



August 14, 2021

**Supreme Court Update:
*United States v. Arthrex, Inc.***

Justin Krieger
Kilpatrick Townsend & Stockton LLP



ACS
Chemistry for Life®

Overview

- The Patent Trial and Appeal Board
- Background
- The Decision
- Implications

Background:

The Patent Trial and Appeal Board (PTAB)

- Quasi-judicial body created by the 2011 America Invents Act (AIA)
- Handles appeals from the USPTO
- Adjudicates IPR and PGR proceedings
- Headed by Director of the USPTO
 - Appointed by the President, confirmed by the Senate
 - Drew Hirshfeld is currently the acting Director
- 200+ Administrative Patent Judges (APJs)
 - Appointed by Secretary of Commerce

Background:

The Appointments Clause, Art. II, § 2, cl. 2.

“[The President] shall appoint...Judges of the Supreme Court, and all other Officers of the United States,... but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments.”

***Arthrex v. Smith & Nephew* (Fed. Cir. Oct. 31, 2019)**

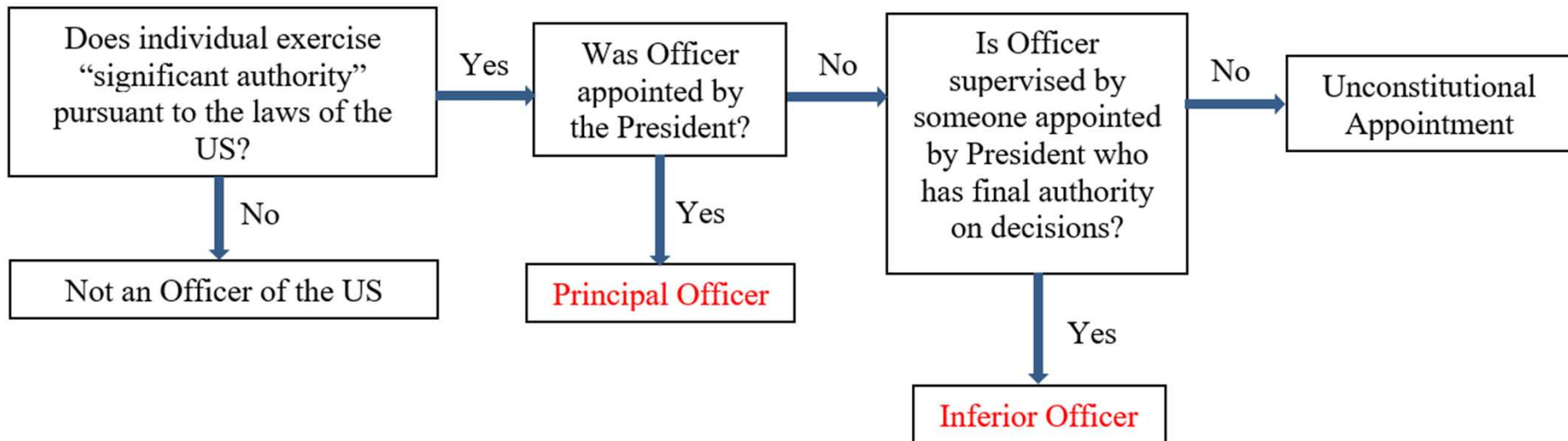
- Smith & Nephew filed IPR against an Arthrex patent for surgical device for reattaching tissue to bone.
 - APJ panel concluded patent was invalid
- On appeal, Arthrex argued that the PTAB structure violated the Appointments Clause
 - Argued APJs are principal officers who must be appointed by President, with advice and consent of the Senate
 - Thus, their appointment by Secretary of Commerce was unconstitutional
- Fed. Cir. agreed
 - Remedied the violation by invalidating the APJ tenure protections, making them removable “at will” by the Secretary
 - This change effectively made the APJs inferior officers

***United States v. Arthrex* (S.Ct. June 21, 2021)**

- Issues on Appeal:
 1. Whether APJs of the USPTO are principal officers who must be appointed by the President with the Senate's advice and consent, or "inferior officers" whose appointment Congress was permissibly vested in a department head; and
 2. Whether, if APJs are principal officers, the court of appeals properly cured any appointments clause defect in the current statutory scheme prospectively by severing the application of the tenure provisions of the AIA to those judges.

United States v. Arthrex (S.Ct. June 21, 2021)

- Inferior v. Principal Officers
 - Inferior Officers may be appointed by Heads of Departments
 - Must be directed and supervised by others who were appointed by Presidential nomination.
 - Principal Officers may only be appointed by President and Senate



***United States v. Arthrex* (S.Ct. June 21, 2021)**

- AIA included clause *precluding* Presidential review of Board decisions (35 USC § 6(c)).
 - Statute relieves Director of responsibility for Board decisions

(c) 3-MEMBER PANELS.—Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings.

