic shopping bags.<sup>6</sup> And this company wasn’t alone in its experience, with the

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4. See Fed. Trade Comm’n, *Patent Assertion Entity Activity: An FTC Study* 8–9 (2016), [https://www.ftc.gov/system/files/documents/reports/patent-assertion-entity-activity-ftc-study/p131203\\_patent\\_assertion\\_entity\\_activity\\_an\\_ftc\\_study\\_0.pdf](https://www.ftc.gov/system/files/documents/reports/patent-assertion-entity-activity-ftc-study/p131203_patent_assertion_entity_activity_an_ftc_study_0.pdf).

5. The statement is online at <https://www.judiciary.senate.gov/imo/media/doc/Martz%20Testimony.pdf>.

6. See *Abusive Patent Litigation: The Impact on American Innovation and Jobs, and Potential Solutions: Hearing Before the Subcomm. on Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 113th Cong. 36 (2013) (testimony of Janet L. Dhillon, Executive Vice President, General Counsel, and Corporate Secretary, J.C. Penney Co., Inc.), <https://www.govinfo.gov/content/pkg/CHRG113hhrg79880/pdf/CHRG-113hhrg79880.pdf>.

retail industry representing the hardest-hit sector outside of high-tech firms as NPE litigation grew.<sup>7</sup>

Congress responded by enacting the AIA. It is familiar sledding that the AIA was motivated by Congress’s desire “to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.” *Thryv, Inc. v. Click-to-Call Techs., LP*, 140 S. Ct. 1367, 1374 (2020) (quoting H.R. REP. No. 112-98, pt. 1, at 40 (2011), *as reprinted in* 2011 U.S.C.C.A.N. 67, 69).<sup>8</sup> To that end, the core provisions of the AIA created three new and distinct avenues for administrative review of an issued patent—including *inter partes* review initiated by third parties. *See Return Mail, Inc. v. U.S. Postal Serv.*, 139 S. Ct. 1853, 1860–61 (2019); *see also SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1352–54 (2018).

Such review would be conducted by the PTAB—staffed by four officers of the U.S. Patent and Trademark Office and by APJs who, by statute, “shall be persons of competent legal knowledge and scientific

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7. *See* Colleen Chien, *Patent Trolls by the Numbers*, PATENTLYO BLOG, Mar. 14, 2013, <https://patentlyo.com/patent/2013/03/chien-patent-trolls.html>.

8. Indeed, the authoritative House Report derived these goals from this Court’s pre-AIA jurisprudence. *See* H.R. REP. No. 112-98, pt. 1, at 39 (2011), *as reprinted in* 2011 U.S.C.C.A.N. 67, 69 (“The Court’s decisions have moved in the direction of improving patent quality and making the determination of patent validity more efficient. The decisions reflect a growing sense that questionable patents are too easily obtained and are too difficult to challenge.”).

ability,” 35 U.S.C. § 6(a), many of whom have extensive in-house, private or government practice experience, and/or experience as patent examiners.<sup>9</sup>

*Inter partes* review, this Court has explained, “is less like a judicial proceeding and more like a specialized agency proceeding.” *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2143 (2016); *see also Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1371–72 (2018) (explaining in detail how *inter partes* review works). The core idea was to give expert PTAB judges an opportunity, at the request of *any* person other than the patent owner, to review (and potentially cancel) a patent “on the grounds that the invention lacks novelty or nonobviousness in light of ‘patents or printed publications’ existing at the time of the patent application.” *Return Mail*, 139 S. Ct. at 1860 (quoting 35 U.S.C. § 311).

As this Court put it in *Cuozzo*, it’s “a second look at an earlier administrative grant of a patent,” 136 S. Ct. at 2144, but in a context in which a far broader class of claimants would be able to rely upon a streamlined procedure to adjudicate challenges to a patent’s validity without having to bring civil suits in district court. *See* H.R. REP. No. 112-98, pt. 1, at 39–40, *as reprinted in* 2011 U.S.C.C.A.N. 67, 69 (underscoring the goals of “improving patent quality and providing a more efficient system for challenging patents that should not have issued; and reducing unwarranted litigation costs”).

