PTAB SNAPSHOT

A Quarterly Report on Trends and New Precedent at the PTAB

Q3 2021: THE *ARTHREX* DECISION, ITS IMPACT ON PRIOR IPR DECISIONS AND FUTURE IPR PROCEDURE, AND POTENTIAL FURTHER CHALLENGES TO IPRS IN VIEW OF *ARTHREX*

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In this second edition of Orrick's quarterly series on the PTAB, we summarize the *Arthrex* decision, walk through the PTO's post-*Arthrex* interim procedure for reviewing PTAB decisions, and discuss potential post-Arthrex challenges to the acting Director and the interim procedure. For many months, commentators wondered whether *Arthrex* could reverse hundreds of PTAB decisions that invalidated patents and fundamentally change *Inter Partes* Review proceedings. Now, it appears that *Arthrex* will have little practical effect on PTAB procedure. It also seems highly unlikely that future attacks on PTAB practice in view of *Arthrex* will be successful.

Supreme Court Decision in *United States v. Arthrex*

On June 21, 2021, the Supreme Court issued its long-awaited decision in *Arthrex*. *See United States v. Arthrex*, 141 S. Ct. 1970 (2021). That case arose out of an appeal to the Federal Circuit of an *inter partes* review decision invalidating a medical technology patent that Arthrex owned for a particular method of reattaching soft tissue to bone. Disappointed with the PTAB's decision, Arthrex appealed to the Federal Circuit, where it argued for the first time that the manner of appointment that Congress prescribed for administrative patent judges (APJs) in the America Invents Act (AIA)—specifically, their appointment by the Secretary of Commerce, as opposed to by the President with the Senate's advice and consent—violates the Appointments Clause of the U.S. Constitution.

Under the Appointments Clause, there are two types of officers of the United States: principal officers who must be appointed by the President and confirmed by the Senate, and inferior officers who may be appointed by the President alone, the federal courts, or department heads. Arthrex argued to the Federal Circuit—and later to the Supreme Court—that APJs are principal officers and thus their appointment by the Secretary of Commerce was unconstitutional. As a result, Arthrex contended, APJs lack the authority to decide IPRs and their decision invalidating Arthrex's patent was null and void. Arthrex's competitor (Smith & Nephew) and the Government argued that APJs are inferior officers and thus their appointment was lawful. The Federal Circuit agreed with Arthrex that the APJs are principal officers, but it sought to cure the constitutional defect by severing the APJs' tenure protections. According to the Federal Circuit, if the PTO Director (a principal officer) could remove any APJ for any reason, then APJs could be allowed to continue to function as inferior officers. The Federal Circuit also remanded

the case back to the PTO for reconsideration of Smith & Nephew's IPR before a new panel of APJs.

All parties, including the Government, filed petitions for writ of certiorari, which the Supreme Court granted.

The principal question presented was whether the APJs are principal officers who should have been appointed by the President with the Senate's confirmation, or inferior officers who were properly appointed by the Secretary of Commerce. If the former, then there was a question whether the Federal Circuit's severance of the APJs' tenure protections cured the alleged Appointments Clause defect, or whether another remedy

could be applied to allow the IPR system to continue to operate without a legislative fix.

Arthrex argued that the APJs were principal officers because no superior (e.g., PTO Director) could review their decisions. Arthrex further contended that the severance of tenure protections didn't cure that constitutional defect since the Director still couldn't review PTAB decisions under the Federal Circuit's solution. Instead, Arthrex explained that the IPR system couldn't continue to operate until the APJs were properly appointed as principal officers, or Congress amended the statute to provide for Director review of the IPR decisions. For their part, Smith & Nephew and the Government argued that the APJs were inferior officers because Congress had provided the Director with the necessary tools to exercise sufficient supervision and control so as to be held accountable for the APJs' decisions. To the extent the APJs were principal officers, Smith & Nephew and the Government argued that a legislative fix wasn't necessary and that the Court could choose how to employ its preferred remedy of severance depending on the nature of the constitutional problem identified.

