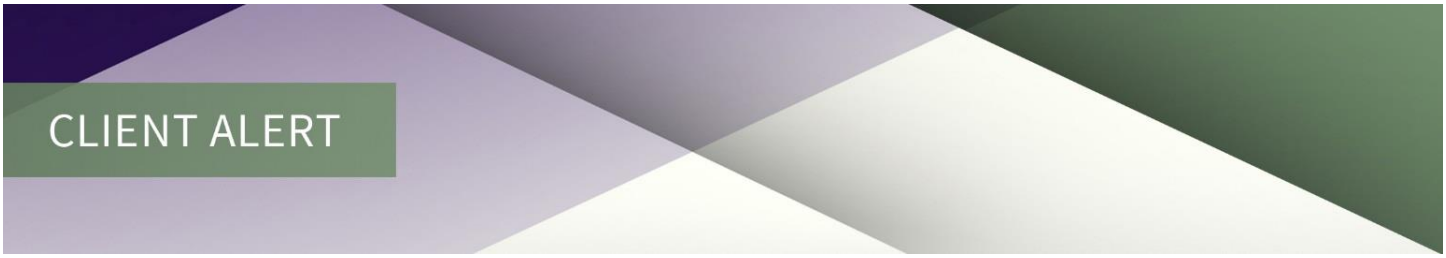

U.S. Supreme Court Rules Patent Office Judge Oversight Unconstitutional But Offers New Fix to System

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In *United States v. Arthrex Inc.*, No. 19–1434 (Mon. June 21, 2021), the Supreme Court ruled that the oversight process for Administrative Patent Judge ("APJ") *inter partes* review ("IPR") decisions of the U.S. Patent & Trademark Office Patent Trial and Appeal Board (the "PTAB") was unconstitutional, in violation of the Appointments Clause. The Court agreed with the Federal Circuit that PTAB APJs are principal officers who must be appointed by the President, with the Senate's advice and consent, because the APJs have such significant independent authority. However, the Court rejected the Federal Circuit's proposal to remedy this constitutional defect by eliminating the job removal protections for APJs. The Court offered a new and potentially simpler prospective fix by entrusting the final review authority of PTAB IPR decisions to the Patent Office Director.

This decision generally preserves the PTAB's authority to continue to review patents, and it will likely have limited short-term effect on PTAB proceeding outcomes. However, the decision will give rise to a new administrative appeal process and may impact the interplay of strategy between the PTAB and district court, as well as new court challenges.

Case Background

This case extends back to May 2018, when the PTAB issued a final written decision in an IPR proceeding that found unpatentable all challenged claims of Arthrex's patent. Arthrex timely filed a notice of appeal with the Federal Circuit.

In its appeal, Arthrex argued that APJs were appointed in a manner violating the Appointments Clause of the U.S. Constitution. Accordingly, the Federal Circuit was tasked with deciding whether APJs are inferior officers—officers whose work is supervised at some level by others appointed by Presidential nomination and Senate consent—or principal officers—officers with less supervision that must go through the nomination and consent process. The Supreme Court had previously laid out three factors to differentiate these types of officers: (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.[1]

The Patent Act (the "Act") provides the Secretary of Commerce the authority to appoint APJs, and the secretary delegates this power to the Director of the United States Patent & Trademark Office (the "Patent Office"). The Act grants APJs the authority to oversee discovery, apply the Federal Rules of Evidence, hear oral arguments, and ultimately decide the patentability of challenged patent claims. Further, the Act limits the Director's authority to oversee and review APJs' decisions.

In October of 2019, a three-judge panel of the Federal Circuit determined that the America Invents Act's provisions for instating APJs violated the Appointments Clause of the U.S. Constitution. Chief Judge Moore authored the decision, which concluded that APJs were principal officers. To remedy the Appointments Clause issue that this finding exposed, the Federal Circuit severed the portion of the Act restricting removal of the APJs.[2] That is, the Federal Circuit made it such that APJs were removable at will by the Director of the Patent Office.[3] The Federal Circuit later denied rehearing en banc.

Arthrex, Smith & Nephew, and the United States each filed separate petitions for certiorari asking the Supreme Court to review the Federal Circuit's holding. The Supreme Court granted certiorari for all three petitions, consolidated the cases, and limited the questions to (1) whether, for purposes of the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, APJs of the Patent Office are principal officers who must be appointed by the President with the Senate's advice and consent, or inferior officers whose appointment Congress has permissibly vested in a department head; and (2) whether, if APJs are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 USC § 7513(a) to those judges.

