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5 Practical Takeaways From High Court Arthrex Ruling

By **William Milliken** (June 22, 2021, 5:56 PM EDT)

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On June 21, the U.S. Supreme Court issued its decision in the closely watched U.S. v. Arthrex Inc. case, which involved the constitutionality of administrative patent judge appointments.

A five-member majority, led by Chief Justice John Roberts, concluded that APJs' ability to render final decisions in inter partes reviews on behalf of the executive branch is "incompatible with their status as inferior officers."

To remedy the constitutional violation, the court partially invalidated Title 35 of the U.S. Code, Section 6(c), which provides that "[o]nly the Patent Trial and Appeal Board may grant rehearings," and severed it from the remainder of the statute.

After Arthrex, the director of the U.S. Patent and Trademark Office now must have the opportunity to review PTAB IPR decisions before they become final.

Here are five takeaways from the decision.

1. Going forward, the director will have the opportunity to review PTAB decisions in IPRs before they become final.

The first and most basic takeaway is that future, final written decisions of the PTAB under Title 35 of the U.S. Code, Section 318(a), will not be truly final until the director has an opportunity to review them and — if the director so chooses — set them aside.

The Arthrex majority was clear, however, that the director need not review every decision by the PTAB; he or she needs only be able to do so. It remains to be seen how the director will use that power and how the mechanics of this new layer of potential review might work.

For example, the director could simply have the opportunity to review any rehearing petitions that are filed, or the USPTO could create a formal petition process like that used in the U.S. International Trade Commission. The office is likely to issue guidance or, perhaps, proposed rules regarding the implementation of the Supreme Court's directive in the coming weeks.

What does seem clear is that cases similarly situated to Arthrex itself — which would include, for

example, the cases that have been remanded from the U.S. Court of Appeals for the Federal Circuit on the basis of Arthrex and then stayed by the PTAB — will receive the same treatment as Arthrex: a limited remand for the director to decide whether to rehear the case.

Cases currently on appeal to the Federal Circuit in which the patent owner has raised an appointments clause challenge may also be candidates for these limited remands. Presumably, however, the patent owner will have the opportunity to forgo that relief and simply have the Federal Circuit decide the merits, similarly to how many parties affirmatively waived their right to SAS-based remands after the Supreme Court issued its 2018 decision in SAS Institute Inc. v. Iancu.

2. The decision is unlikely to cause a major disruption to the current post-grant proceeding regime or to administrative adjudication more generally.

As suggested above, the USPTO has some work to do in terms of implementing the new layer of potential review by the director.

But the narrow remedy chosen by the majority means that the Leahy-Smith America Invents Act's basic framework remains intact. Arthrex is thus unlikely to create a sea change in post-grant proceeding practice. The court's decision allows the PTAB to function largely as it always has, just with another potential level of intraagency review.

Arthrex also moves the PTAB closer to the traditional model of agency adjudication, in which an administrative law judge issues an initial decision that is then reviewable by the agency head. The ITC, for example — familiar to many patent law practitioners — works this way.

The PTAB model — in which an administrative judge had the final word in adjudications — was one of relatively few departures from that standard approach. So Arthrex is unlikely to have a major impact on administrative adjudicatory regimes broadly speaking; the court's opinion is clear that the standard model poses no appointments clause problems.

3. The majority opinion addresses only the adjudication of inter partes reviews — not other types of adjudications conducted by the PTAB.

Justice Roberts' majority opinion expressly states that it does "not address the Director's supervision over other types of adjudications conducted by the PTAB," such as appeals from initial examinations.

It is thus an open question whether the court's holding that PTAB decisions must be reviewable by the director also applies to, for example, appeals from initial examinations decisions and from ex parte reexamination decisions.

The Federal Circuit, in its 2020 In re: Boloro Global Ltd. decision, had previously applied its own Arthrex holding to these other categories of proceedings heard by the PTAB.

But it remains to be seen whether these proceedings will now receive the same opportunity for director review in view of the Supreme Court's Arthrex holding. Litigants and practitioners should be on the lookout for how the USPTO and the Federal Circuit address this question when it arises, as it inevitably will.

4. The ability to issue a final decision on behalf of the executive branch is usually — and maybe

categorically — inconsistent with inferior-officer status under the U.S. Constitution, at least for officers who perform adjudications.

The majority stressed that it was not "attempt[ing] to 'set forth an exclusive criterion for distinguishing between principal and inferior officers for appointments clause purposes.'" But the court's opinion indicates at various points that only principal officers may issue a final decision in an administrative adjudication that "bind[s] the Executive Branch."

At minimum, Arthrex would seem to indicate that any litigant arguing that an executive branch adjudicator with final decision authority qualifies as an inferior officer faces a steep uphill battle. And it is possible that future courts will read Arthrex to stand for the proposition that the appointments clause categorically forbids inferior officers from issuing final decisions in administrative adjudications.

One interesting open question is whether Arthrex will inform the distinction between inferior and principal officers outside the adjudicatory context. The majority was careful to limit its analysis to executive officers who perform adjudications, so the extent to which the case will apply outside that context is unclear.

The resolution of this question has potentially important ramifications. As Justice Clarence Thomas' dissent points out, many executive branch officials render seemingly final decisions — consider, for example, a line prosecutor offering a defendant a plea deal on which no superior executive branch official has signed off. Would this prosecutor be a principal officer under the Arthrex test?

5. The modern severability doctrine is alive and well.

Much of the briefing and oral argument in Arthrex focused on questions of severability — i.e., when and how courts can invalidate unconstitutional portions of a statute and sever them, thereby leaving the remainder of the statute intact.

The modern severability doctrine has come under criticism in some quarters in recent years, turning as it does on sometimes-difficult questions about what Congress hypothetically would have intended had it known of the constitutional flaw.

Seven justices, however — all but Justice Thomas and Justice Neil Gorsuch — endorsed the majority's severability analysis in Arthrex. So it seems that the current court is unlikely to do a wholesale rethinking of the severability doctrine any time in the near future.

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