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Client Alert

What You Should Know About the Supreme Court's Decision in *Arthrex*

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Synopsis

The US Supreme Court held in *United States v. Arthrex* that administrative patent judges' ability to render final decisions on patentability on behalf of the Executive Branch is "incompatible with their status as inferior officers." "Only an officer properly appointed to a principal office," the Court held, "may issue a final decision binding the Executive Branch." As a remedy for the constitutional violation, the Court held that "[d]ecisions by APJs must be subject to review by the Director" and therefore remanded the *Arthrex* case to the Acting USPTO Director to allow him to decide whether to rehear the inter partes review petition. This, the Court explained, would "provide[] an adequate opportunity for review by a principal officer."

The practical effect of this decision is to require that the Director have the opportunity to review PTAB decisions before they become final. The Court was clear, however, that the Director "need not review every decision by the PTAB"—he need only be able to do so. Accordingly, we do not expect this decision to cause a major disruption to the current post-grant proceeding regime. It is possible that the Office will in the near future issue guidance concerning the mechanics of this new layer of potential review.

Decision Breakdown

This morning, the US Supreme Court issued its opinion in the closely watched *Arthrex* case, which concerns the constitutionality of the appointments of administrative patent judges (APJs) of the US Patent and Trademark Office (PTO) Patent Trial and Appeal Board (PTAB). APJs are appointed by the Secretary of Commerce. The Constitution's Appointments Clause permits "inferior officers" to be appointed by "Heads of Departments" like the Secretary of Commerce, but it requires "principal officers" to be appointed by the President with the advice and consent of the Senate. So APJs' appointments are constitutional if—but only if—they qualify as "inferior officers."

The Supreme Court held by a 5-4 vote that APJs' authority to render final decisions on patentability on behalf of the Executive Branch in inter partes reviews is not "consistent with their method of appointment"—i.e., is not consistent with their status as inferior officers. Justice Roberts, joined by Justices Alito, Gorsuch, Kavanaugh, and Barrett, concluded that APJs' final-word power "conflicts with the design of the Appointments Clause to 'preserve political accountability'" because it prevents the PTO Director from owning sole responsibility for IPR decisions. The Court stressed that it was not setting forth any "exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes," but it did suggest that, at least in most circumstances, inferior officers may not issue "final decision[s] binding the Executive Branch."

As a remedy for the constitutional violation, Justice Roberts—this time joined by Justices Alito, Breyer, Sotomayor, Kagan, Kavanaugh, and Barrett—held that "[d]ecisions by APJs must be subject to review by the Director." Giving the Director such review power, the Court explained, renders APJs inferior officers that are validly appointed by the Secretary of Commerce. Accordingly, the Court partially invalidated 35 U.S.C. § 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. Following the Court's decision, the Director "may review final PTAB decisions and, upon review, may issue decisions himself on behalf of the Board."

Justice Gorsuch issued an opinion concurring in part and dissenting in part. Justice Gorsuch agreed that APJs' method of appointment did not comply with the Appointments Clause, but he disagreed with the majority's chosen remedy. In Justice Gorsuch's view, determination of the appropriate remedy was "a policy choice" better suited for Congress. Justice Gorsuch would have simply "identif[ied] the constitutional violation, explain[ed] [the Court's] reasoning, and 'set[] aside' the PTAB's decision in this case." Justice Gorsuch also reiterated the view expressed in his *Oil States* dissent that the IPR regime is inconsistent with the constitutionally mandated separation of powers.

Justice Breyer, joined by Justices Sotomayor and Kagan, concurred in the judgment in part and dissented in part. These three Justices would have held that APJs' appointments were valid because APJs are subject to sufficient direction and supervision by the Secretary of Commerce and the PTO Director to render them inferior officers. As noted above, however, they agreed that, assuming there was in fact an Appointments Clause violation, the remedial approach set forth in Justice Roberts's opinion was correct.

Finally, Justice Thomas—joined in part by Justices Breyer, Sotomayor, and Kagan—dissented. Justice Thomas would have held that APJs are inferior officers because they are "lower in rank to" and subject to the supervision of the PTO Director and the Secretary of Commerce. Justice Thomas catalogued several such means of supervision—for example, the Director's ability to prescribe procedural rules, to set APJs' pay, to designate or de-designate particular opinions as precedential, and to affect the composition of panels. Justice Thomas disagreed with the majority's suggestion that inferior officer decisions must be directly reviewable by a principal officer.

So, as a practical matter, where does this leave us? The short answer is that, going forward, the Director will have the opportunity to review PTAB decisions in IPRs before they become final, and if, he so chooses, to "issue decisions himself on behalf of the Board." The Court was clear, however, that the Director "need not review every decision by the PTAB"—he need only *be able* to do so. Accordingly, we do not expect this decision to cause a major disruption to the current post-grant proceeding regime. It is possible that the Office will in the near future issue guidance concerning the mechanics of this new layer of potential review.

The group of cases that have been remanded to the PTAB on *Arthrex*-related grounds and then stayed will likely be subject to the same treatment as the Supreme Court directed for *Arthrex* itself: the Director will be afforded the opportunity to "decide whether to rehear" the cases. Again, however, the mechanics of this review process remain to be seen.

We will be monitoring this issue and will provide analysis of additional developments as they occur.

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