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Expert Analysis

'Arthrex': SCOTUS Preserves USPTO Invalidation Proceedings

By **Robert L. Maier**

In June, the Supreme Court of the United States issued its highly anticipated decision in *United States v. Arthrex*, which decision had the potential to upend the patent litigation landscape in the United States. *United States v. Arthrex*, 594 U.S. ___ (2021). But the outcome was less sensational than that—rather than topple the Patent Trial and Appeals Board (PTAB) and its patent invalidation proceedings that have become a centerpiece of modern patent litigation, the Supreme Court preserved the PTAB and its administrative patent judges' (APJs) decisions in inter partes review (IPR) proceedings, albeit by first finding the prior unreviewable authority of APJs unconstitutional, and then by modifying the regime with another layer of review vested in the Director of the U.S. Patent and Trademark Office (USPTO).

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Background: APJs and the Structure of the PTAB

The USPTO is an executive agency within the Department of Commerce responsible "for the granting and issuing of patents." 35 U.S.C. §§1-2. The USPTO's "powers and duties" are vested in a sole Director. §3(a)(1). The Leahy-Smith America Invents Act (AIA), which President Obama signed into law in 2011, transformed the U.S. patent disputes framework and introduced a new administrative litigation regime for challenging the validity of issued patents, including the most popular variant known as inter partes review (IPR). To conduct these proceedings, Congress created the PTAB, consisting of the Director of the USPTO, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and a corps of administrative patent judges (APJs). 35 U.S.C. §6(a). Unlike the Director and Article III judges who are appointed by the president with the advice and consent of the Senate, APJs are appointed by the Secretary of Commerce in consultation with the Director of the USPTO. Id.

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An IPR is an adversarial process presented to three APJs at the PTAB, and results in a decision to keep or invalidate some or all of the challenged patent claims. Under 35 U.S.C. §6(c), "[o]nly the Patent Trial and Appeal Board

may grant rehearings," limiting the role of the Director in this decision making process to only the ministerial act of issuing and publishing of a certificate which cancels or confirms the challenged patent claims. §318(b). Because the Director was unable to review the merits of the APJs' decisions, the Director was essentially insulated from the final decision-making process. That backdrop set the stage for the administrative law challenge in *Arthrex*, which presented the issue of whether the PTAB's structure violated the Appointments Clause of the Constitution. See Art. II, §2, cl. 2.

'Arthrex' at the PTAB And Federal Circuit

Arthrex sued Smith & Nephew and ArthroCare Corp. for infringement of U.S. Patent No. 9,179,907, which led to the accused infringers challenging its validity in an IPR proceeding. A panel of three APJs issued a final written decision concluding that Arthex's patent was invalid for being anticipated by a prior patent application. Arthrex appealed this decision to the Federal Circuit, and raised the argument that the appointment of the APJs under the PTAB regime violated the Appointments Clause of the Constitution because these judges served in a capacity beyond that of "inferior officers," and instead acted as "principal officers" who would otherwise be required to be appointed by the President and confirmed by the Senate. See U.S. Const., art. II, §2, cl. 2.

The Federal Circuit agreed with Arthrex that these APJs were acting as "principal officers," and that their appointments did not meet the requirements of the Appointments Clause. To remedy this constitutional issue, the Federal Circuit sought to institute a change that would see the APJs be treated instead as "inferior officers" who are able to be appointed by heads of departments, in this case the Secretary of Commerce. The court did so by invalidating the only-for-cause removal provision for APJs, thus removing their tenure protection and making them subject to removal at will by the Secretary. Arthrex v. Smith & Nephew, 941 F.3d 1320 (Fed. Cir. 2019).

Arthrex, Smith & Nephew, and the U.S. government each requested rehearing en banc, which the Federal Circuit denied, but the Supreme Court granted their cert petitions and consolidated the cases for review.

