United States v. Arthrex: Where does the Supreme Court’s decision leave the PTAB?

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On June 21, the Supreme Court rendered its long-anticipated decision in US v. Arthrex, Inc. [1] determining whether the administrative patent judges (APJs) of the US Patent and Trademark Office’s Patent Trial and Appeal Board (the PTAB) were constitutionally appointed.

As anyone involved in patent litigation knows, APJs sit on three-judge panels that decide inter partes reviews and post-grant reviews. The Court was asked to decide these questions: should APJs be considered principal officers who must be appointed by the President with the Senate’s advice and consent, consistent with the Appointments Clause of the US Constitution? Alternatively, are APJs “inferior Officers” who can be appointed by a department head in whom Congress has vested such authority? And, if the appointment of the APJs is unconstitutional, what is the appropriate remedy?

The plurality opinion’s answer: severing the AIA statute; divesting APJs of final authority over decisions; and giving that power to the Director.

Background

Arthrex is the owner of US Patent No. 9,179,907 which is directed to a knotless suture assembly used to attach soft
tissue, graft, or tendon to bone to facilitate regrowth and permanent attachment. Smith & Nephew filed a successful petition for inter partes review, and the three-judge panel of APJs issued a final written decision finding the challenged claims of the ’907 patent unpatentable as anticipated.

Arthrex appealed to the Federal Circuit, arguing in part that the APJs who decided the IPR were unconstitutionally appointed. In October 2019, the Federal Circuit issued its decision, agreeing with Arthrex that the appointment of APJs under the provisions of the America Invents Act was an unconstitutional violation of the Appointments Clause. Arthrex, Inc. v. Smith & Nephew, Inc., 941 F.3d 1230 (2019). The Federal Circuit reasoned that APJs have significant authority to adjudicate patent rights and neither the Secretary of Commerce nor the Director of the USPTO had unfettered authority to review the APJs’ decisions or remove them from office. Under these facts, the court reasoned that APJs were principal officers who had to be appointed by the President and confirmed by the Senate.

To remedy the situation, the Federal Circuit severed the portion of the AIA that restricted for-cause removal of APJs, vacated the PTAB’s final written decision, and remanded the case back to a panel of APJs appointed under the new procedure. Post-Arthrex, the Federal Circuit vacated a large number of PTAB decisions decided by the “unconstitutionally” appointed APJs and remanded them back to different APJ panels.


The Court’s rationale is grounded in precedent

The Appointments Clause of Article II of the Constitution states:

“[The President] shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.”

U. S. Const., Art. II, § 2, cl. 2. The US Constitution, however, does not define the distinction between principal and inferior officers.

The Court thus looked to two prior Appointments Clause cases for guidance. Morrison v. Olson, 487 U.S. 654 (1988), held that appointment of independent counsel to investigate senior government officials was constitutional. The Court concluded that the independent counsel was an inferior officer because, although the role came with little oversight, the independent counsel was subject to removal by a higher officer (the attorney general), performed limited duties, was limited to a designated investigation, and had a limited tenure. Justice Antonin Scalia authored the lone dissent in Morrison, arguing that the independent counsel statute was an obvious and blatant unconstitutional violation of the principle of separation of powers, not disguised as a wolf in sheep’s clothing. “[T]his wolf comes as a wolf.” Justice Brett Kavanaugh incorporated this in his questioning of Arthrex’s counsel at oral argument. “And what I’m worried about – this is the wolf. What I’m worried about is this gives a model for Congress to eliminate agency review of ALJ decisions and kind of fragment and take away from agency control going forward.”

Edmond v. United States, 520 U.S. 651 (1997), held that the judicial appointments of civilian members of the Coast Guard Court of Criminal Appeals by the Secretary of Transportation are constitutional because the civilian judges were properly considered “inferior officers.” Justice Scalia, finding himself on the other side of the argument from his dissent in Morrison, authored the unanimous opinion. The civilian judges were “inferior” officers, he wrote, in part because their work was directed and supervised at some level by others who were appointed by presidential nomination with the advice and consent of the United States Senate.

The opinion

In a fractured opinion authored by Chief Justice John Roberts, the Court ruled 5-4 that the APJs exercised sufficient authority that their appointment requires Presidential nomination and Senate approval. “We hold that the unreviewable authority wielded by APJs during inter partes review is incompatible with their appointment by the Secretary to an inferior office. . . . Congress has assigned APJs ‘significant authority’ in adjudicating the public rights of private parties, while also insulating their decisions from review and their offices from removal.”
Arthrex had argued that the entirety of inter partes review proceedings should be found unconstitutional, but the Court declined to adopt such an extreme remedy. Instead, the Court ruled 7-2 that the final written decisions of APJs must be subject to review by the Director of the USPTO. “Because Congress has vested the Director with the ‘power and duties’ of the PTO . . . [t]he Director accordingly may review final PTAB decisions and, upon review, may issue decisions himself on behalf of the Board.”

For Arthrex, the Court remanded the case back to the Acting Director of the USPTO to decide whether to rehear Smith & Nephew’s IPR petition.

Where does this leave the PTAB?

The Court plainly envisions that the Director of the USPTO may review all final written decisions “and reach his own decision.” The Director is a political appointee, whose role has now taken on added significance. The Court’s decision raises questions of fairness, arguably giving such an appointee control over the vested property rights of patent-holders whose patents have been challenged at the PTAB.

It also remains to be seen how feasible it will be for the USPTO Director to review the outcome of every final written decision which is challenged by the losing party.

We will continue to monitor developments at the PTAB, including guidance for such appeals.


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