Holding and Remedy: As discussed below, the Court gave something to all parties. It agreed with Arthrex that APJs couldn't function as inferior officers because their decisions were final and binding on the Executive Branch. But then it proceeded to sever the statute in such a way that would allow for the Director's review of PTAB decisions, thus allowing the APJs to continue to function as inferior officers. The Court vacated the Federal Circuit's judgment and remanded the case to the PTO's Director to decide whether to rehear Smith & Nephew's IPR petition.

Lead Opinion by Chief Justice Roberts:

Chief Justice Roberts delivered the Court's opinion with respect to the constitutionality of the APJs' appointment, which Justices Alito, Gorsuch, Kavanaugh and Barrett joined. Rather than expressly stating that the APJs were principal officers, he cautiously wrote that "the unreviewable authority wielded by APJs during *inter partes* review is incompatible with their appointment by the Secretary to an inferior office." *Arthrex*, 141 S. Ct. at 1983.

He reasoned that the AIA, as enacted, doesn't permit the Director to be held accountable for the APJs' decisions because he cannot review and potentially overturn them if he deems appropriate. And under *Edmond v. United States*, 520 U.S. 651 (1997), such inability to review a PTAB decision conflicts with the "design of the Appointments Clause 'to preserve political accountability.'" *Id*. at 1982.

As to the remedy, Chief Justice Roberts (joined by Justices Alito, Kavanaugh, and Barrett) wrote that the solution to the above-mentioned constitutional defect was to sever the portion of the AIA providing that only the PTAB itself may grant rehearings, thus affording the PTO Director the opportunity to "review final PTAB decisions and upon, review, ... [to] issue decisions himself on behalf of the Board." *Id*. at 1987. That tailored approach would be sufficient to resolve the identified Appointments Clause problem since, "[if the Director were to have the 'authority to take control' of a PTAB proceeding, APJs would properly function as inferior officers." *Id*.

Chief Justice Roberts further explained that affording an opportunity for Director review was consistent with nearly every other executive-adjudication scheme, including the PTO's own Trademark Trial and Appeal Board as structured under § 228 of the Trademark Modernization Act of 2020. As a result, this wouldn't be an unworkable scheme because "review by the Director better reflects the structure of supervision within the PTO and the nature of the APJs' duties." *Id*. at 1987. Importantly, Chief Justice Roberts concluded by stating that "the Director need not review every decision of the PTAB. What matters is that the Director have the discretion to review decisions rendered by APJs." *Id*. at 1988.

In a separate opinion, Justices Breyer, Sotomayor, and Kagan disagreed with the Court's holding on the merits, but joined the Chief Justice's use of severance as the appropriate solution to the Court's identified problem, ensuring a seven-justice majority endorsing the remedy portion of the judgment.

Justice Gorsuch's Opinion (Concurring in Part and Dissenting in Part):

As noted above, Justice Gorsuch agreed with the Court's holding that the APJs' appointment violated the Appointments Clause. He wrote that, under the AIA, "APJs are executive officers accountable to no one else in the Executive Branch" with the "power to take vested property rights." *Id.* at 1989 (Gorsuch, J., concurring in part and dissenting in part). That scheme violates the rights of individuals "to be subjected only to lawful exercise of executive power that can ultimately be controlled by a President accountable to 'the supreme body, namely,... the people.'" *Id.* at 1990.

He disagreed, however, with the remedy. He believes that the Chief Justice effectively rewrote the statute to allow APJs to continue to function. Justice Gorsuch explained that the Court only should have "'set[ ] aside' the PTAB decision" and revert the AIA's scheme for Congress to fix. Id. at 1990. Recalling his earlier dissent in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, he reiterated that there are fundamental due process and separation of powers concerns arising from the AIA that require more than the solution afforded by the lead opinion.