***United States v. Arthrex* (S.Ct. June 21, 2021)**

- 5-4 Decision--vacated and remanded
- Chief Justice Roberts delivered the opinion, joined by Justices Alito, Gorsuch, Kavanaugh and Barrett.
- Here, Director has no meaningful way to reverse a FWD
 - And threat of termination is deficient means of controlling APJs because they can only be fired “for such cause as will promote the efficiency of the service.”

He 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.

***United States v. Arthrex* (S.Ct. June 21, 2021)**

- APJs exercise executive power, and the President must be ultimately responsible for their actions
- Holdings:
 1. Unreviewable executive power of APJs is incompatible with their appointment by the Secretary as inferior officers
 2. Appropriate remedy was to render inoperative the statutory restrictions preventing Director review of final decisions rendered by APJs during IPR proceedings

***United States v. Arthrex* (S.Ct. June 21, 2021)**

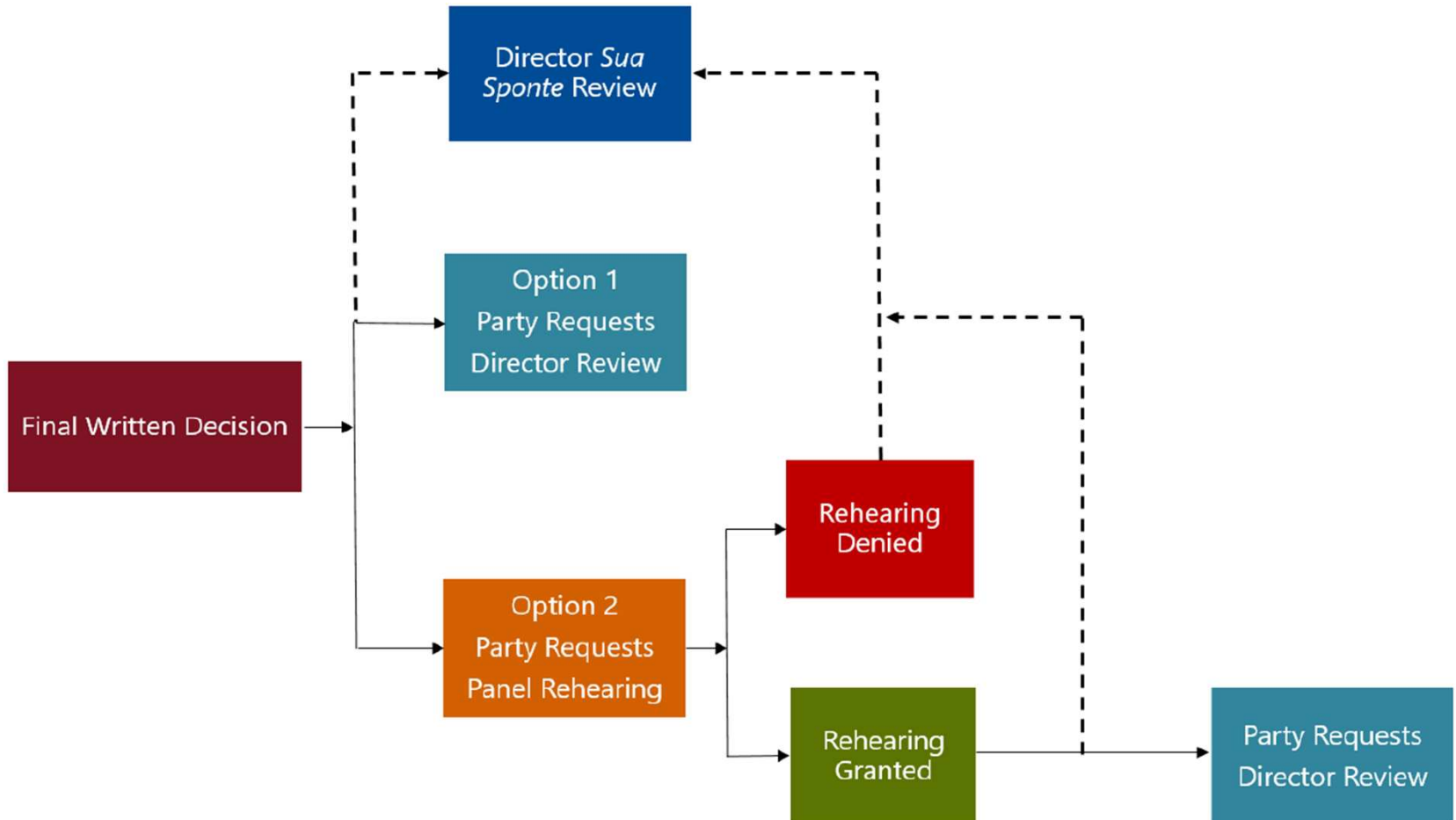
- Gorsuch agreed on the constitutional flaw, but not on the remedy; remedy amounted to legislating from the bench.
- Justice Thomas filed a dissenting opinion, joined in part by Breyer, Sotomayor and Kagan.
 - Congress expressly made APJs inferior officers. He would have left statutory scheme intact
 - Remedy was inappropriate.



