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Intellectual Property Alert

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New avenue for review opens — SCOTUS expands Director of USPTO's authority

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Businesses and individuals involved in patent disputes may have another path to victory after U.S. Supreme Court gives Director of USPTO Authority to review *inter partes* decisions before the Patent Trial and Appeal Board.

What's the Impact

- The ruling, and subsequent guidance by the Patent and Trademark Office, clarifies procedures for requesting review.
- Changes implemented by the AIA are relatively new and ripe for being challenged, which could create additional opportunities for favorable outcomes.

The question posed to the U.S. Supreme Court in *United States v. Arthrex* was whether the authority of the Patent Trial and Appeal Board (PTAB), as officers in the Executive Branch, is consistent with the Appointments Clause of the U.S. Constitution.

When a patent is issued by the United States Patent and Trademark Office (PTO), another party may bring an action before the PTAB to challenge the validity of the patent in an *inter partes* proceeding. This process and the PTAB itself were established in 2011 by Congress in the

American Invents Act (AIA). The PTAB is made up of Administrative Patent Judges (APJs), who are appointed by the Secretary of Commerce. The APJs designated to any particular PTAB proceeding are determined by the Director of the PTO (the Director), who is appointed by the President with the advice and consent of the Senate. The Director has delegated the authority to conduct *inter partes* proceedings to the PTAB.

As established by the AIA, the PTAB's decisions in *inter partes* proceedings regarding the validity of a patent are not reviewable by the Director or another superior officer or court *within the Executive Branch*, and only the PTAB itself can grant a rehearing of a decision to another panel of APJs. Even though the AIA did not establish an appeal or review process of PTAB decisions within the Executive Branch, rulings by the PTAB may be appealed to the Federal Circuit in the Judicial Branch. After a decision by the PTAB, the Director is directed to "issue and publish a certificate" canceling or confirming any patent claims as determined by the PTAB, without the Director having any authority to review or overturn the PTAB's holding.

When Arthrex alleged that Smith & Newphew and ArthroCare Corp. infringed one of its patents, the dispute ended up before the PTAB in an *inter partes* proceedings where the PTAB ultimately deemed Arthrex's patent invalid. With no other path to defend its patent through the Executive Branch, Arthrex appealed to the Federal Circuit, arguing that APJs with their unreviewable authority within the Executive Branch to uphold or cancel patents are non-inferior executives, otherwise known as principal officers, who must be directly appointed by the President and confirmed by the Senate, and, thus, their appointment by the Secretary of Commerce is unconstitutional.

Whether an officer is a principal officer who must be appointed by the President, or an inferior officer who can be selected through other means, was established by the Court in *Edmond v. United States*, 520 U.S. 651, 660 (1997). In *Edmond,* the Court asked "[w]hether one is an 'inferior' officer depends on whether he has a superior other than the President." 520 U.S. at 662. Inferior officers must be "directed and supervised at some level by others who were appointed by the Presidential nomination with the advice and consent of the Senate." *Id*. at 663. The rationale for the test and the differing types of officers is that, as the head of the Executive Branch, the President must be able to be held accountable for the decisions of those tasked with carrying out the laws of the United States.

The Director of the PTO does supervise the APJs through some administrative oversight, including, *inter alia*, by setting the pay rate for APJs; deciding whether or not to institute an *inter partes* proceeding; selecting which APJs sit on a particular proceeding; and designating certain PTAB decisions as precedential, which provides for guidance on patentability issues for future panels. The Federal Circuit determined the current process was unconstitutional and resolved the constitutional issue by invalidating the APJs tenure protection and instead, permitted the Secretary of State, who appoints the APJs, to remove APJs at will to effectively make the APJs inferior officers.

While these acts satisfy half of the *Edmonds* test of an inferior officer where the Director guides the PTAB and APJs, the Court upheld the PTAB's "significant authority" to issue decisions on

patentability that are not subject to supervision or review by the Director, thereby making APJs principal officers. The Court agreed with Arthrex and ruled that insulation of PTAB *inter partes* decisions violates Art. II, §2, cl. 2 of the Constitution, otherwise known as the Appointments Clause.

The Supreme Court agreed with the Federal Circuit's unconstitutional conclusion, but parted from the directive to allow APJs to be removed at will. Instead, the Court directed that decisions by APJs **in adjudicating *inter partes* proceedings *only*** must be subject to discretionary review by the Director of the PTO, who may also issue decisions on behalf of the PTAB. This resolution to save the AIA as a whole allows the Director, appointed by the President, to both direct *and* supervise APJs, making them inferior officers consistent with their appointment, and brings the PTAB authority in line with its counterpart, the Trademark Trial and Appeal Board.

In late July, the PTO announced interim guidance on procedures for a Director review, consistent with the Court's decision. For now, until further agency rule-making is conducted, a party or parties to a PTAB proceeding may request review by the PTO Director by: (1) entering a Request for Rehearing by the Director into PTAB E2E and (2) submitting a notification of the Request for Rehearing by the Director to the office by email to *Director_PTABDecision_Review@uspto.gov*, with a copy to all parties involved.

The decision in *United States v. Arthrex* is a good reminder to think outside the box after receiving an unfavorable decision in a patent matter. The outcome is also a good reminder that the changes implemented by the AIA are relatively new and ripe for being challenged. Patent owners and alleged infringers should not be content with an unfavorable decision based on new law under the AIA. The decision can be challenged with the right legal strategy and the dedication to see the challenge through to the end.

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