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9. *See* U.S. Patent & Trademark Off., *What is PTAB?*, <https://go.usa.gov/x7gqr> (last visited Nov. 17, 2020).

And with regard to software patents, in particular, *inter partes* review was directly responsive to the difficulties patent examiners often encountered in identifying good “prior art” by allowing third parties to provide examples of prior art that the original examiner had missed. *Cf.* S. REP. No. 110-259, at 30 (2008) (“Many applicants do not search for prior art before filing their application. An examiner has only a limited amount of time to search for prior art, and the applicant is often in the best position to know the invention and the relevant art that may apply.” (footnote omitted)).

**B. Having Administrative Patent Judges Resolve *Inter Partes* Disputes Was a Central Aspect of the 2011 Reforms**

Congress’s creation of the PTAB and its decision to staff it primarily with APJs were two key mechanisms through which the AIA sought to curb patent litigation abuse. The Patent Act gives the Director of the PTO in conjunction with the Secretary of Commerce enormous discretion and control in *staffing* the PTAB. Among other things, there is no statutory limit on the number of APJ positions; the matter is committed to the discretion of the Secretary of Commerce, who appoints APJs as necessary in consultation with the Director. *See* 35 U.S.C. § 6(a). Giving two principal executive branch officers the power to appoint a potentially unlimited number of subject-matter experts (sitting in three-judge panels) gives life to Congress’s animating goal of both expeditiously reviewing patent validity and providing a less expensive alternative to federal litigation. *See Cuozzo*, 136 S. Ct. at 2144.

To that end, the AIA necessarily contemplated that much *more* work would be done by APJs relative to district judges; indeed, that was the whole point. *See* H.R. REP. NO. 112-98, pt. 1, at 39, 2011 U.S.C.C.A.N. at 69. Thus, with regard to NPEs in particular, the *inter partes* review regime provided America’s businesses with a far more efficient and streamlined procedure for defending against the enforcement of low-quality patents—by contesting the validity of the patent before APJs rather than federal district judges. *Cf. Thryv, Inc.*, 140 S. Ct. at 1374 (“Allowing § 315(b) appeals would tug against that objective, wasting the resources spent resolving patentability and leaving bad patents enforceable.”).

The growth in the number of APJs before and after the AIA tells the story. As late as 1950, there were still only *six* “examiners-in-chief” (the predecessor to APJs). *See* ANNUAL REPORT OF THE COMMISSIONER OF PATENTS 1 (1950). That total was still only 35 when Congress formalized the shift to APJs in 1999, and increased modestly to 58 by the end of 2007. Michael R. Fleming, *Two Views of PTAB: Past, Present, and Future*, LANDSLIDE, Jan./Feb. 2017, at 21. And prior to 2011, the Board of Patent Appeals and Interferences, staffed partly with APJs, already had the authority to conduct *inter partes* “reexamination.” *See Oil States*, 138 S. Ct. at 1370–71 (summarizing the history and structure of *inter partes* reexamination). But the AIA not only “changed the standard that governs the Patent Office’s institution of the agency’s process,” it also “provides a challenger with broader participation rights.” *Cuozzo*, 136 S. Ct. at 2137.

It is therefore no surprise that, since the AIA was enacted, the total number of APJs swelled to 275 in 2017. *See* Christopher J. Walker & Melissa F. Wasserman, *The New World of Agency Adjudication*, 107 CAL. L. REV. 141, 160 & n.112 (2019). Although it has come down some, there were still 221 APJs as of the end of Fiscal Year 2020—compared to 24 administrative *trademark* judges on the Trademark Trial and Appeal Board.<sup>10</sup> Put another way, there are 42 more APJs today than there are United States circuit judgeships. *See* 28 U.S.C. § 44(a).

And since the AIA's passage, the PTAB has reviewed over 6,500 *inter partes* review petitions—outstripping the volume of patent infringement suits heard by any individual district court except the U.S. District Court for the Eastern District of Texas. *See, e.g., TC Heartland LLC v. Kraft Foods Group Brands LLC*, 137 S. Ct. 1514 (2017).<sup>11</sup>

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10. U.S. Patent & Trademark Off., *FY 2020 Performance and Accountability Report 17* (2020), <https://www.uspto.gov/sites/default/files/documents/USPTOFY20PAR.pdf>.

