ARE PTAB Alert: SCOTUS Holds Appointment of PTAB APJs Unconstitutional But Remedies Situation by Giving Director More Control

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On June 21, 2021, in *United States v. Arthrex, Inc.*, Chief Justice Roberts writing the opinion for the U.S. Supreme Court confirmed that although the "unreviewable authority wielded by [Administrative Patent Judges ("**APJs**")] during *inter partes* review is incompatible with their appointment by the Secretary of Commerce to an inferior office" giving the Director of the United States Patent and Trademark Office ("**USPTO**") more control over their rulings would remedy the constitutional violation. *United States v. Arthrex, Inc.*, Nos. 19-1434, 19-1452, 19-1458, 594 U.S. ____, slip op. (U.S. June 21, 2021).

Unlike typical opinions of the Court, in *Arthrex*, Justices Alito, Gorsuch, Kavanaugh, and Barrett joined the Chief Justice in Parts I and II of the decision to achieve the majority concluding a constitutional violation. But once the violation was found, a different majority, excluding Justice Gorsuch, but including Justices Breyer, Sotomayor, and Kagan, found the violation cured by precluding Section 6(c) of the Patent Act from being enforced "to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs." *See* slip op. at 21.

Thus, collectively, although the Supreme Court found a constitutional violation based on the lack of Director review of final written decisions under Section 6(c) of the Patent Act, PTAB APJs will continue to be inferior officers who can issue final written decisions in *inter partes* review proceedings, but their decisions will now be subject to Director review. In view of the Supreme Court's decision, the PTAB and *inter partes* review proceedings will continue, with the added ability of the Director to review any final written decision of PTAB APJs.

Background

The Appointments Clause of the U.S. Constitution provides that only the President, with the advice and consent of the Senate, can appoint principal officers, while inferior officers can by appointed by "the President alone, in the Courts of Law, or in the Heads of Department."

The Secretary of Commerce appoints all members of the PTAB, including the APJs, except for the Director, who is nominated by the President and confirmed by the Senate.

In an appeal to the Federal Circuit of a final written decision invalidating its patent, Arthrex argued that APJs were principal officers who must be appointed by the President with the advice and consent of the Senate, and that their appointment by the Secretary of Commerce was unconstitutional.

In October 2019, the Federal Circuit held that APJs were principal officers whose appointments were unconstitutional because neither the Secretary of Commerce nor the Director can review their decisions or remove them at will. To remedy this constitutional violation, the Federal Circuit invalidated the APJs' tenure protections, making them removeable at will by the Secretary. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019).

Majority Opinion

Chief Justice Roberts delivered the opinion of the Court. Justices Alito, Gorsuch, Kavanaugh, and Barrett joined with respect to Parts I and II. Justice Alito, Kavanaugh, and Barrett joined with respect to Part III. Justice Breyer authored an opinion concurring with the judgment in Part III, which was joined by Justices Sotomayor and Kagan.

The judgment of the United States Court of Appeals for the Federal Circuit was vacated, and the case was remanded to the Acting Director to decide whether to rehear the petition filed by Smith & Nephew.

Parts I and II – Principal or Inferior Officers

The question addressed in Parts I and II was whether the nature of the responsibilities of Administrative Patent Judges ("APJs") is consistent with their method of appointment in view of the Appointments Clause of the Constitution.

"[N]o party disputes that APJs are officers—not 'lesser functionaries' such as employees or contractors—because they 'exercis[e] significant authority pursuant to the laws of the United States.'" Slip op. at 8, quoting *Buckley v. Valeo*, 424 U.S. 1, 126.

While the opinion noted that "[i]n reaching this conclusion, we do not attempt to 'set forth an exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes'" slip op. at 19 (quoting *Edmond v. Unites States*,520 U.S. at 661), the Court's reasoning was primarily focused on the distinction that an "inferior officer must be 'directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.'" Slip op. at 9 (quoting *Edmond*, 520 U.S. at 662-63).

The majority opinion concluded that review by a superior officer is absent in the case of APJs. Slip op. at 10. Although the Director has tools of administrative oversight, neither he nor any other superior executive officer can directly review decisions by APJs. Slip op. at 10.

"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" and the only possibility of review is a petition for rehearing that only the PTAB may grant. Slip op. at 10.

While the Director of the USPTO possesses powers of "administrative oversight" and "promulgates regulations governing *inter partes* review, issues prospective guidance on patentability issues, and designates past PTAB decisions as 'precedential' for future panels," he does not have the APJs' power to issue decisions on patentability," which is the "one thing that makes the APJs officers exercising 'significant authority' in the first place." Slip op. at 10.

Accordingly, the majority concluded in Parts I and II that the unreviewable authority wielded by APJs during *inter partes* review is incompatible with their appointment by the Secretary to an inferior office.

Part III – Appropriate Remedy

The appropriate method to resolve this violation of the Appointments Clause was addressed in Part III.

The opinion concluded that Section 6(c), which provides that "each … *inter partes* review shall be heard by at least 3 members of the [PTAB]" and that "only the [PTAB] may grant rehearings," cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs. Slip op. at 22.

"We conclude that a tailored approach is the appropriate one: Section 6(c) cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs. Because Congress has vested the Director with the 'power and duties' of the PTO, §3(a)(1), the Director has the authority to provide for a means of reviewing PTAB decisions. *See also* §§3(a)(2)(A), 316 (a)(4). The Director accordingly may review final PTAB decisions and, upon review, may issue decisions himself on behalf of the Board. Section 6(c) otherwise remains operative as to the other members of the PTAB." Slip op. at 21.

