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U.S. SUPREME COURT ISSUES SIGNIFICANT DECISION REGARDING AUTHORITY OF THE USPTO DIRECTOR IN AIA TRIAL PROCEEDINGS

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On June 21, 2021, the Supreme Court of the United States issued a decision regarding *inter partes* review (IPR) and post-grant review (PGR) proceedings before the USPTO Patent Trial and Appeal Board (PTAB).

In an opinion authored by Chief Justice Roberts, the Court held that Administrative Patent Judges (APJs) who decide IPR and PGR cases at the PTAB exercise powers consistent with principal officers under the Appointments Clause of the Constitution. Because APJs are not confirmed by the United States Senate, as the Constitution requires for principal officers, the APJs exceeded the scope of their constitutionally permitted powers.

As a remedy to address this situation, the Court held that the Director of the USPTO, who is a Senate-confirmed appointee, must be able to review and overrule decisions made by APJs.

As a result, the USPTO has implemented a new procedure whereby parties to a final decision in a PGR or IPR can file a request that the Director review and overrule the final decision.

I. Background

Sections 311-319 of the 2012 Leahy-Smith America Invents Act (AIA) establish IPR proceedings, which authorize the USPTO to reconsider and cancel an already-issued patent claim that does not meet the novelty or non-obviousness requirements of patentability under 35 U.S.C. §§102 and 103. Upon institution of an IPR proceeding by the PTAB, the petitioner and the patent owner participate in an administrative proceeding that includes limited discovery, briefing through affidavits, declarations, written memoranda, and an opportunity to conduct an oral hearing before the PTAB. A final written decision is issued by the PTAB determining the patentability of the challenged claims, which is subject to Federal Circuit review, and review by the Supreme Court in rare cases.

The patentee Arthrex owned a patent for a surgical device. A competitor, Smith & Nephew, filed an IPR asserting that the patent was invalid. The PTAB agreed with Smith & Nephew and held that Arthrex's patent was invalid.

On appeal at the Federal Circuit, Arthrex argued that PTAB judges were principal officers under the Appointments Clause, and because PTAB judges are not Senate-confirmed, their appointment by the Secretary of Commerce was unconstitutional. Consequently, the final decision rendered by the APJs was unconstitutional. The Federal Circuit agreed with Arthrex. As a remedy to resolve this problem with the PTAB, the Federal Circuit held that APJs must be

removable at will by the Secretary of Commerce. In the view of the Federal Circuit, this made APJs inferior officers. Arthrex, Smith & Nephew, and the USPTO all appealed to the Supreme Court, which granted certiorari.

II. Supreme Court Decision

A. Parts I and II

A majority of the Supreme Court held that because APJs enter a final written decision regarding patentability without being supervised or directed by a superior, APJs exercise the power of principal officers. However, APJs are appointed as inferior officers, not as principal officers. Accordingly, APJs exceeded the scope of their authority as inferior officers.

Under the Constitution of the United States, the President appoints principal officers, such as the Secretary of Commerce. These principal officers can then appoint inferior officers, who are directed and supervised by the principal officers. The reason for requiring this system is to ensure "a clear and effective chain of command" from the President, down to principal officers, and subsequently down to inferior officers.

The general rule regarding whether an officer is a principal officer or an inferior officer is that an inferior officer is directed and supervised at some level by a Senate-confirmed appointee, while an officer who only reports to the President is a principal officer.

Congress clearly designated APJs as inferior officers, since APJs are appointed by the Secretary of Commerce, rather than the President with Senate confirmation. The problem with this arrangement designated by Congress is that APJs make a final decision regarding patentability without being directed or supervised by anyone else. Since APJs thus effectively act relatively independently of any Senate-confirmed appointee, the Court held that APJs effectively exercise the power of principal officers, which is not permitted by the Constitution given their method of appointment. In particular, the APJs' decisions cannot be reviewed by the President or any officer who reports to the President. Consequently, the Court held that the power exercised by APJs is incompatible with their status as inferior officers.

The Court considered and rejected several arguments made by Smith & Nephew that allegedly showed that the Director already has authority to supervise APJs. For example, Smith & Nephew argued that the Director can institute an IPR; that the Director can designate the APJs who will decide each case; and that the Director could select a rehearing panel to rehear a case. In the Court's view, however, none of these points were persuasive. This is because APJs have the ultimate power to issue final written decisions without review by a superior.

The Court concluded by stating that the "Constitution therefore forbids the enforcement of statutory restrictions on the Director that insulate the decisions of APJs from his direction and supervision."

Parts I and II were joined by Justices Roberts, Kavanaugh, Barrett, Gorsuch, and Alito.

B. Part III

Given the problem of APJs exceeding their constitutionally permitted authority, the Court developed a remedy to address this problem in order to maintain the IPR system in a way that does not run afoul of the Appointments Clause of the Constitution.