11. Although *inter partes* review originated with the AIA, a comparison between the number of such proceedings and the number of *inter partes* reexaminations under the pre-AIA regime is likewise telling. *See, e.g.,* Love, Miller & Ambwani, *supra*, at 96 (“Since it became available in September 2012, parties have filed almost 6,500 petitions for IPR, a figure that exceeds the total number of patent cases filed in all but one district court during the same period of time, as well as the total number of petitions for *inter partes* reexamination that were filed during the thirteen years that the process was available.” (footnote omitted)).

### C. The America Invents Act Has Largely Succeeded at Achieving Its Goals

The combination of efficient, time-limited procedures and the appointment of administrative judges who are subject-matter experts has created a clear policy success. By all accounts, *inter partes* review under the AIA has largely accomplished what Congress intended—as evidenced in the PTAB’s lower reversal rate in the Federal Circuit and the increased consistency across PTAB decisions. As one expert noted in 2017, “[a]ll in all, the IPR system has been incredibly effective at achieving [its] goals.”<sup>12</sup> With respect to increasing patent accuracy and validity, a review of all patent appeals docketed in the Federal Circuit in 2015 and 2016 found that “the PTAB is affirmed notably more often than district courts on [patent] validity issues.” Matthew G. Sipe, *Experts, Generalists, Laypeople—and the Federal Circuit*, 32 HARV. J.L. & TECH. 575, 610 (2019). Indeed, in that specific dataset, district court decisions on patent validity were reversed almost two-and-a-half times as often as PTAB decisions. *See id.*<sup>13</sup>

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12. Josh Landau, *Inter Partes Review: Five Years, Over \$2 Billion Saved*, PATENT PROGRESS, Sept. 14, 2017, <https://www.patentprogress.org/2017/09/14/inter-partes-review-saves-over-2-billion/>.

13. Through October 31, 2020, the Federal Circuit has affirmed PTAB decisions in *inter partes* review cases in full in 73.24% of appeals, and in part in an additional 10.00% of appeals. *See* Daniel F. Klodowski & Eric A. Liu, *Federal Circuit PTAB Appeal Statistics Through October 31, 2020*, AIA BLOG (Nov. 18, 2020), <https://www.finnegan.com/en/insights/blogs/america-invents-act/federal-circuit-ptab-appeal-statistics-through-october-31-2020-copy.html>.

The study found that “the most straightforward conclusion” for the PTAB’s high affirmance rate in *inter partes* review cases is that the PTAB’s technical expertise has “aided decision-making on the thorny scientific questions endemic to patent disputes.” *Id.* at 627. And a separate study relying upon a different dataset found that centralizing such review in the PTAB—as opposed to in disparate district courts—also showed signs of improving the uniformity of decisionmaking by individual patent examiners over time. Michael D. Frakes & Melissa F. Wasserman, *Patent Trial and Appeal Board’s Consistency-Enhancing Function*, 104 IOWA L. REV. 2417, 2419–21 (2019).

Thus, *inter partes* review has brought about improvements to the quality of issued patents—both by making it easier to challenge low-quality patents and by exerting pressure on patent examiners to be more circumspect in their initial decision whether to grant a patent. As another study concluded last year, “[o]ur results suggest that *inter partes* review is, on average, eliminating patents with characteristics traditionally associated with ‘weakness’ and, thus, are consistent with arguments that the procedure is functioning as originally intended.” Brian J. Love, Shawn P. Miller & Shawn Ambwani, *Determinants of Patent Quality: Evidence from Inter Partes Review Proceedings*, 90 U. COLO. L. REV. 67, 76 (2019).

