Keywords: **Appointments Clause, Patent Trial and Appeal Board, principal officer**

General: **Administrative patent judges wielding unreviewable authority during inter partes review is incompatible with their appointment by the Secretary of Commerce to an inferior office. To remedy this, the Director has the authority to review the Patent Trial and Appeal Board's decisions in inter parties review.**

United States v. Arthrex, Inc.
594 U.S. ____ (2021) Supreme Court No. 19-1434
Fed. Cir. June 21, 2021

I. Facts

This suit centers on the Patent Trial and Appeal Board (PTAB), an executive adjudicatory body within the Patent and Trademark Office (PTO). The PTAB sits in panels of at least three members drawn from the Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and more than 200 Administrative Patent Judges (APJ). The Secretary of Commerce appoints the members of the PTAB (except for the Director, who is nominated by the President and confirmed by the Senate), including the APJs at issue in this dispute. The Board decides whether an invention satisfies the standards for patentability on review of decisions by primary examiners. The PTAB can also take a second look at patents previously issued by the PTO. One such procedure is called inter partes review. Inter partes review is an adversarial process in which panels of the PTAB are asked to reconsider whether existing patents satisfy the novelty and nonobviousness requirements for inventions.

Arthrex, Inc. develops medical devices and procedures for orthopedic surgery and in 2015 secured a patent on a surgical device for reattaching soft tissue to bone without tying a knot, U.S. Patent No., 9,179,907 ('907 patent). Arthrex soon claimed that Smith & Nephew, Inc. and ArthroCare Corp. (collectively, Smith & Nephew) had infringed on the '907 patent, and the dispute eventually made its way into inter partes review in the PTO. Three APJs formed the PTAB panel that concluded that a prior patent application "anticipated" the invention claimed by the '907 patent, so that Arthrex's patent was invalid.

Arthrex, Inc. filed an appeal and included an argument premised on the Appointments Clause of the Constitution, which specifies that non-inferior (principal and inferior officers may be appointed to help the President carry out his responsibilities. Principal officers must be appointed by the President with advice and consent of the Senate, while inferior officers may be appointed by the President alone, the head of an executive department, or a court. Art. II § 2, cl. 2.

Arthrex, Inc. argued that the APJs were principal officers, and, thus, their appointment by the Secretary of Commerce was unconstitutional.

The Federal Circuit agreed with Arthrex and stated that neither the Secretary nor Director had the authority to review the APJs decisions or remove the APJs at will. Under these facts, APJs themselves were principal officers and not inferior officers under the direction of the Director or Secretary. The Federal Circuit invalidated the tenure protections of APJs to make them removable at will by the Secretary, which it determined would prospectively render them inferior rather than principal officers. The Federal Circuit then vacated the PTAB's decision and remanded for a hearing before a new panel of APJs, who would no longer enjoy protection against removal.

None of the parties were content with the decision and the Government, Smith & Nephew, and Arthrex each requested rehearing en banc, which was denied. The three parties then filed three separate petitions for certiorari to request a review of different aspects of the panel's decision. The Supreme Court granted certiorari.

II. Issue

Is the authority of APJs to issue decisions on behalf of the Executive Branch is consistent with the Appointments Clause of the Constitution?

III. Discussion

Parts I and II (Five justices)

No. The Court states that the unreviewable authority wielded by APJs during inter partes review is incompatible with their appointment to an inferior office by the Secretary.

The Court begins its analysis referring to its opinion in *Edmond v. United States*, where it was explained that whether one is an inferior officer depends on whether he has a superior other than the President; an inferior officer must be directed and supervised at some level by others appointed by Presidential nomination with the advice and consent of the Senate. *Edmond v. United States*, 520 U.S. 651, 663 (1997). The Court in *Edmond* held that Coast Guard Court of Criminal Appeals judges appointed by the Secretary of Transportation were inferior officers because they were supervised by a combination of Presidentially nominated and Senate-confirmed officers in the Executive branch. Their supervision meant the judges had no power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers. The Court reasons that *Edmond* was in sharp contrast to the case at hand because no principal officer at any level within the Executive Branch directs and supervises the work of APJs in the same regard. The PTO Director possesses administrative oversight of the APJs (e.g., rate of pay, deciding whether to institute an IPR, selection of ALJs to hear the IPR, promulgation of regulations and guidelines for IPRs, etc.), however, the Court notes that the Director does not have the power to review final decisions rendered by the APJs under his charge.

