Intellectual Property Magazine
Business intelligence | informa

Arthrex Finds That APJs Are Unconstitutionally Appointed
Catherine White
June 22, 2021

In a "fragmented decision", the Supreme Court of the US (SCOTUS) has held that the appointment of administrative patent judges (APJ) at the US Patent Trial and Appeal Board (PTAB) violated the US Constitution's appointments clause, because they are not "inferior" officers.

Issuing a high-profile ruling yesterday (21 June) in *Arthrex v Smith & Nephew*, SCOTUS ruled that the appointment of judges is "unconstitutional" because they are not inferior officers under the Appointments Clause.

Passing the 5-4 verdict, the court vacated an earlier US Court of Appeals for the Federal Circuit's (CAFC) October 2019 decision, remanded the case back to the CAFC and determined that the Constitution's Appointments Clause has been violated.

SCOTUS held that "history reinforces the conclusion that the unreviewable executive power exercised by APJs is incompatible with their status as inferior officers" during *inter partes* review (IPR) and thus are principal officers under the US Constitution.

However, whereas such officers are traditionally nominated by the president and confirmed by the Senate, the court held that a potential "remedy" could be that the US Patent & Trademark Office (USPTO) director must be able to review the board's decisions.

Yale University's Christina M Kinane commented that *Arthrex* has "huge implications for admin law, executive branch politics, and separation of powers."

Delivering the opinion, Chief Justice Roberts said, "Because Congress has vested the director with the 'power and duties' of the PTO… the director has the authority to provide for a means of reviewing PTAB decisions.

He added, "The director accordingly may review final PTAB decisions and, upon review, may issue decisions himself on behalf of the board."

The court also concluded that the appropriate remedy is a remand to the acting director for him to "decide whether to rehear the petition filed by Smith & Nephew.

"Although the APJs' appointment by the Secretary allowed them to lawfully adjudicate the petition in the first instance… they lacked the power under the Constitution to finally resolve the matter within the executive branch."

SCOTUS explained 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."

It added, "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."

Reaction

Schiff Hardin's Imron Aly said, "From a legal or academic point of view, this is fascinating because the justices were clearly struggling with where to draw the line once finding the statute unconstitutional: does it mean throwing out the whole IPR system and kicking the issue back to Congress, or can the courts fix it themselves?"

He added, "The case has broader implications on that point and much to discuss."

McKool Smith's Scott Hejny commented that "political influence will now play more of a role in the USPTO because the director is appointed by the president, and his or her beliefs regarding the patent system will inevitably be embodied in the ultimate decisions made by the director."

Hejny explained, "While this falls within the purview of the president since 'the blame of a bad nomination' will 'fall upon the president singly and absolutely'… the technical nature of PTAB decisions may 'call[]for greater, not less, independence from those potentially influenced by political factors'."

Axinn's Aziz Burgy noted that the verdict makes the selection of the new director "even more important".

He said, "This decision gives vast discretionary power to the USPTO director to decide the ultimate outcome of IPRs. From a practical perspective, however, I don't anticipate the director reversing a three-judge panel's determination too often.

"The sheer volume of IPR decisions will hinder the director from granularly reviewing each decision on his or her own. Secondly, and perhaps more importantly, the three-judge panels consist of seasoned patent practitioners that will have carefully applied the law to the facts of the case. Plus, the CAFC will act as a judicial backstop to prevent the director from going astray with his or her review. As such, the need by the director to step in to review the panel's decision will be limited."

Finnegan's Trenton Ward highlighted that SCOTUS' decision is "significant" as it negates speculation that the court "might disband the PTAB in favour of a potential Congressional fix".

He stated, "We do not anticipate any impact on Administrative Patent Judge appointments going forward, as the court's decision requires USPTO director discretion to review PTAB decisions but does not indicate that changes to the appointment process for APJs are necessary.

"It remains to be seen what additional review by the director will look like and which cases the director will choose to review."

Background

Manufacturing company Arthrex owns a US patent covering knotless suture securing assembly.

Medical equipment manufacturing company Smith &Nephew and medical device company Arthrocare both filed petitions requesting PRs of claims 1, 4, 8, 10–12, 16, 18, and 25-28 of the Arthrex patent. A three-judge PTAB panel found the asserted claims were unpatentable on 1 November.

Arthrex then appealed the ruling to the CAFC, claiming the decision to appoint the PTAB's administrative patent judges by the secretary of commerce, violates the Appointments Clause.

This rule allows the president to nominate and appoint principal officers with consent from the US Senate – not the secretary of commerce, currently Wilbur Ross, who holds the ability to appoint inferior officers.

Administrative patent judges are appointed by the secretary of commerce, who must consult with the director of the USPTO.

The CAFC ruled in October 2019 that the judges were in fact principal officers and not inferior officers, therefore requiring presidential appointment, rather than that of the secretary of commerce.

Both Smith & Nephew and Arthrocare, and the US government who intervened in the case, argued that Arthrex failed its Appointments Clause challenge as it did not raise the issue before the PTAB.

However, the CAFC judges stated that this was “one of those exceptional cases that warrants consideration”, despite Arthrex’s failure to raise its concern before the board.

Both the appellees and the government argued the USPTO director holds the ability to remove an APJ.

Section 6(c) of the US Patent Act does give the USPTO director the power to designate the panel for an IPR.

However, the CAFC said that the statute “does not expressly authorise de-designation”.