As much success as *inter partes* review has had in improving patent quality, it has been perhaps even more successful at reducing litigation costs. One (conservative) estimate projected that, in its first five



years (2012–17), *inter partes* review saved plaintiffs and defendants over \$2.3 billion in deadweight losses, primarily in the form of legal fees. Landau, *supra*. And the American Intellectual Property Law Association, in its 2019 biennial *Report of the Economic Survey*,<sup>14</sup> projected that, on average, *inter partes* review costs parties one-ninth the total of civil litigation—even including the costs of a post-IPR appeal. *See* AIPLA REPORT OF THE ECONOMIC SURVEY 2019, at 50–52, 62 (2020);<sup>15</sup> *see also* Jonathan Darrow, Ameet Sarpatwari & Gregory Curfman, Note, *Battling Over Patents: The Impact of Oil States on the Generic Drug Industry*, 19 YALE J. HEALTH POL’Y, L. & ETHICS 251, 253 (2019) (“Estimated costs of the new proceeding were approximately ten percent as much as litigation.”). For many of the *amici* represented herein, these cost savings are the difference between being forced to pay a nuisance settlement on an invalid patent and being able to instead challenge the validity of that patent before the PTAB—to the benefit of the patent system in general, and of *amici*’s customers in particular.

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14. The AIPLA Economic Survey “examines the economic aspects of intellectual property law practice, including individual billing rates and typical charges for representative IP law services.” AIPLA REPORT, *supra*, at 1.

15. For instance, the 2019 AIPLA Economic Survey reported that the estimated median total cost of an *inter partes* review proceeding, through appeal, was \$451,000, whereas civil infringement litigation in cases in which more than \$25 million was at risk averaged over \$4 million. *Compare* AIPLA REPORT, *supra*, at 62, *with id.* at 50.

Simply put, *inter partes* review has largely accomplished what Congress intended: it has improved patent quality both indirectly (by making it easier and cheaper for third parties to challenge low-quality patents) and directly (by improving the quality of patent examination), and it has thereby lowered litigation costs for all involved. And Main Street businesses—and their customers—have been among the principal benefactors.

## II. The Text, Purpose, and Structure of the *Inter Partes* Regime Underscore Why Administrative Patent Judges Are “Inferior” Officers

Even before this Court’s decision in *Lucia v. SEC*, 138 S. Ct. 2044 (2018), it had become clear to Congress that APJs were “officers of the United States,” rather than employees—and were thus subject to the Appointments Clause of Article II. *See* John F. Duffy, *Are Administrative Patent Judges Unconstitutional?*, 2007 PATENTLY-O PATENT L.J. 21, 25. But the Federal Circuit panel in these cases went much further, holding not only that APJs are *officers* of the United States, but that they are *principal* officers who must be appointed by the President with the advice and consent of the Senate, and who must be subject to at-will removal. 19-1434 Pet. App. 1a–33a.

Like the private Petitioners, *see* 19-1434 Opening Br. for Smith & Nephew, Inc. & Arthrocare Corp. at 19–49, and the United States, *see* 19-1434 Brief for the United States at 16–45, *amici* believe that this conclusion was incorrect. In particular, the Federal Circuit’s analysis (1) fails to account for Congress’s understanding and intent when it altered the APJ appointment process in 2008; (2) misapplies the criteria this Court has previously

identified for distinguishing between principal and inferior officers; and (3) most significantly, neglects the myriad ways in which the Director of the PTO exercises meaningful supervision and control over APJs—as evidenced, *inter alia*, in recent actions that have *undermined* some of Congress’s goals in the AIA.

In short, it would be very strange indeed if all 221 APJs were “principal” executive branch officers for no other reason than the fact that their decisions in *inter partes* review proceedings are not automatically subject to direct review by another executive branch officer. But that is effectively the bottom line of the Federal Circuit panel’s decision.

#### **A. Congress Clearly Intended APJs to Be Inferior Executive Branch Officers**

A full decade before this Court’s decision in *Lucia*, Congress took the power to appoint APJs away from the Director of the PTO entirely to *avoid* any concerns that their appointments violated the Appointments Clause. *See Polaris Innovations Ltd. v. Kingston Tech. Co.*, 792 F. App’x 820, 830 (Fed. Cir. 2020) (Hughes, J., concurring) (describing the history of how APJs were selected). Thus, Congress in 2008 amended 35 U.S.C. § 6(a) to give the power to appoint APJs to the Secretary of Commerce, who all agree is a “Head[] of Department[]” in whom Congress may vest the power to appoint inferior officers under the Appointments Clause. *See* Act of Aug. 12, 2008, Pub. L. No. 110-313, § 1(a), 122 Stat. 3014, 3014 (codified as amended at 35 U.S.C. § 6(a)).