The Government argued that the Director was part of the decision-making process because he decides whether to initiate the inter partes review, designates APJs who will decide a particular case, pick APJs predisposed to his views, and vacate his institution's decision if he catches wind of an unfavorable decision on the way. However, the Court reasons that this was part of the

problem because parties were 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 Court finds that because PTAB decisions were insulated from any executive review, the President can neither oversee the PTAB himself nor attribute the Board's failings to those whom he can oversee.

The Government and Smith & Nephew pointed to a handful of officers appointed by heads of departments but who exercise final decision-making authority. However, the Court states that these examples involve inferior officers whose decisions a superior executive officer can review or implement a system for review. The structure of the PTAB also does not draw support from the predecessor Board of Appeals because an executive tribunal could review those decisions.

Ultimately, the Court finds that only an officer appointed adequately to a principal office may issue a final decision binding the Executive Branch in the proceeding before the Court. In reaching this conclusion, the Court does not attempt to set forth an exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes. *Id.* at 661. However, in the present case, the Court finds that Congress had assigned APJs significant authority in adjudicating the public rights of private parties, while also insulating their decisions from review and their offices from removal. Therefore, the APJs accordingly exercise power that conflicts with the design of the Appointments Clause.

Part III (Four justices, three justices concurring in the judgement)

The Court then turns to an appropriate way to resolve the dispute in this case. Arthrex asked the Court to hold the entire regime of inter partes review unconstitutional. In the Court's view, however, the solution is to have the decisions made by APJs be subject to review by the Director. Thus, the Court holds that the 35 U. S. C. §6(c) that provides that "each . . . inter partes review shall be heard by at least 3 members of the [PTAB]" and that "only the [PTAB] may grant rehearings" is unenforceable to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs. This allows the Director to review final PTAB decisions and, upon review, issue decisions himself on behalf of the Board. Section 6(c) is found to be otherwise operative as to the other members of the PTAB. The Court also concludes that the appropriate remedy is a remand to the Acting Director to decide whether to rehear the petition filed by Smith & Nephew, which would provide adequate review by a principal officer. Since the source of the constitutional violation is the restraint on the review authority of the Director rather than the appointment of APJs by the Secretary, the Court holds that Arthrex is not entitled to a hearing before a new panel of APJs.

IV. Dissents and Concurrence

Justice Gorsuch dissents with respect to the Supreme Court's remedy, Part III. While he agrees that APJs wielded unconstitutional authority, he disagrees with the solution the Court created. Justice Gorsuch notes that the Court invokes the severability doctrine to sever Congress's statutory direction that the Director of the Patent Office may not review PTAB decisions. In doing so, Justice Gorsuch argues that the Court gifted the Director a new power that he never before enjoyed, a power Congress expressly withheld from him and gave to someone else. Justice Gorsuch's solution, instead, is to leave it to Congress for a solution that complies with the Constitution.

Justice Thomas dissents from the majority approach. Justice Thomas argues the problem with the Court's decision is that there is no precedential basis (or historical support) for boiling down inferior officer status. Traditionally, the Court's task when resolving Appointments Clause challenges is to discern whether the challenged official qualifies as a specific sort of officer and whether his appointment complies with the Constitution. Justice Thomas argues that this majority leaves that tried and true approach behind and instead polices the dispersion of executive power among officers. Justice Thomas concludes that APJs are inferior officers because they are lower in rank than the Director of the PTO and Secretary of Commerce. Therefore, instead of rewriting the Director's statutory powers, he would leave intact the patent scheme Congress created.

Justice Breyer, joined by Justice Sotomayor and Justice Kagan, agree with Justice Thomas' discussion on the merits and join in Parts I and II of his dissent. However, the Justices concur with the judgement in the case. First, Justice Breyer argues that the Court should interpret the Appointments Clause as granting Congress a degree of leeway to establish and empower federal offices. Justice Breyer also finds that neither the Appointments Clause nor anything in the Constitution describes the degree of control that a superior officer must exercise over the decisions of an inferior officer. Justice Breyer continues on to discuss Congress' scheme as consistent with the Court's Appointments Clause precedents. He finds Congress's judgment to be apparent in this suit, as there is strong evidence Congress designed the current structure specifically to address constitutional concerns. Second, Justice Breyer believes the Court, when deciding these cases, should conduct a functional examination of the offices and duties in question rather than a formalist, judicial rules-based approach. Ultimately, although Justice Breyer disagrees with the Court's basic constitutional determination, he agrees with the remedy set forth because he believes it addresses the specific problem.

V. Conclusion

The Court confirmed that APJs yield unreviewable authority during inter partes review and therefore were acting as principal officers under the U.S. Constitution. Thus, the APJs should have been nominated by the President and confirmed by the Senate. To remedy this problem, PTAB determinations in IPRs are now reviewable by the USPTO Director.