Justice Breyer's Opinion (Concurring in the Judgment and Dissenting in Part):

Justice Breyer's opinion, which Justices Sotomayor and Kagan joined in full, disagrees with the Court's holding on the merits. Consistent with his longstanding view of the Appointments Clause, Justice Breyer explains that certain amount of leeway must be afforded to Congress when establishing and empowering federal offices. Given that owed deference and *Edmond's* requirement that "an inferior officer" need only be "directed and supervised at some level" by a properly appointed principal officer, 520 U. S. at 663, Justice Breyer concluded that APJs are inferior officers because, under the AIA, APJs are subject to adequate direction and supervision by the PTO's Director.

Despite this contrary conclusion, as noted above, his opinion agrees with the appropriateness of the Chief Justice's severance remedy.

Justice Thomas's Opinion (Dissenting):

Justice Thomas's dissent charts a separate path. Joined by Justices Breyer, Sotomayor, and Kagan, the dissent pointed out that the PTO Director has greater functional power over APJs than the superior officers had over military judges in Edmond such that APJs are inferior officers under the Court's precedent.

Writing for himself, however, Justice Thomas suggested that the Court might benefit from reexamining the Edmond test because its functional principles have not been uniformly applied, and are at odds with the original understandings of who qualifies as inferior officer. He also disagreed with the adopted remedy, arguing that the severance of the statute to allow for Director review was tantamount to legislating from the bench.

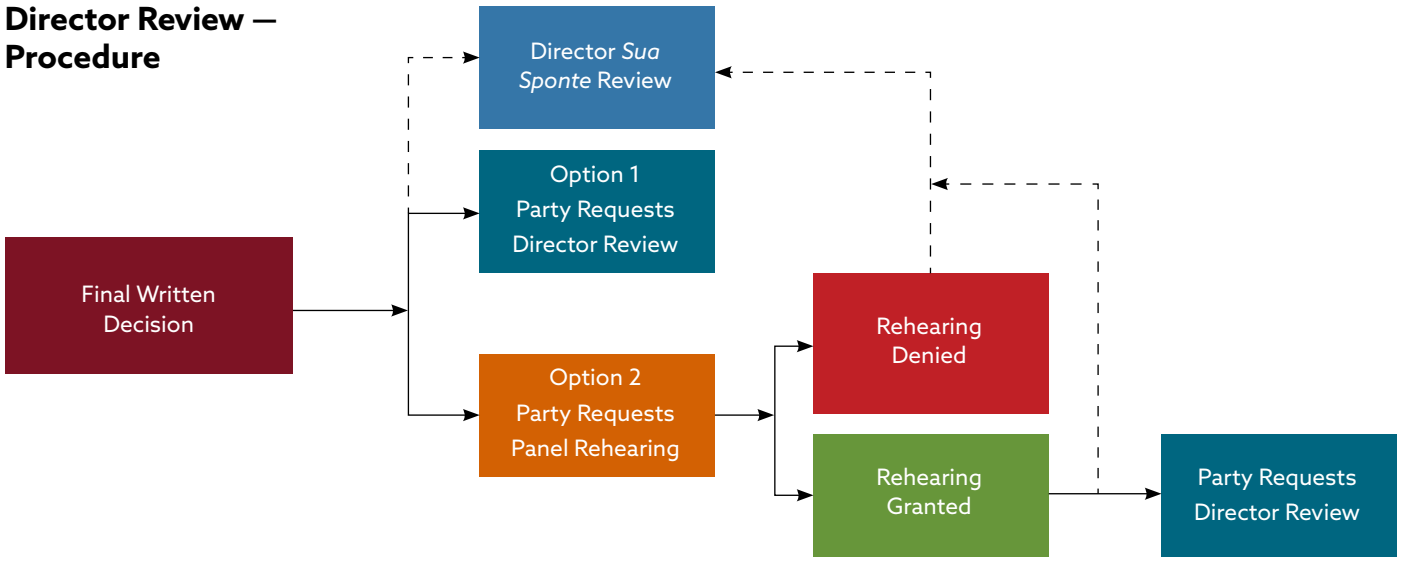
The PTO's Post-*Arthrex* Interim Procedure for Director Review