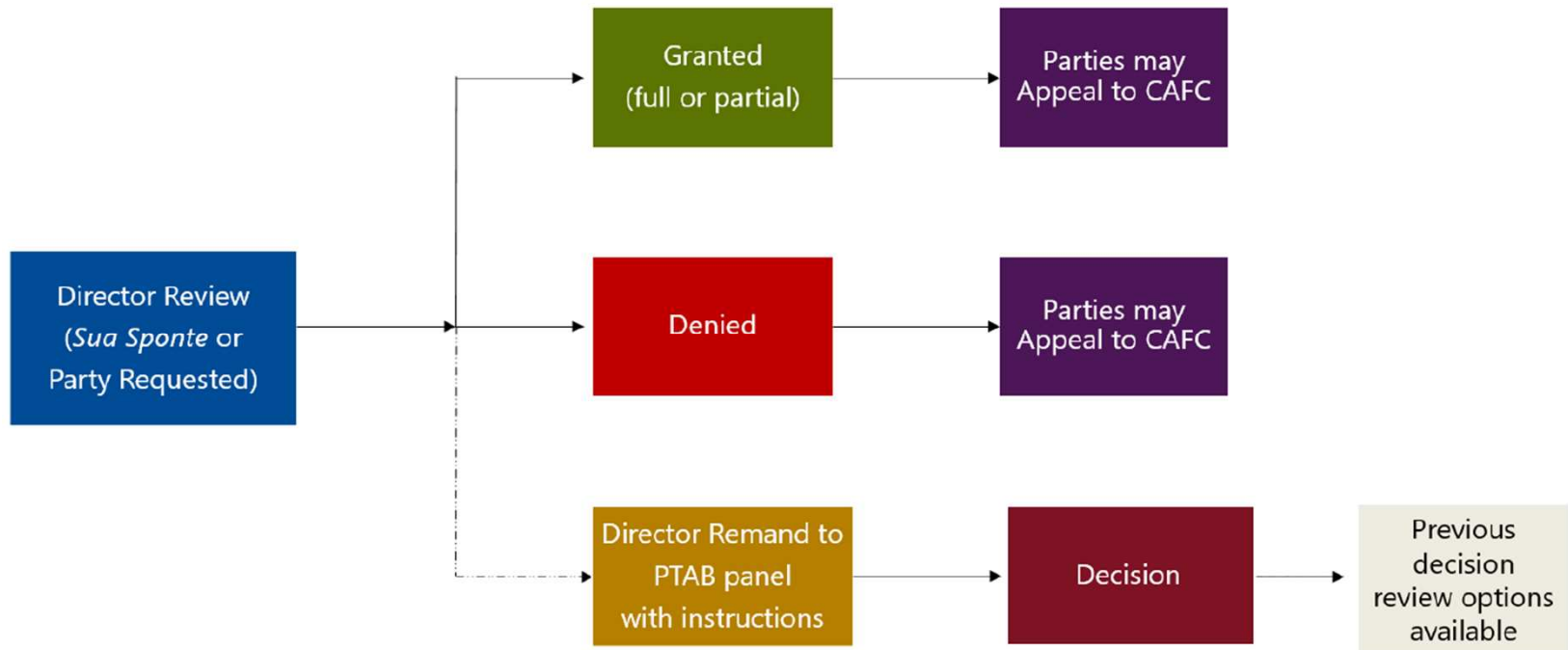
Implications

- Director now may unilaterally review all PTAB FWD.
- June 23: Fed. Cir. ordered appellants in 120 pending appeals with live *Arthrex* challenges to explain how their cases should proceed
 - Most waived their *Arthrex* challenges
- June 29: USPTO issued interim guidelines post-*Arthrex*
 - Review of FWDs may be:
 - Initiated *sua sponte* by the Director, or
 - Requested by a party to a proceeding
 - Procedure: concurrently file Request for Rehearing by the Director within 30 days of FWD, and submitting a notification of the Request for Rehearing to the Director

Procedure for Director review post-*Arthrex*



Procedure for Director review post-*Arthrex*



Implications

- Expect litigation on Hirshfeld not appointed by President
- Parties cannot request both Board and Director review
 - Consider carefully whether to direct appeal may be a better option!
- First few requests for Director review have been denied

It is ORDERED that the request for Director review is denied; and
FURTHER ORDERED that the Patent Trial and Appeal Board's Final
Written Decision in this case is the final decision of the agency.

Director review leaves open possibility for the Executive branch to implement policy through PTAB decisions



Questions?

ANCHORAGE
ATLANTA
AUGUSTA
BEIJING
CHARLOTTE
DALLAS
DENVER
HOUSTON
LOS ANGELES
NEW YORK
RALEIGH
SAN DIEGO
SAN FRANCISCO
SEATTLE
SHANGHAI
SILICON VALLEY
STOCKHOLM
TOKYO
WALNUT CREEK
WASHINGTON D.C.
WINSTON-SALEM