1 *Edmond v. United States*, 520 U.S. 651, 663 (1997).

2 *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320, 1325 (Fed. Cir. 2019).

3 *Id*.

U.S. Supreme Court Decision

On June 21, 2021 Chief Justice John Roberts delivered the majority opinion of the Supreme Court, holding that the lack of oversight of the PTAB APJs violates the Appointments Clause, but that giving the Patent Office Director greater control over the PTAB's rulings will remedy the issue.

Five justices, Chief Justice Roberts and Justices Alito, Kavanaugh, Gorsuch, and Barrett thought the system was unconstitutional; four justices, Justices Breyer, Sotomayor, Kagan, and Thomas thought it was constitutional; and seven justices, excluding Justices Thomas and Gorsuch, agreed with the remedy.

In Part I, the Court laid out the history of the patent system as well as the case history, highlighting the formation of the present system as an executive agency within the Department of Commerce "responsible for the granting and issuing of patents" in the name of the United States.[4]

In Part II, the Court grappled with the question of whether the power exercised by APJs is consistent with their method of appointment. The Court noted that APJs exercise this power when reconsidering an issued patent, as it is a power that involves adjudication of public rights that Congress may appropriately assign to executive officers rather than to the judiciary. The Court then referenced its opinion in *Edmond*,[5] in which it had previously explained that the determination of one's role as an inferior or principal officer depends on whether the role has a superior other than the President.

Looking to its decision in *Edmond,* in which judges for the Coast Guard Court of Criminal Appeals appointed by the Secretary of Transportation were held to be inferior officers, the Court set out a test which explained that an inferior officer must be directed and supervised at some level by others who were appointed by the President and with the advice and consent of the Senate. The Court found it significant that the judges in question in *Edmond* had no power to render a final decision on behalf of the United States without permission by other executive officers.

The Court distinguished APJs of the PTAB from the officers in *Edmond*, opining that they are provided "only half of the 'divided' supervision to which judges of the Court of Criminal Appeals were subject."[6] The Court noted that while the Director of the PTAB has some tools of administrative oversight, neither the Director nor any other superior executive officer can directly review APJ decisions. While the government and Smith & Nephew contended that the Director does have methods to indirectly influence the outcome of an IPR, the lines of accountability demanded by the Appointments Clause are blurred and leave parties without transparency and clarity.

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4 35 U. S. C. §§ 1(a), 2(a)(1).

5 *Edmond v. United States*, 520 U.S. 651, 663 (1997).

6 *United States. v. Arthrex, Inc. et al.*, No. 19–1434 at 9 (June 21, 2021).

The Court opined that the "catalog of steps the Director might take" to exercise control over the decision-making process of the PTAB touted by the government and Smith & Nephew and embraced by the dissent is not the solution, but rather the problem.[7]

The Court noted that even if the Director succeeds in achieving her desired result over the APJs, the issue of accountability as demanded by the Appointments Clause remains. This leaves parties with neither an impartial decision by a panel of experts nor a transparent decision for which a politically accountable officer must take responsibility. "In all the ways that matter to the parties who appear before the PTAB, the buck stops with the APJs, not with the Secretary or Director" the Court declared, noting the lack of supervision the APJs are subject to.[8]

Justice Roberts remarked that the dissenting opinion of Justice Thomas "dutifully undertakes" the application of the *Edmond* test, "but its heart is plainly not in it." Pointing to the dissent's rejection of the distinction between inferior and principal officer power, despite *Edmond's* call for an appraisal of how much power is exercised by an officer free from supervision, Justice Roberts asserted that Justice Thomas's dissent "pigeonholes" the consideration to the power of the Vesting Clause.[9] Justice Roberts also addressed the dissenting opinion of Justice Breyer, which charged the Court's opinion as lacking foundation from past decisions, noting that the discrepancy stems from different views on the proper application of *Edmond* as it relates to the matter at hand.