Critically, though, no one at that time suggested that APJs were *principal* officers—who would have to be appointed by the President by and with the advice of the

Senate and serve at the President’s pleasure. *See Polaris Innovations*, 792 F. App’x at 830 (Hughes, J., concurring) (“While some legislators viewed the fix as unnecessary, none suggested that APJs were in fact principal officers appointable only by the President.”). Given the careful attention Congress paid to the Appointments Clause issue, and the fact that it followed the letter of the Appointments Clause in ensuring that APJs (assuming that they are inferior officers) would be appointed by a “Head[] of Department[],” that silence is, as Judge Hughes suggested, more than a little telling. *See id.*

Thus, the 2008 amendment is relevant in two respects: (1) it underscores that Congress understood APJs to be inferior officers; and (2) insofar as Congress’s intent is relevant to Appointments Clause analysis, it puts a thumb on the scale against the Federal Circuit panel’s contrary conclusion below. Although Congress cannot treat as inferior officers those who are clearly principal officers, *cf. Myers v. United States*, 272 U.S. 52 (1926), there is good reason to give Congress at least some latitude when the officers at issue do not obviously fall on one side of the line—since the Appointments Clause *itself* contemplates that Congress sets the terms of the relevant office and thereby invests it with a particular degree of legislatively approved authority.<sup>16</sup> That is exactly what happened here.

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16. *See, e.g.*, Alan B. Morrison, *The Principal Officer Puzzle*, YALE J. REG., NOTICE & COMMENT BLOG, Nov. 15, 2019, <https://www.yalejreg.com/nc/the-principal-officer-puzzle-by-alan-b-morrison/>

**B. Applying All of This Court’s Criteria, APJs  
Are Inferior Officers**

The background, duties, authorities, and purposes of APJs confirm that Congress was correct in 2008—that APJs are *inferior* officers under the Appointments Clause, and that both their (revised) mode of appointment and their removal protections are therefore constitutional. Although this Court’s “cases have not set forth an exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes,” *Edmond v. United States*, 520 U.S. 651, 661 (1997), the considerations this Court has looked to clearly put APJs on the inferior side of the constitutional line.

As Part I made clear, APJs have very narrow authority over a very narrow substantive body of law—the power to revisit the validity of patents already issued by the United States. They also remain subject to significant ongoing administrative control and supervision by the Director of the PTO. As Judge Hughes explained in his dissent from the denial of rehearing en banc below,

The Director may issue binding policy guidance, institute and reconsider institution of an *inter partes* review, select APJs to preside over an instituted *inter partes* review, single-handedly designate or de-designate any final written decision as precedential, and convene a panel of

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(arguing that, where Congress’s actions clearly identify a category of officers as “inferior,” courts should defer to that determination).

three or more members of his choosing to consider rehearing any Board decision.

19-1434 Pet. App. 278a (Hughes, J., dissenting from the denial of rehearing en banc); *id.* at 284a (“[I]n the cases in which [this] Court emphasized a principal officer’s power of review, that principal officer had *less* authority to direct and supervise an inferior officer’s work *ex ante* than the Director has here.” (emphasis added)).

All of this goes to why, as Judge Wallach separately explained below, “[t]he current framework for appointing, directing and supervising, and removing APJs preserves political accountability of the important work done at the USPTO.” *Id.* at 293a (Wallach, J., dissenting from the denial of rehearing en banc). More generally, it underscores how a full understanding of the *inter partes* review procedure—and the important but discrete role of APJs in enforcing it—calls into serious question the Federal Circuit panel’s Appointments Clause analysis.