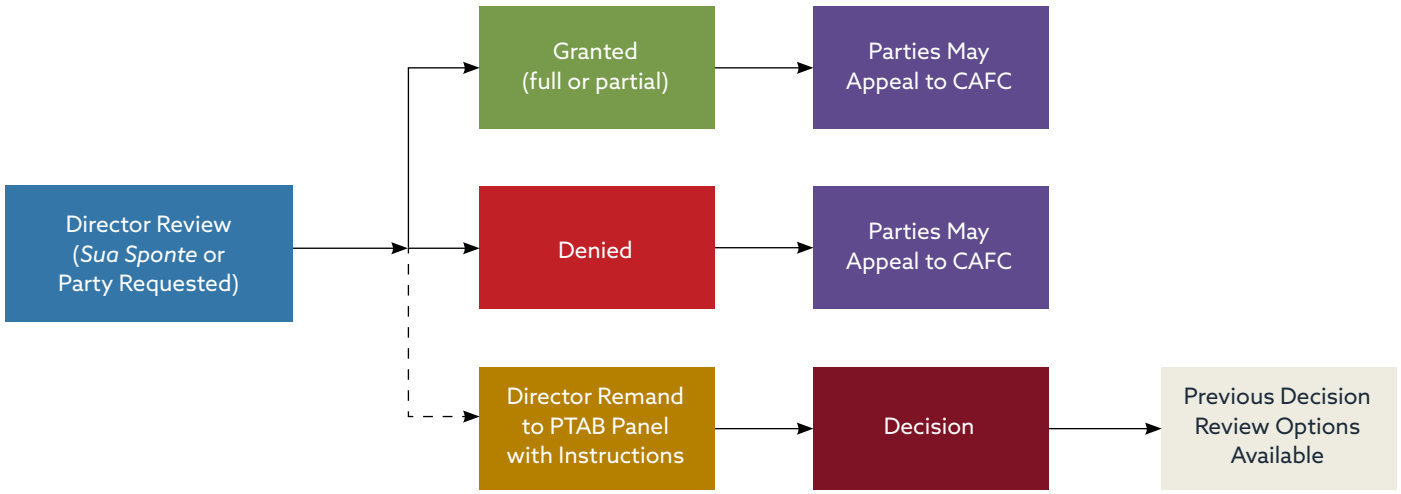
In response to the *Arthrex* decision, the PTO adopted an interim procedure for Director review of the PTAB's final written (or rehearing) decisions, published Arthrex FAQs, and held a Boardside chat on July 1, 2021, to discuss the new process. Here are some helpful details about that interim procedure:

Director's Standard of Review: The Director will review de novo any issue of fact or law in the PTAB final decisions. Furthermore, the Director has complete discretion of whether to apply any previous panel precedent. He is not bound by any PTAB opinion, whether published or unpublished, including those flagged by the Precedential Opinion Panel (POP).

Review/ Rehearing Options: The interim procedure provides for three rehearing alternatives: Party-Requested Director Review, Party-Requested Panel Rehearing, and Director *sua sponte* review. Only parties to a PTAB proceeding may request Director review; third-party requests are not permitted. The Board provided the following general flow chart for the options in its Boardside Chat on July 1, 2021.

Director Review — Procedure





Under the Party-Requested Review Option, parties in a PTAB proceeding may request the Director to review any final written decision. If the Director grants review, the Director's final decision remains appealable to the Federal Circuit. The Director may also order a panel rehearing in response to a request for Director Review. If the Director denies the request for review, the party may not petition for a panel rehearing, but may still appeal the panel decision to the Federal Circuit.

Under the Party-Requested Panel Rehearing Option, parties may request a PTAB panel rehearing just like before. If the rehearing is granted, however, a party may request the Director review the final decision regardless of whether any party to the suit previously requested Director review. The final decision, whether by panel rehearing or subsequent Director review, remains appealable to the Federal Circuit. If the request for rehearing is denied, the party may not request Director review, but the decision remains appealable to the Federal Circuit.

