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Arthrex: The Supreme Court Preserves the PTAB System

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Arthrex: The Supreme Court Preserves the PTAB System

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On Monday, June 21, 2021, the Supreme Court handed down the long-awaited decision in *United States v. Arthrex, Inc.*, 594 U.S. ___ (2021) ("*Arthrex*"). Arthrex appealed a final written decision issued by the Patent Trial and Appeal Board ("PTAB") finding the challenged claims of U.S. Patent No. 9,179,907 to be unpatentable. On October 31, 2019, a Federal Circuit three-judge panel (Moore, Reyna, Chen) held that PTAB administrative patent judges ("APJs") are principal officers under the Constitution's Appointments Clause, U.S. Const., art. II, § 2, cl. 2. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320, 1325 (Fed. Cir. 2019) ("*Arthrex CAFC*"). Because the principal-officer APJs were not appointed by the President with the advice and consent of the Senate, the Federal Circuit severed the restrictions on removal of APJs, vacated the *inter partes* review final written decision, and remanded for a new panel of APJs to consider the matter. *Id*. The Supreme Court vacated the Federal Circuit's decision, severed the portions of 35 U.S.C. § 6 that limited the oversight authority of the Director of the Patent and Trademark Office (the "Director"), and granted the Director, a principal officer appointed by the President with the advice and consent of the Senate, with the full authority to review final written decisions issued by the PTAB.

The History of the Problem

Initially, a three-APJ PTAB panel instituted an *inter partes* review for a patent "directed to a knotless suture securing assembly" and, after briefing and trial, held all challenged claims unpatentable as anticipated in a final written decision. *Arthrex CAFC*, 941 F.3d. at 1325-26. On appeal, Arthrex argued that the PTAB's decision violated the Constitution's Appointments Clause (U.S. Const., art. II, § 2, cl. 2) as, Arthrex alleged, "the APJs were principal officers who must be, but were not, appointed by the President with the advice and consent of the Senate." *Id.* at 1325, 1327.

Both Smith & Nephew and the government initially argued that Arthrex waived its Appointments Clause challenge by not first raising the issue with the PTAB. *Id.* at 1326. The Federal Circuit disagreed. *Id.* at 1326-27. The Federal Circuit reasoned that, "The Supreme Court has included Appointments Clause objections to officers as a challenge which could be considered on appeal even if not raised below." *Id.* at 1326 (citing *Freytag v. Commissioner of Internal Revenue*, 501 U.S. 868, 878-79 (1991); *Glidden Co. v. Zdanok*, 370 U.S. 530, 535-36 (1962). Thus, the Federal Circuit held that *Arthrex CAFC*, "like *Freytag*, is one of those exceptional cases that warrants consideration despite Arthrex's failure to raise its Appointments Clause challenge before the Board." *Id.* The Federal Circuit concluded that "the Board could not have corrected the problem. Because the Secretary continues to have the power to appoint APJs and those APJs continue to decide patentability in *inter partes* review, we conclude that it is appropriate for this court to exercise its discretion to decide the Appointments Clause challenge here." *Id.* at 1327.

On the merits, the Federal Circuit first turned to the Appointments Clause and determined that APJs were officers as opposed to employees. *Id.* at 1327-28. Next, the Federal Circuit determined that APJs were principal as opposed to inferior officers. *Id.* at 1328-35. The Federal Circuit based its decision on several factors emphasized by the Supreme Court in *Edmond v. United States*, 520 U.S. 651, 662-63 (1997): "(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." *Arthrex CAFC*, 941 F.3d at 1329. The Federal Circuit then evaluated these factors, among others, and concluded that "[t]he only two presidentially-appointed officers that provide direction to the USPTO are the Secretary of Commerce and the Director. Neither of those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers." *Id.* at 1329-35.

Finally, the Federal Circuit held that "[b]ecause the Board's decision in this case was made by a panel of APJs that were not constitutionally appointed at the time the decision was rendered, we vacate and remand the Board's decision without reaching the merits." *Id.* at 1338-39. The court rejected the government's contention that no relief was warranted due to Arthrex not raising the issue before Board as "the Board was not capable of providing any meaningful relief to this type of Constitutional challenge and it would therefore have been futile for Arthrex to have made the challenge there." *Id.* at 1339. And, on remand, the Federal Circuit held "that a new panel of APJs must be designated and a new hearing granted." *Id.* at 1340.

The Supreme Court's Solution

The Supreme Court vacated the Federal Circuit decision and a divided Court crafted its own solution. *Arthrex*, 594 U.S. ___. The Court severed the portions of the statute limiting the review authority of the Director of the Patent and Trademark Office, giving the Director plenary authority to review all final written decisions issued by the PTAB. This solves the "reviewability issue"—the Director is appointed by the President and will have authority to review all PTAB decisions. APJs will be "inferior officers" because their decisions are now reviewable by the presidentially appointed Director, and the APJ appointment process is seemingly untouched. The *Arthrex* case was remanded to the acting Director to determine whether the petition (filed by Smith & Nephew) should be reheard or left in place.

Dissents authored by Justices Gorsuch, Breyer, and Thomas, however, highlighted important issues with the decision. The dissents criticize the majority opinion for its refusal to expressly acknowledge that APJs are, as currently appointed, "principal officers." The reason why seems clear. If the Court acknowledges that APJs are "principal officers," then Arthrex should prevail and be entitled to a new hearing under properly appointed APJs—and so should every other party whose patents have been reviewed under the current system. If the APJs are deemed "inferior officers," then there has been no Appointments Clause violation—and there would be no need to grant plenary review powers to the Director. The majority instead carefully avoided the "principal officer" question to preserve prior PTAB rulings while ensuring that, going forward, there is a true "principal officer" in place: the Director, who now has the power to review every final written decision issued by PTAB APJs.

Justice Gorsuch, dissenting in part, criticizes the majority for finding a solution that expressly overrides Congressional intent. The statute in question (35 U.S.C. § 6(c)) specifies that only the PTAB can grant rehearings, which strips the Director of any power to review (and possibly overturn) final written decisions. By striking this offending portion of the statute and vesting the Director with ultimate review authority, the majority controverted Congressional intent to preserve the PTAB and its rulings to date.

Political influence could now also play more of a role at the Patent Office 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. The majority suggests that this is proper because "the blame of a bad nomination" will "fall upon the president singly and absolutely." Justice Breyer disagreed, noting that the technical nature of PTAB decisions may "call[] for greater, not less, independence from those potentially influenced by political factors." But these criticisms have been levied before, particularly in response to what were deemed to be "pro patent" actions taken by former Director Andrei Iancu. Nevertheless, this unquestionably increases the focus on the appointment of the next Director.

In the wake of the Supreme Court decision, the PTAB review process is still in place. The APJ appointment process is seemingly unchanged, but there is some uncertainty moving forward. The Patent Office will likely issue guidance regarding future requests for Director review, particularly for past decisions. The scope of review available to patent owners is unclear at this time, and it remains to be seen whether all past decisions will be subject to review or whether only cases in which an Appointments Clause challenge were included will be deemed eligible. Regardless of the guidance issued by the Patent Office, Director review will only be available in cases that proceeded to a final written decision since the Director has always had final, non-appealable authority on decisions of whether to institute trial.

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