As *Edmond* itself recognized, 520 U.S. at 661–62, that ruling is not this Court’s only guidance on the line between inferior and principal executive branch officers. In *Morrison v. Olson*, 487 U.S. 654 (1988), for instance, this Court also looked to the substantive scope of the officer’s authority and the jurisdictional and temporal constraints on the office. *See id.* at 671–72. It was thus relevant to the *Morrison* majority that the Independent Counsel was not given “any authority to formulate policy for the Government or the Executive Branch, nor . . . any administrative duties outside of those necessary to operate her office.” *Id.*; *see also id.* at 672 (“The [Independent Counsel statute] specifically

provides that in policy matters appellant is to comply to the extent possible with the policies of the Department [of Justice].”).

The *Morrison* Court also stressed the limited subject-matter ambit of the office—triggered by the Attorney General’s request and limited to “certain federal officials suspected of certain serious federal crimes.” *Id.*; see also *Freytag v. Comm’r*, 501 U.S. 868, 881–82 (1991) (holding that special trial judges in the U.S. Tax Court are “inferior” officers). Even Justice Scalia, the lone dissenter in *Morrison*, cited these passages with approval in *Edmond*. See 520 U.S. at 671–72.

And although the holding of *Morrison* has fallen out of favor, comparing APJs to the Independent Counsel nevertheless helps to drive home the flaws in the *Arthrex* panel’s analysis. Among other things, APJs have no “authority to formulate policy for the Government or the Executive Branch.” *Morrison*, 487 U.S. at 671. To the contrary, as this Court made clear in *Oil States*, in *inter partes* review, APJs “consider[] the same statutory requirements that the PTO considered when granting the patent.” 138 S. Ct. at 1374.

The heavily circumscribed authority of APJs does not just distinguish them from the Independent Counsel; it was central to this Court’s conclusion in *Oil States* that Congress had the authority to subject *inter partes* review to non-Article III administrative adjudication in the first place. See *id.* at 1378; *Cuozzo*, 136 S. Ct. at 2144 (“Although Congress changed the name from ‘reexamination’ to ‘review,’ nothing convinces us that, in doing so, Congress wanted to change its basic purposes,

namely, to reexamine an earlier agency decision.”). Indeed, “[t]he second look Congress put in place is assigned to the very same bureaucracy that granted the patent in the first place.” *Thryv, Inc.*, 140 S. Ct. at 1374 n.7. And yet, no one has ever suggested that patent *examiners* are principal officers.

Even more so than the Independent Counsel in *Morrison*, APJs also have extremely limited subject-matter jurisdiction. As Judge Dyk noted in his dissent from the denial of en banc rehearing in *Arthrex*, APJs’ “sole function is to determine the facts in individual patent challenges under the AIA; as to the law, they are obligated to follow the law as articulated by the Supreme Court and this court.” 19-1434 Pet. App. 274a–275a (Dyk, J., dissenting from denial of rehearing en banc).

By design, APJs have no broader authority over even the hyper-specific subject-matter of patent law, let alone anything beyond. Again, were it otherwise, the AIA would raise serious—if not insurmountable—Article III questions. *See Oil States*, 138 S. Ct. at 1379 (“We emphasize the narrowness of our holding. We address the constitutionality of *inter partes* review only. We do not address whether other patent matters, such as infringement actions, can be heard in a non-Article III forum.”).<sup>17</sup>

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17. APJs thus also have far less authority over the parties to the *inter partes* review proceedings before them. At most, the PTAB can create (or eliminate) a right on the part of one party to seek compensation for conduct by another. APJs have no power to hold parties in contempt or fine them; and no power to regulate parties’ primary conduct to any greater extent than the initial issuance or



In holding that APJs are principal officers, the *Arthrex* panel purported to derive three factors from this Court’s decision in *Edmond*: “(1) whether an appointed official has the power to review and reverse the officers’ decision; (2) the level of supervision and oversight an appointed official has over the officers; and (3) the appointed official’s power to remove the officers.” See 19-1434 Pet. App. 9a. But the *Arthrex* panel erred in its analysis of APJs’ status by reading *Edmond* as exhaustive, as this Court was clear (both then and since) that it was not.

