WESTERN NEW YORK
THE DAILY RECORD
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NYDAILYRECORD.COM JULY 19, 2021

IP Frontiers: The U.S. Supreme Court finds, and fixes, constitutional defect in Patent Trial and Appeal Board decisions

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In *U.S. v. Arthrex,* case number 19-1434; *Smith & Nephew v. Arthrex,* case number 19-1452; and *Arthrex v. Smith & Nephew,* case number 19-1458, the Supreme Court recently held that the law empowering Administrative Patent Judges of the Patent Trial and Appeal Board (PTAB) of the United States Patent and Trademark Office (USPTO) were unconstitutional. The Court found that the provisions of the America Invents Act (AIA) that established the PTAB's proceedings violated the Appointments Clause because the provisions did not permit a presidentially nominated officer to directly review decisions rendered by the Administrative Patent Judges. The Court, however, remedied the constitutional violation by holding that the director of the USPTO has final oversight over PTAB rulings, thereby preserving the life of the PTAB itself.

The PTAB was created under the AIA less than nine years ago, yet this challenge was the sixth time the Supreme Court weighed in on an appeal from the PTAB. Previous decisions addressed the tribunal's constitutionality, legislative authority, discretionary authority, and the availability of judicial review of the tribunal's institution decisions.

The validity of a patent issued by the USPTO can be challenged, *inter alia*, in an Inter Partes Review (IPR) proceeding conducted before the PTAB. The PTAB is considered an executive tribunal within the USPTO. Section 6(c) of the AIA requires that "each … inter partes review shall be heard by at least 3 members of the [PTAB]" and that "only the [PTAB] may grant rehearings." The PTAB, composed largely of Administrative Patent Judges appointed by the secretary of commerce and supervised by the PTO director, thus has the final word within the executive branch on the validity of a challenged patent.

The Appointments Clause, U.S. Const. art. II, § 2, cl. 2, draws a distinction between principal officers and inferior officers. Under the Appointments Clause, only the president, with the advice and consent of the Senate, can appoint principal officers, including the secretary of commerce and the PTO director. In contrast, the Appointments Clause allows inferior officers to be appointed by the president, by the head of an executive department, or by a Court. In *Edmond v. United States,* 520 U.S. 651 (1997), the Supreme Court clarified that an inferior officer must be "directed and supervised at some level by others who were appointed by Presidential nomination."

The U.S. government and Smith & Nephew argued that Administrative Patent judges are inferior officers whose work is subject to substantial supervision and direction by the USPTO director. Conversely, Arthrex argued that the statutory scheme for appointing Administrative Patent judges to the PTAB violated the Appointments Clause of the U.S. Constitution because it made them principal officers.

The Federal Circuit sided with Arthrex and concluded that the appointment of Administrative Patent judges by the secretary of commerce was unconstitutional. To preserve the PTAB however, the Federal Circuit remedied the constitutional violation by removing the Administrative Patent judges' tenure protections, making them removable at will by the secretary. The Federal Circuit held that the statutory removal provisions that had been applied to Administrative Patent judges had to be severed so that the secretary of commerce would have the power to remove Administrative Patent judges without cause.

In a very divided opinion, the Supreme Court agreed with the Federal Circuit that the appointment of the Administrative Patent judges is a constitutional violation, but took an entirely different remedial approach. Chief Justice Roberts, joined by Justices Alito, Kavanaugh and Barrett, issued the Opinion of the Court and concluded that PTAB rulings cannot constitutionally be enforced to the extent that its requirements prevent the USPTO director from reviewing the final decisions rendered by Administrative Patent judges. But the Court also held that the issue can be solved if the director can review final PTAB decisions and, upon review, issue decisions himself/herself on behalf of the PTAB. According to the chief justice, this "review by the Director better reflects the structure of supervision within the PTO and the nature of [Administrative Patent judges'] duties" than granting the secretary the power to remove Administrative Patent judges at will.

Per the Court, the key question across the three cases was whether the authority of Administrative Patent judges at the PTAB to issue decisions on behalf of the Executive Branch is consistent with the Appointments Clause of the Constitution. The court concluded that the unreviewable authority wielded by Administrative Patent Judges during IPR is incompatible with their appointment by the Secretary of Commerce to an inferior office. As noted above, the Appointments Clause provides that only the president, with the advice and consent of the Senate, can appoint principal officers. An inferior officer must be "directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate."

The Court found such review by a superior executive officer is absent for the PTAB and Administrative Patent judges. The Court reasoned that while the director has some capabilities of administrative oversight, neither he/she nor any other superior executive officer can directly review decisions by Administrative Patent judges. Rather, only the PTAB itself may grant rehearings. The director thereby does not carry responsibility for the final decisions rendered by the Administrative Pat-

ent judges under his/her charge. And because the court found Administrative Patent judges exercise executive power, the Court considered whether the president is ultimately responsible for their actions. The Court found that because of the insulation of PTAB decisions from any executive review, the president can neither oversee the PTAB himself/herself nor attribute the PTAB's failings to those whom he/she can oversee, and Administrative Patent judges thus exercise power that conflicts with the design of the Appointments Clause.

The Court next considered the best way to resolve the constitutional defect. The Court refused to hold that the entire regime of IPRs as unconstitutional. Instead, the Court elected to make decisions by Administrative Patent judges subject to review by the USPTO director. The Court reasoned that although the appointment of Administrative Patent judges by the secretary allowed them to lawfully adjudicate the petition in the first instance, they lacked the power under the Constitution to finally resolve the matter within the Executive Branch. Under these considerations, a limited remand to the director provides an adequate opportunity for review by a principal officer.

The Court emphasized that the director's review of decisions by Administrative Patent judges is discretionary, as the director does not have to review every PTAB decision. The Court reasoned that what matters is that the director has the discretion to review decisions rendered by Administrative Patent judges. In this way, the president remains responsible for the exercise of executive power, and the exercise of executive power remains accountable to the people. The Court also noted that hearings before a new panel of Administrative Patent judges is not appropriate because the constitutional defect of Administrative Patent judge arose from the restraint on the review authority of the director, rather than the actual appointment of Administrative Patent judges by the secretary of commerce.

The practical implication of the court's decision is straightforward — the USPTO director will be able to review all IPR decisions in which a party requests rehearing under 35 USC § 6(c). For the IPRs currently in abeyance under the PTAB's May 1, 2020 General Order, the PTAB will likely set forth a timeframe to allow the director to review the underlying decisions. In fact, the USPTO has already has implemented an interim procedure whereby review of a PTAB final decision may be initiated sua sponte by the director or requested by a party to a PTAB proceeding. Because the director's review is discretionary, it remains to be seen how often the director will exercise its new authority to set aside panel decisions. Also, the director position currently remains unfilled because President Biden has not yet nominated a new director, who will have a new political importance given their review power, following the prior director's resignation.

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