The Supreme Court's Plurality Opinion

In a plurality opinion by Chief Justice Roberts, the Supreme Court held 5-4 that when deciding IPRs with unreviewable authority, the APJs acted as "principal officers" in violation of the Appointments Clause. To address this constitutional violation, seven of the Justices agreed that the appropriate remedy would not be to hold the entire PTAB regime unconstitutional as requested by Arthrex, nor to uphold the decision of the Federal Circuit to remove the APJs' only-for-cause removal provision. Rather, the majority of Justices concluded that the portion of the statute limiting rehearing of decisions only to the PTAB should be severed, such that the Director would now have discretion to review APJ decisions.

The court's analysis focused on the precedent of Edmond v. United States, which held that an "inferior officer" must be "directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." 520 U.S. 651, 663 (1997). The court emphasized that the "President is 'responsible for the actions of the Executive Branch' and 'cannot delegate [that] ultimate responsibility or the active obligation to supervise that goes with it.'" *Arthrex*, 594 U.S. ___, *6–7 (2021), and that accordingly, "[g]iven the insulation of PTAB decisions from any executive review, the President can neither oversee the PTAB himself nor 'attribute the Board's failings to those whom he can oversee.'" Id. at 3. The power exercised by the APJs in deciding IPRs without the discretionary review of a duly appointed principal officer therefore "conflicts with the design of the Appointments Clause 'to preserve political accountability.'" Id. (quoting *Edmond*, 520 U.S. at 663).

The court emphasized the need for accountability when officers act using the executive power, and tailored the remedy for the violation of the Appointments Clause by holding that the Director must be able to review the decisions of the APJs, stating:

Today, we reaffirm and apply the rule from *Edmond* that the exercise of executive power by inferior officers must at some level be subject to the direction and supervision of an officer nominated by the President and confirmed by the Senate. The Constitution therefore forbids the enforcement of statutory restrictions on the Director that insulate the decisions of APJs from his direction and supervision. To be clear, the Director need not review every decision of the PTAB. What matters is that the Director have the discretion to review decisions rendered by APJs. In this way, the President remains responsible for the exercise of executive power—and through him, the exercise of executive power remains accountable to the people.

The court then remanded the case for the Director to consider whether to rehear the petition.

The Aftermath of 'Arthrex'

In the end, while the court found the PTAB unconstitutional in its initial incarnation, it remedied that problem and preserved the PTAB by severing the portion of the statute that resulted in that unconstitutionality, now allowing for Director review. While many prior decisions of the PTAB will stand, many other prior PTAB decisions will be vacated (where this issue of unconstitutionality of the PTAB was preserved) to allow the Director an opportunity to review the decisions. And, going forward, litigants before the PTAB will have the ability to seek discretionary Director review of APJ decisions.

The introduction of this new layer of review in the PTAB presents many questions that the USPTO itself still must sort out. In fact, the USPTO is currently soliciting suggestions from the public on exactly how the new Director review process should be implemented (suggestions can be sent by email to Director_Review_Suggestions@uspto.gov). In the meantime, the USPTO has issued some initial guidance for at least an interim process for Director review: The Director will conduct a de novo review on any issue, including fact and legal issues; the review will not be bound by existing precedent; and Director review can be either the result of a request or sua sponte. See *USPTO implementation of an interim Director review process following Arthrex*, USPTO (2021) (last visited July 6, 2021); *Arthrex Q&As*, USPTO (2021) (last visited July 6, 2021).

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Arthrex ultimately raises a number of questions regarding the future of Director review and IPR proceedings more broadly, including:

- Will only the Director be handling requests, or can the Director delegate this authority to subordinates?
- How will this process impact existing methods of review such as the Precedential Opinion Panel (POP) review available by petition to the Director?
- Is a party now required to petition for Director review to exhaust all administrative remedies before appealing to the Federal Circuit?
- Does it matter that the current interim head of the USPTO, Drew Hirshfeld, has the title "Commissioner for Patents, Performing the Functions and Duties of the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office" (rather than the title of a confirmed Director)?
- Will the increased role of an appointed position in the patent process further politicize patent law and policy in the United States?

These are just some of the issues yet to be resolved within this new system. How these and other questions are resolved, and how much influence the Director chooses to wield through this newfound review mechanism, may ultimately have greater impacts on the use of IPRs going forward.