The opinion notes that "this suit concerns only the Director's ability to supervise APJs in adjudicating petitions for *inter partes* review. [It] do[es] not address the Director's supervision over other types of adjudications conducted by the PTAB, such as the examination process for which the Director has claimed unilateral authority to issue a patent." Slip op. at 22.

In reaching this conclusion, Justice Gorsuch did not join the majority, as is discussed below. Instead, a new majority was formed, including Justices Breyer, Sotomayor, and Kagan, who disagreed with Parts I and II that there was a constitutional violation, but recognized that since the majority found such a violation, the remedy of limiting the application of Section 6(c) was appropriate, as is also discussed below.

Justice Gorsuch Concurrence and Dissent

Justice Gorsuch authored an additional opinion and joined Parts I and II of the Court's majority opinion, but dissented from the judgment as to Part III. *United States v. Arthrex, Inc.*, Nos. 19-1434, 19-1452, 19-1458, 594 U.S. ____, slip op. (U.S. June 21, 2021) (Gorsuch, J., concurring in part, and dissenting in part).

In concurring with the majority opinion in Parts I and II, Justice Gorsuch reasoned that to be an 'inferior' officer, "one must be both 'subordinate to an officer in the Executive Branch' and 'under the direct control of the President' through a 'chain of command.'" Slip op. at 3. Thus, because APJs are executive officers accountable to no one else in the Executive Branch, the current statutory arrangement breaks the required "chain of command" for APJs to be considered 'inferior' officers. Slip op. at 4.

However, Justice Gorsuch disagreed with the remedy found by the majority, and explained that "[w]ithout some direction from Congress, this problem cannot be resolved as a matter of statutory interpretation." Slip op. at 5. Instead, Justice Gorsuch recommends that more "traditional remedial principals should be [the] guide" by "identifying the constitutional

violation, explaining our reasoning and 'setting aside' the PTAB decision in this case." Slip op. at 6.

Justice Breyer Concurrence and Dissent

Justice Breyer authored a third opinion, joined by Justices Sotomayor and Kagan, concurring in the judgment in part and dissenting in part. *United States v. Arthrex, Inc.*, Nos. 19-1434, 19-1452, 19-1458, 594 U.S. ____, slip op. at 7 (U.S. June 21, 2021) (Breyer, J., concurring in part, and dissenting in part).

In joining Justice Thomas' dissenting opinion in regard to Parts I and II, Justice Breyer reasoned that the Court should instead "interpret the Appointments Clause as granting Congress a degree of leeway to establish and empower federal officers" and that the Court should conduct a "functional examination of the offices and duties in question" by taking into account "why Congress enacted a particular statutory limitation." Slip op. at 2-3.

However, while Justice Breyer clarified that he "do[es] not agree with the Court's basic constitutional determination," for purposes of determining a remedy, Justice Breyer stated that he "believe[s] that any remedy should be tailored to the constitutional violation." Slip op. at 7. Accordingly, because the Court's conclusion that the "current statutory scheme is defective only because the APJ's decisions are not reviewable by the Director alone," Justice Breyer agreed with the Court's remedial holding as it addresses this specific problem. Slip op. at 7.

Justice Thomas Dissent

Justice Thomas authored the final dissenting opinion, and was joined by Justices Breyer, Sotomayor, and Kagan as to Parts I and II. *United States v. Arthrex, Inc.*, Nos. 19-1434, 19-1452, 19-1458, 594 U.S. ____, slip op. at 7 (U.S. June 21, 2021) (Thomas, J., dissenting).

In dissenting from Parts I and II of the majority opinion, Justice Thomas commented that "[f]or the very first time, this Court holds that Congress violated the Constitution by vesting the appointment of a federal officer in the head of a department" and that "[n]either our precedent nor the original understanding of the Appointments Clause requires Senate confirmation of officers inferior to not one, but *two* officers below the President." Slip op. at 1. After enumerating all of the Director's directorial and supervisory powers

over APJs, Justice Thomas reasoned that such broad oversight "ensures that administrative patent judges 'have no power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers.'" Slip op. at 10 (quoting *Edmond*, 520 U.S. at 665).

In addition, in arguing that the Court's remedy in Part III is inappropriate, Justice Thomas explained that "[i]f the Court truly believed administrative patent judges are principal officers, then the Court would need to vacate the Board's decision." Slip op. at 16. Justice Thomas reasoned that "[i]f administrative patent judges are (or were) constitutionally deficient principal officers, then surely Arthrex is entitled to a new hearing before officers untainted by an appointments violation. But, the Court does not vacate the Board's decision. In fact, it expressly disavows the existence of an appointments violation." Slip op. at 16-17.

Conclusion

In *Arthrex*, the Court, through a series of overlapping but different majorities, has preserved the status of PTAB APJs as inferior officers, with their Title 5 protection intact, and with the ability to issue final written decisions in *inter partes* review proceedings. The biggest change, for now, is that such decisions will be subject to review by the Director, thus bringing the level of accountability to the political officers of the administration. How the USPTO will implement this change will be interesting to watch.

We will continue to monitor this decision's impact on proceedings at the PTAB and to report on new developments. In the meantime, feel free to contact us to learn more about how this decision may affect you.

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Charles R. Macedo, David Goldberrg and Chandler Sturm submitted an amicus brief in Arthrex on behalf of the NYIPLA at the Federal Circuit, and at the U.S. Supreme Court on behalf of Askeladden LLC at the petition stage and on behalf of eComp Consultants at the merits stage.