Indeed, *Edmond* and the rest of this Court’s Appointments Clause jurisprudence make clear that the distinction between principal and inferior officers turns on *numerous* factors, not just one. The Federal Circuit ignored the myriad ways in which Congress has structured the PTAB in general—and *inter partes* review, specifically—to limit the jurisdiction of APJs, and to give the Director of the PTO far more control over them than Judge Advocates General had over military appellate judges in *Edmond*, than the Chief Judge of the Tax Court had over special trial judges in *Freytag*, or than the Attorney General had over the Independent Counsel in *Morrison*. And more fundamentally, it

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non-issuance of the patent did so. In that respect, APJs have less authority than most administrative law judges—to say nothing of the Independent Counsel. Compare *Buckley v. Valeo*, 424 U.S. 1, 110, 126–28 (1976) (per curiam) (noting the sweeping rulemaking, adjudicative, and enforcement powers Congress delegated to the Federal Election Commission—whose members were, according to the Court, *inferior* officers).

ignored the extent to which Congress’s intent and objectives can and should bear upon the constitutional status of an office Congress created with limits Congress imposed.<sup>18</sup>

\* \* \*

Congress in creating executive branch agencies—and offices within them—is necessarily reacting to complicated policy challenges that are often unique to the subject-matter context at issue. That is why this Court has eschewed drawing a bright line between principal and inferior officers; a one-size-fits-all answer would fail to account for the myriad functional differences between two offices in different agencies that may bear a superficial resemblance.

The closest *Edmond* came was its suggestion that “‘inferior officers’ are officers whose work is directed and supervised *at some level* by others who were

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18. The *Arthrex* panel purported to find support in the D.C. Circuit’s conclusion that Copyright Royalty Judges (CRJs) are “principal” officers. See *Intercollegiate Broadcasting Sys., Inc. v. Copyright Royalty Bd.*, 684 F.3d 1332 (D.C. Cir. 2012). But *Intercollegiate* only reinforces the superficiality of the Federal Circuit’s Appointments Clause analysis. There, it was central to the D.C. Circuit’s analysis that CRJs exercised significant *independent* ratemaking authority—far more than the power to reconsider the validity of patents already issued by the PTO. See *id.* at 1337–38 (citing *SoundExchange, Inc. v. Librarian of Congress*, 571 F.3d 1220, 1226 (D.C. Cir. 2009) (Kavanaugh, J., concurring)). If anything, “[t]he comparison to *Intercollegiate* . . . highlights how the unique powers of direction and supervision in each case should be viewed in totality, rather than as discrete categories weighing in favor of inferior officer status or not.” 19-1434 Pet. App. 287a (Hughes, J., dissenting from the denial of rehearing en banc).

appointed by Presidential nomination with the advice and consent of the Senate.” 520 U.S. at 663 (emphasis added). That is a fair description of APJs. Moreover, the limited function of APJs was not just an important feature of the AIA, but it has already proven central to this Court’s holding in *Oil States* that *inter partes* review does not violate Article III. *See* 138 S. Ct. at 1378. For these reasons, *amici* agree with the private and federal Petitioners in Nos. 19-1423 and 19-1452 that the *Arthrex* panel erred when it concluded that APJs are “principal” officers for purposes of the Appointments Clause.

### **III. Even if Administrative Patent Judges are “Principal” Officers, the Federal Circuit’s Severability Analysis is Most Faithful To Congress’s Intent**

This Court should hold that APJs are inferior officers for purposes of the Appointments Clause. But if it concludes otherwise, the Court should craft a remedy appropriately tailored to the Appointments Clause violation. That remedy should reflect Congress’s unmistakable intent in the AIA to institute and preserve *inter partes* review as a critical component of patent reform. And it should reflect the value—to parties like the *amici* and their customers—of preserving as much as possible of what Congress enacted.