The remedy provided by the Court is that decisions made by APJs must be reviewable by the Director of the USPTO, who is clearly a principal officer that is confirmed by the Senate. The reason for applying this remedy is that it ensures a clear chain of command from the

President, to the Director, to the APJs, as the Constitution requires.

Consequently, the Director of the USPTO now has a right to review and overrule final written decisions made by the PTAB. The Director does not have to review all PTAB decisions, as the Court's holding only requires that the Director be able to when desired.

Part III was joined by Justices Roberts, Kavanaugh, Barrett, Alito, Breyer, Sotomayor, and Kagan.

C. Concurrences and Dissents

Justice Gorsuch concurred in part, and dissented in part. In particular, Justice Gorsuch concurred with the Court's judgment in Parts I and II. However, Justice Gorsuch disagreed with the remedy provided by the Court in Part III. Justice Gorsuch would have vacated the PTAB decision instead of granting a new power to the Director of the USPTO.

Justices Breyer, Kagan, and Sotomayor concurred in part, and dissented in part. In particular, these justices, in an opinion authored by Breyer, disagreed with Parts I and II of the Court's opinion, as these Justices considered that Congress had the authority under the Appointments Clause to vest the power to issue final written decisions with APJs. However, given that a majority of the Court found that APJs exceeded the scope of their authority, Justices Breyer, Kagan, and Sotomayor agreed with the remedy provided by the Court in Part III.

Justice Thomas dissented from the Court's opinion in Parts I, II, and III. In particular, Justice Thomas noted that "the Director and Secretary are also functionally superior [to APJs] because they supervise and direct the work" that APJs perform. Accordingly, Justice Thomas considered that APJs were properly appointed as inferior officers because they were already directed and supervised by principal officers. As for the remedy, Justice Thomas argued that if APJs were truly acting as principal officers, the proper remedy would be to vacate the PTAB's decision and order a new proceeding before Senate-confirmed appointees.

III. Effects of the Decision

First and foremost, an immediate effect of the *Arthrex* decision is that the USPTO has issued an interim procedure where "a review may be initiated *sua sponte* by the Director or requested by a party to a PTAB proceeding."[1] Thus, a party that is dissatisfied with the result of a PTAB final written decision can now request that the Director review and overrule the decision. The review by the Director will be *de novo* and can address issues of fact and/or issues of law. Third parties who were not a party to the PTAB proceeding may not submit a request for Director review.

Director review can now be used as an alternative to a conventional Request for Rehearing under 35 U.S.C. § 6(c) that is decided by the same APJs that issued the Final Decision. That is, after a final written decision, parties now have two options for requesting reconsideration of the final written decision.

However, it is <u>not</u> always possible to request <u>both</u> Director review and a conventional Request for Rehearing. For example, according to the USPTO, "[i]f a party requests Director review, and that review is not granted, the party may not then request PTAB panel rehearing." On the other hand, "[i]f rehearing is granted by the original PTAB panel, parties may request Director review of the panel rehearing decision, whether or not they originally requested Director

[1] USPTO issues information on implementation of the Supreme Court's decision in U.S. v. Arthrex, Inc., https://www.uspto.gov/patents/patent-trial-and-appeal-board/procedures/uspto-implementation-interim-director-review

review."[2] Please see the USPTO's presentation linked to in footnote 1.

The review is instituted by electronically filing a "Request for Rehearing by the Director," and submitting a notification of the Request for Rehearing by the Director to the Office by email within 30 days of the Final Decision. The Request for Rehearing by the Director is limited to 15 pages and cannot include any new arguments or evidence. At this time, there is no fee for submitting the Request for Rehearing by the Director.

It is unclear how often the Director will eventually grant such requests, since the *Arthrex* decision does not require the Director to review all final written decisions made by the PTAB, only that the Director be permitted to review them.

Secondly, the *Arthrex* decision could increase the cost of PTAB proceedings. That is, if a dissatisfied party can submit a brief requesting Director review, and the other party is required to submit a response to the request for Director review, preparing such briefings would incur additional costs for both sides in the proceeding. Furthermore, if Director review is granted, the length of time required to complete the PTAB proceeding would be increased. Thus, the *Arthrex* decision could increase both the time and the cost required to litigate an IPR or PGR.

Additional effects of the *Arthrex* decision are unclear at the time of this writing. In particular, the USPTO at the time of this writing in July 2021 only has an interim director, not a Senate-confirmed director. Thus, it is not clear that review of a decision by the interim director will satisfy the Supreme Court's mandate. Further, it is unknown how often or within what timeframe the Director will review PTAB decisions, and on what basis the Director will overrule PTAB decisions.

Lastly, the USPTO's current procedures are only interim procedures. It is likely that the USPTO will modify some of its *Arthrex* related procedures in the future, potentially by rulemaking.

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[2] Patent Trial and Appeal Board Boardside Chat: Arthrex and the interim procedure for Director review, https://www.uspto.gov/sites/default/files/documents/20210701-PTAB-BoardsideChat-Arthrexfinal.pdf