Justice Roberts then noted that review outside of Article II—in this case an appeal to the Federal Circuit—still cannot provide the necessary supervision. While the duties of APJs are of a judiciary quality as well as executive, the APJs still are dependent on the President and exercise an executive power. Because the PTAB's decisions are insulated from executive review, the President is neither able to oversee its decisions himself nor attribute the PTAB's failings to someone he can oversee. This exercise of power by APJs directly conflicts with the Appointment Clause's goal of demanding political accountability.

The Court then pointed to history to reinforce the determination that the unreviewable executive power afforded to APJs is incompatible with inferior officer status. Harkening back to founding- era congressional statutes, adequate supervision requires the ability for review of decisions by inferior officers. That model was carried by Congress into the review process of principal officers in the modern administrative state. The Court knocked down examples set forth by the government and Smith & Nephew by noting that several of the examples involve inferior officers whose decisions are reviewed by either a superior principal officer, or are subject to a review process. Further, the Court observed that the current PTAB does not draw support from the structure of its predecessor board of appeals, which had in place a system for review by an executive tribunal and was subject to the unilateral control of the agency head.

7 *Id*. at 11

8 *Id*. at 12.

9 *Id*. at 13.

The Court explicitly did not attempt to set forth exclusive criteria for determining the difference between a principal and an inferior officer for purposes of the Assignment Clause.

In part III, Chief Justice Roberts joined by Justices Alito, Kavanaugh, and Barrett concluded that the provision in 35 U.S.C. § 6(c) cannot be constitutionally enforced to the extent that the Director of the PTAB is prevented from reviewing final decisions rendered by APJs. The Director may review final PTAB decisions and may issue decisions on behalf of the Board. Section 6(c) otherwise remains in effect in relation to other members of the PTAB. As such, Justice Roberts held that the appropriate remedy in the case is to remand to the Acting Director to decide whether to rehear the petition by Smith & Nephew. The opinion noted that because the constitutional violation is the restraint of the authority of the Director to review, rather than the appointment of APJs by the secretary, Arthrex is not entitled to a hearing in front of a new panel of APJs.

Dissenting Opinions

In a splintered ruling, the Justices filed a total of four opinions, with the Justices reaching a slim 5-4 majority on Parts I and II and a 7-2 majority on Part III.

Justice Gorsuch filed an opinion concurring in part and dissenting in part. In his opinion, Justice Gorsuch essentially argued that he would throw out the whole system as a due process violation. He disagreed with the Court's approach of severing what it thinks Congress would change if it knew that its system would be deemed unconstitutional. Justice Breyer, joined by Justices Sotomayor and Kagan, filed an opinion concurring with the judgement in part and dissenting in part. Their opinion explained that the system is constitutional under a functional analysis. But, since the majority said the system is unconstitutional, they agreed with the remedy prescribed by the majority.

Finally, Justice Thomas filed a dissenting opinion, joined by Justices Breyer, Sotomayor, and Kagan as to Parts I and II. In his opinion, Justice Thomas explained that the system is constitutional, and essentially argued that the majority contorts itself to find that APJs are principal officers, then relegates them right back to being inferior officers, indicating they were inferior officers all along. Further, Justice Thomas asserts that the majority's remedy is internally inconsistent—if there really was a violation, then Arthrex should get a new hearing.

Possible Implications

The practical implications of Arthrex will be observed in the coming months as the Patent Office implements the Court's mandate to provide the Director with the ability to review PTAB decisions. Much may depend on how the Patent Office decides to implement the new process.

In the short term, PTAB proceedings will likely continue with little change, except that the losing party may now seek review of a decision by the Patent Office Director in addition to the PTAB. Given that the PTAB traditionally rarely grants

rehearing requests, it is possible that grant rates for requests for review by the Patent Office Director will be the same, if not lower, than PTAB rehearing requests.

Further, depending on how the Patent Office implements the Court's holding, there may be impacts on district court proceedings. Notably, it is unclear what the timing or rules for this new procedure will be. If the Patent Office lengthens the proceeding well beyond the statutory one-year deadline, that may be used by litigants as an argument not to stay cases in district court pending the outcome of IPRs.

Finally, it remains to be seen whether the Supreme Court will take up a due process challenge to PTAB proceedings in the coming years. To date, in *Oil States* and other decisions, the Court has declined to weigh in on a due process challenge to PTAB proceedings. However, Justice Gorsuch's opinion made it quite clear that he would invite such a challenge to the system.

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