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Supreme Court Upholds PTAB and Clarifies USPTO Director Power Under 35 U.S.C. § 6(c)


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In *Arthrex v. Smith & Nephew*, the Supreme Court determined: (i) whether the authority of Administrative Patent Judges (APJs) to issue decisions on behalf of the Executive Branch is consistent with the Appointments Clause of the Constitution; and (ii) if not, what is the proper remedy for the cases currently held in abeyance in light of *Arthrex*, as well as going forward?

In a close 5-4 decision, Chief Justice Roberts, joined by Justice Alito, Justice Gorsuch, Justice Kavanaugh, and Justice Barrett, found that the unreviewable authority wielded by APJs during inter partes review is incompatible with their appointment by the Secretary of Commerce to an inferior office. On the second issue, Chief Justice Roberts, joined by Justice Alito, Justice Kavanaugh, and Justice Barrett, found that the proper remedy is a remand to the Acting USPTO Director to decide whether to rehear the petition, but that Arthrex is not entitled to a hearing before a new panel of APJs. Several Justices filed separate opinions concurring in part and dissenting in part.

Background of the case:

In 2019, the Federal Circuit held that the appointment of APJs violated the Appointments Clause of the Constitution, agreeing with Arthrex that APJs are principal, not inferior, officers. In an attempt to remedy the constitutional violation, the Federal Circuit severed part of the America Invents Act (AIA) which restricted the removal of APJs, thus rendering APJs removable "at-will." Additionally, the Federal Circuit held that implementing at-will removal rendered APJs inferior, rather than principal, officers. All parties involved petitioned for an en banc rehearing. The petitions were denied and the case was remanded to the PTAB to be heard before a panel of

APJs who did not have removal protections. In response, three petitions for a writ of certiorari were presented to the Supreme Court.

The Supreme Court granted certiorari on two of the presented questions, declining to hear the issue of timeliness of the constitutional challenge.

Opinion of the Court:

In the Opinion of the Court, Chief Justice Roberts outlined a history of the Appointments Clause and provided a comparison between the Coast Guard Court of Criminal Appeals and the Judge Advocate General (at issue in *Edmond v. U.S.*, 520 U.S. 651 (1997)) and the USPTO and USPTO Director ("Director"). In doing so, Chief Justice Roberts provided a much anticipated delineation of adequate oversight of inferior officers (while still avoiding setting forth an "exclusive criterion for distinguishing between principal and inferior officers"). The Opinion of the Court noted that although the Director has powers of administrative oversight, the Director does not have powers of "review by a superior executive officer." In this way, the Director "fixes the rate of pay for APJs, controls the decision whether to institute inter partes review, and selects the APJs to reconsider the validity of the patent," as well as "promulgates regulations governing inter partes review, issues prospective guidance on patentability issues, and designates past PTAB decisions as 'precedential' for future panels." In other words, "[the Director] is the boss, except when it comes to the one thing that makes the APJs officers exercising 'significant authority' in the first place–their power to issue decisions on patentability."

The Court rejected the Government's arguments that the Director exerts significant influence by handpicking (and even re-picking, if necessary) PTAB members, instead holding that the Director's powers to influence PTAB decisions actually "blur the lines of accountability demanded by the Appointments Clause" because "[t]he parties are left with neither an impartial decision by a panel of experts nor a transparent decision for which a politically accountable officer must take responsibility." The Opinion for the Court relied heavily on the Court's previous decisions in *Edmond* and *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U. S. 477 (2010) to find that PTAB decisions are not sufficiently reviewable by the President or a principal officer.

Opinion of the Chief Justice:

Chief Justice Roberts, joined by Justice Alito, Justice Kavanaugh, and Justice Barrett, concluded that there was a clear remedy: "Decisions by APJs must be subject to review by the Director." Part III of the Opinion exercises the Court's severance powers, and holds that 35 U.S.C. § 6(c) is not enforceable to prevent the Director from reviewing final decisions rendered by APJs. Accordingly, the Director "may review final PTAB decisions and, upon review, may issue decisions himself on behalf of the Board," and that the remainder of § 6(c) remains operative as to other PTAB members. Thus, the Court remanded the case to the Acting Director to determine whether to rehear the petition.

Dissents & Concurrences:

Justice Gorsuch, although joining in Parts I & II of the Opinion of the Court, dissented with respect to the remedy presented in Part III. Justice Gorsuch argued that severability was inappropriate because the constitutional violation stemmed from the combination of several

statutory provisions, and thus "traditional remedial principles" should have been implemented. Further, Justice Gorsuch pushed back against the majority's interpretation of statutory intent, arguing that "the Court gifts the Director a new power that he never before enjoyed, a power Congress expressly withheld from him and gave to someone else."

Justices Thomas, Breyer, Sotomayor, and Kagan dissented with respect to Parts I & II of the Court's opinion, instead arguing that APJs are clearly inferior officers and were always intended to be inferior officers. In his dissent, Justice Thomas asserted that the Court's opinion "polices the dispersion of executive power among officers."

Justice Breyer, joined by Justices Sotomayor and Kagan, wrote a separate opinion concurring in the judgment in part, and dissenting part. In his opinion, Justice Breyer cites to Justice Thomas's dissent, saying he agrees on the merits and partially joins in that dissent. Further, Justice Breyer wrote that he does not agree with the Court's constitutional determination, but does agree with tailoring of the remedy. However, he noted that "in [his] view, today's decision is both unprecedented and unnecessary, and risks pushing the Judiciary further into areas where [they] lack both the authority to act and the capacity to act wisely."

Final Notes:

While it is not clear what the widespread impact of this decision will be, for now, the *Arthrex* case is remanded to the Acting Director to determine whether to rehear Smith & Nephew's petition, and the PTAB lives to see another day. It will be interesting to see if Director appeals of PTAB decisions becomes similar to review of ALJ decisions by the International Trade Commission (ITC) in ITC enforcement actions. In that process, once the Commission determines to review an issue, it has de novo review of the issue and weight of the evidence. Alternatively, the Director could afford some deference to APJ findings, similar to a district court's review of a magistrate judge's determination. Otherwise, Director appeals may just become another flavor of PTAB rehearing petitions—albeit now in compliance with § 6(c). In any event, we will continue to monitor how this case will impact PTAB proceedings moving forward.

The opinion can be found at https://www.supremecourt.gov/opinions/20pdf/19-1434_ancf.pdf .

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