Intellectual Property Alert

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Supreme Court Rules PTAB Decisions Subject to Discretionary Review by PTO Director, Vacating Federal Circuit Decision in Arthrex

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Today, the Supreme Court issued its decision in *United States v. Arthrex, Inc.*, which considered whether Administrative Patent Judges' (APJs) authority to issue decisions in *inter partes* reviews on behalf of the executive branch is consistent with the Appointments Clause of the Constitution. In a fractured decision, the Court held:

- As to the merits, the unreviewable executive power exercised by APJs conflicts with the design of the Appointments Clause "to preserve political accountability," and is incompatible with their appointment by the Secretary to an inferior office.
- As to remedy, the statutory provision providing that only the Patent Trial and Appeal Board (PTAB) may grant rehearing cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions. Accordingly, final written decisions from the PTAB will be subject to review by the Director, who need not review every decision.

This decision may have important implications for pending appeals in which the *Arthrex* issue has been preserved—it is likely that those cases will be subject to remand, as is the case here, for the Acting Director to consider rehearing. However, the Court made clear that parties are not entitled to rehearing before a new panel of APJs.

Background

Arthrex sued Smith & Nephew Inc. for infringing its U.S. Patent No. 9,179,907. Smith & Nephew subsequently filed a petition for *inter partes* review of the '907 patent, and a panel of three APJs ultimately found the relevant claims of the '907 patent anticipated.

On appeal to the Federal Circuit, Arthrex challenged whether APJs are principal officers, and as a result, their appointment by the Secretary of Commerce was unconstitutional. The Federal Circuit held that APJs are principal officers, not inferior officers, and invalidated the tenure protections available to APJs in an effort to remedy the constitutional infirmity. The Federal Circuit reasoned that, by making APJs removable at will by the Secretary, they were rendered inferior officers. The Federal

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Circuit also remanded the case to be heard by a new panel of APJs who no longer enjoyed removal protection.

More on the Court's Decision

The Court's controlling decision today authored by Chief Justice Roberts holds that the appointment of APJs by the Secretary of Commerce is unconstitutional. Yet the Court addressed that Appointments Clause violation by holding that, as inferior officers, APJs must be directed and supervised at some level by someone who was appointed by the President with the advice and consent of the Senate—specifically, by subjecting PTAB decisions to discretionary review by the United States Patent and Trademark Office (USPTO) Director.

Chief Justice Roberts explained that no principal officer at any level of the executive branch directs and supervises APJs when it comes to their power to issue decisions on patentability: "APJs have the 'power to render a final decision on behalf of the United States' without any such review by their nominal superior or any other principal officer in the Executive Branch." In short, "[i]n 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." Consequently, the President can neither oversee the PTAB nor attribute its determinations to someone he can oversee, meaning that APJs exercise unreviewable executive power that is incompatible with their status as inferior officers.

In reaching its conclusion, the Court rejected the government's argument that the Director has the ability to stack APJ panels to rehear a case and indirectly influence the outcome of an *inter partes* review, stating "That is not the solution. It is the problem." By stacking a panel to procure a specific result, the Director would continue to evade responsibility for the decision, while depriving parties of an impartial panel of experts. Thus, it is not enough that the Director can remove an APJ without cause because such action does not address any errors in final written decisions issued by that APJ.

In fashioning a remedy, the Court rejected Arthrex's request to hold the *inter partes* review regime unconstitutional. Instead, the Court took a "tailored approach." Namely, the Court held that "[d]ecisions by APJs must be subject to review by the Director." According to the Court, this adjustment to the statutory scheme cures the Appointments Clause problem, consistent with the fact that Congress vested the Director with the power and duties of the USPTO. The Court then remanded the case to the Acting Director to consider whether to rehear the *inter partes* review petition filed by Smith & Nephew, but denied Arthrex's request to a hearing before a new panel of APJs.

Additional Opinions of the Court

Justices Thomas, Breyer, and Gorsuch authored separate opinions.

Justice Thomas dissented, finding no Appointments Clause violation. He "would simply leave intact the patent scheme Congress has created."

Justice Breyer, joined by Justices Sotomayor and Kagan, concurred in part in the judgment and dissented in part. Those Justices joined Justice Thomas's dissent in part, also finding no constitutionality infirmity because "the Court should interpret the Appointments Clause as granting Congress a degree of leeway to establish and

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empower federal offices." Nevertheless, Justice Breyer's opinion (unlike Justice Thomas's decision) reluctantly agreed with the Court's remedial holding subjecting APJ decisions to review by the Director.

Justice Gorsuch agreed that the lack of reviewability between APJs and a superior officer violates the Appointments Clause, but disagreed regarding the remedy. Instead, Justice Gorsuch would have stopped at setting aside the PTAB decision in this case.

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