Thus, in the alternative, *amici* urge this Court to adopt the *Arthrex* panel’s severability analysis—severing only that much of 35 U.S.C. § 3(c) that applies to APJs the for-cause removal protections of 5 U.S.C. § 7513. *See* 19-1434 Pet. App. 27a–28a. In light of the text, structure, purpose, and history of the AIA provided in Part I, such a remedy best “limit[s] the

solution to the problem.” *Free Enter. Fund v. Pub. Co. Acct. Oversight Bd.*, 561 U.S. 477, 508 (2010) (quotation marks omitted). It leaves *inter partes* review otherwise intact, consistent with both this Court’s severability analysis in similar separation-of-powers cases and Congress’s clear and unequivocal intent in passing the AIA.

This Court’s precedents “reflect a decisive preference for surgical severance rather than wholesale destruction, even in the absence of a severability clause.” *Barr v. Am. Ass’n of Pol. Consultants, Inc.*, 140 S. Ct. 2335, 2350–51 (2020); *see also Seila Law LLC v. Consumer Fin. Prot. Bureau*, 140 S. Ct. 2183, 2208–10 (2020) (plurality opinion). As Justice Kavanaugh recently confirmed, “[t]he Court presumes that an unconstitutional provision in a law is severable from the remainder of the law or statute.” *Am. Ass’n of Pol. Consultants*, 140 S. Ct. at 2350. And “apart from some isolated detours mostly in the late 1800s and early 1900s, the Court’s remedial preference after finding a provision of a federal law unconstitutional has been to salvage rather than destroy the rest of the law passed by Congress and signed by the President.” *Id.*

In *Free Enterprise Fund*, this Court confronted a similar question about the Sarbanes-Oxley Act of 2002’s creation of the Public Company Accounting Oversight Board—and held that the appropriate remedy was to sever that part of the Act that prevented removal of PCAOB members except for “good cause.” *See* 561 U.S. at 509–10.

Any doubt that this is the proper remedy here is settled by the AIA itself. As discussed above,

Congress’s core goals in creating *inter partes* review and staffing it primarily with APJs was to increase patent accuracy and reduce civil litigation costs. *See ante* at 9–13 & n.6. Any remedy that goes beyond the civil service protections afforded to APJs (or the lack thereof) unnecessarily jeopardize those goals.

Indeed, the author of the *Arthrex* panel opinion, made this concern explicit in concurring in the denial of rehearing en banc. As she explained, “[a]lthough Congress originally intended that APJs have removal protections, that was not Congress’ central objective when it created the USPTO’s *inter partes* review system.” 19-1434 Pet. App. 235a (Moore, J., concurring in the denial of rehearing en banc). Thus, the severability remedy adopted by the *Arthrex* panel “properly retained the portions of the statute necessary to effectuate Congress’ basic objective of providing an agency mechanism where the validity of issued patents may be challenged.” *Id.* at 236a.

Any broader severability holding—including any broader invalidation of *inter partes* review—could precipitate a resurgence in bad patents and the increased costs American businesses face in defending against them.<sup>19</sup> Whether broader reforms would be

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19. To some degree, a series of problematic initiatives from the Director of the PTO has already weakened *inter partes* review and led to an increase in patent litigation. *See* Josh Landau, *Changes Reducing IPR Institution Rate Have Increased Litigation Frequency and Cost*, PATENT PROGRESS (Nov. 25, 2020), <https://www.patentprogress.org/2020/11/25/changes-reducing-ipr-institution-rate-have-increased-litigation-frequency-and-cost/>. Invalidating *inter partes* review would only *exacerbate* these developments.

needed in response to a holding that APJs are principal officers is a question that should be left to Congress to the maximum extent possible. *See, e.g., id.* at 233a (Moore, J., concurring in the denial of rehearing en banc) (“If Congress prefers an alternate solution to that adopted by this court, it is free to legislate, and in the meantime, the Board’s APJs are constitutionally appointed and *inter partes* reviews may proceed according to Congress’ initial intent.”). Even if this Court concludes that APJs are principal officers, no sound legal or policy justification exists for any broader invalidation of the relevant statutes.

### CONCLUSION

For the foregoing reasons, the decision below should be reversed with respect to the constitutional status of administrative patent judges. In the alternative, the Federal Circuit’s severability analysis should be affirmed.

Respectfully submitted,

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