Articles + Publications | July 29, 2021

Locke Lord QuickStudy: Impact of US v. Arthrex

Locke Lord LLP

WRITTEN BY

Alan B. Clement | Daniel J. Fiorello

RELATED OFFICES

West Palm Beach

The long-awaited decision in *United States v. Arthrex* held that the Patent Trial and Appeal Board (PTAB) is inconsistent with the Constitution's Appointments Clause because the administrative patent judges (APJs) that comprise the PTAB during *inter partes* review were not sufficiently overseen by the Executive Branch. *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 40 (2021). The Court found that because the APJs authority was not reviewable by the Executive Branch that violated the Appointments Clause.

The Appointments Clause provides that officers of the United States must be appointed by the President with the advice and consent of the Senate, but that Congress may allow heads of departments to appoint inferior officers for "administrative convenience." *Id.* at 17. The APJs are officials who are not confirmed by the Senate; instead, they are appointed by the Secretary of Commerce and can only be fired for cause. *Id.* The PTAB decides cases in a panel of three APJs who 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." *Id.* at 20. While there is a possibility of a rehearing, "only the Patent and Trial Appeal Board may grant rehearings." 35 U.S.C. § 6(c).

The Court found that, in deciding *inter partes* reviews, members of the PTAB improperly act as principal officers, and thus a decision by non-Senate-confirmed APJs violates the Constitution. *Id.* at 33. While the Director of the Patent and Trademark Office (PTO) has the power to select APJs for an *inter partes* review panel, "the insulation of [APJs'] decisions from review within the Executive Branch" is incompatible with their appointment as inferior officers. *Id*.

In determining a remedy, the Court took a narrowly tailored approach, invalidating only a part of §6, which stated that only the PTAB may grant rehearings: "decisions by APJs must be subject to review by the Director…and upon review, [the Director] may issue decisions himself on behalf of the Board." *Id.* at 37. In his dissent, Justice Gorsuch noted that he would have simply vacated the PTAB decision in *Arthrex* and let Congress decide on an appropriate remedy.

In considering an appropriate remedy, the Court looked at prior case law. For example, in *Intercollegiate Broadcasting System, Inc v. Copyright Royalty Board*, 684 F.3d 1332, 1338 (D.C. Cir. 2012), the DC Circuit Court of Appeals found that administrative Copyright Royalty Judges were unconstitutionally appointed principal officers. The court's remedy was to sever the removal protections applicable to the judges that caused them to unconstitutionally act as principal officers instead of the inferior officers that they were appointed to be. *Id.* at 1340. The court followed precedent in *Free Enterprise Fund,* where the Supreme Court also stripped removal protections

on Public Company Accounting Oversight Board Members appointed by the Securities and Exchange Commission. *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477, 495 (2010). Lastly, in *Lucia v. SEC,* the Supreme Court found that the Commission Administrative Law Judges (ALJ) were "officers of the United States" and thus subject to the Appointments Clause. *Lucia v. SEC*, 138 S. Ct. 2044, 2053 (2018). Because the ALJ hearing the plaintiff's case was improperly appointed, the Court held that a new hearing with a properly appointed ALJ was the appropriate remedy. *Id.* at 2055.

Similarly, in the court below in *Arthrex*, the Federal Circuit's remedy was to strip the removal protections of the PTAB judges. *Arthrex,* 141 S. Ct. 1970 at 14. However, the Supreme Court found this remedy inadequate given that the judges still had unreviewable authority. Thus, the Supreme Court went a step further in giving the USPTO Director the power to review the proceedings. *Id.* at 33. Notably, the Court ruled that Federal Circuit's *Arthrex* decision "concerns only the Director's ability to supervise APJs in adjudicating petitions for *inter partes* review." *Id.* at 38. The Court declined to address the Director's supervision over other types of adjudications conducted by the PTAB. *Id.* Thus, it remains unclear whether Director review also applies to appeals from *ex parte* reexamination decisions and initial examination decisions. Nonetheless, because the Court held that the "source of the constitutional violation was the restraint on the review authority of the Director," it is possible that the Court could expand its holding in the future to include other types of appeals where APJs also issue unreviewable final decisions, again acting like principal officers. *Id.* at 39. In 2020, the Court of Appeals for the Federal Circuit seemed ready to expand its remedy in *Arthrex* to all PTAB cases. *In re Boloro Global Ltd.*, No. 2019-2349 (Fed. Cir. July 7, 2020). In fact, prior to the Supreme Court's decision, the Court of Appeals for the Federal Circuit had applied its *Arthrex* remedy to other post-grant proceedings.

Further, the Court has yet to opine on whether already issued decisions can be attacked as unconstitutional. PTAB decisions rendered after the Federal Circuit's *Arthrex* decision may be vulnerable and decisions before *Arthrex* could be called into question. There is certainly no mandate that the director re-hear every single case prior to this decision. In practical application, however, it seems unlikely that the Court's decision will lead to a bevy of Director appeals that could cause significant disruption at the USPTO. However, the complexity and expense, as well as expected outcomes, of the Director review process could define how and how often this final appeal step will be used.

The Court's decision requires the PTO to create a permanent procedure for the Director's review of *inter partes* review decisions. In the meantime, the USPTO has issued interim procedures for Director review. In this procedure, a director review can be initiated *sua sponte* by the Director or it can be requested by a party to the PTAB proceeding. Parties may request Director review of a final written decision in an *inter partes* review or a post-grant review. More information can be found on the USPTO website.

In the context of post grant proceedings, while patent challengers still have the opportunity for instituting an *inter partes* review, there is a growing concern that the *Arthrex* decision will place major political pressure on the USPTO Director, who is a political appointee and could therefore be biased to render decisions to favor certain political constituents. A political USPTO is a non-technical USPTO, and concerns have been voiced that a non-technical USPTO weakens the very foundation of patents and, thus, innovation as a whole.

There is no cause for alarm yet. While the *Arthrex* decision saved *inter partes* reviews, there is no indication yet that the Court's narrow remedy will cause much change or affect previous decisions by the PTAB. Certainly, as a

result of having an added layer of Director review, the *Arthrex* decision is likely to increase the average time it would take for final disposition as to the validity of a patent in post grant proceedings, and potentially even in determining the patentability of an invention for *ex parte* appeal processes. At least for post grant review cases, it is possible that PTAB proceedings will become more expensive to all parties involved as the option for Director review of all PTAB decisions may be utilized by the losing party.

Mikaella Evaristo also contributed to this article.

RELATED INDUSTRIES + PRACTICES

- Intellectual Property