Under the Director-Initiated Review alternative, the Director may review *sua sponte* any final written (or rehearing) decision. Were the Director to do so, the parties will be notified and be given an opportunity to provide additional briefing for the Director's benefit. The Director's decision is appealable to the Federal Circuit.

Timing: The parties will have 30 days from the entry of a final written (or rehearing) decision to request Director review of the PTAB. Untimely requests generally won't be considered, but the Director may extend rehearing deadline for good cause if an extension is requested in a timely manner.

The parties whose deadline for requesting Director rehearing expired at the time *Arthrex* issued may request a waiver of the deadline, so long as they request the waiver before the due date for filing a notice of appeal under 37 C.F.R. 90.3. Relatedly, the request for Director review will be considered a request under 37 C.F.R. 90.3(b), which resets the time for appeal or civil action.

Fees: No fees will be charged during implementation of the interim procedure for Director Review.

The POP's Future: The PTO is currently planning on continuing the POP. But because PTAB decisions (including decisions flagged by the POP) do not bind the Director, the PTO is considering whether potential modifications will be necessary or appropriate.

Potential Upside: If the Director uses the review procedure to address uncertainty in PTAB precedent, this may add more certainty to developing areas of PTAB precedent, such as discretionary denials. On July 20, 2021, the PTO provided additional information on this interim procedure, suggesting this potential

upside may come to fruition. First, the PTO noted that an advisory committee that includes, e.g., business units of the PTO, the PTAB, and Office of the General Counsel, will advise the Director on whether decisions merit review. It also noted that decisions that merit review will include "novel issues of law or policy, issues on which Board panel decisions are split, issues of particular importance to the Office or patent community, or inconsistencies with Office procedures, guidance, or decisions."

Issues to Watch for in the Wake of *Arthrex*

The Federal Circuit ordered additional briefing from parties with pending *Arthrex*-based Appointments Clause challenges to explain how their cases should proceed in light of the Supreme Court's decision. These pending appeals are likely to be resolved by allowing the challenging party either to opt for the PTO's new Director review process or abandon their constitutional challenge. Most patent owners already have chosen to drop their Appointments Clause claim and forgo the opportunity to request the acting Director for review of the challenged PTAB decision.

A few patent owners have raised long-shot challenges to the legality of the current review process, alleging that the PTO's efforts to satisfy the *Arthrex* ruling are defective. We discuss some of those below, as well as other objections that might be asserted and the hurdles they face.

The Legality of the Review Process by an Acting Director: President Biden has yet to nominate a new PTO Director. Indeed, Commissioner of Patents Drew Hirshfeld currently performs the duties and functions of the PTO Director, a principal office under the Appointments Clause. Because the Secretary of Commerce appoints the Commissioner, some patent owners already have argued to the Federal Circuit that Mr. Hirshfeld isn't someone who satisfies the appointment criteria of a principal officer (i.e., presidential appointment and Senate confirmation). And without a properly appointed principal officer, these patent owners contend, there isn't someone who can properly review the PTAB decisions as required under *Arthrex*.

That argument faces serious—and potentially insurmountable—hurdles. *First*, the Supreme Court knew that the PTO lacked a presidentially appointed, Senate-confirmed Director when it issued its decision. Nonetheless, it held that the "appropriate remedy is a remand to the Acting Director for him to decide whether to rehear the petition filed" in that case. *Arthrex*, 141 S. Ct. at 1987. Second, the argument rests on the (mistaken) assumption that the acting director must be a principal officer. But it is not even clear that a person who performs temporarily the duties of a vacant office is an officer of the United States for purposes of the Appointments Clause. *Cf. Auffmordt v. Hedden*, 137 U.S. 310, 326-27 (1890). That is because the Supreme Court has treated individuals as "mere employees" rather than constitutional "officers" when "their duties were 'occasional or temporary' rather than 'continuing and permanent.'" *Lucia v. SEC*, 138 S. Ct. 2044, 2051 (2018) (quoting *United States v. Germaine*, 99 U.S. 508, 511-12 (1878)).

In any event, because Mr. Hirshfeld's appointment by the Secretary of Commerce satisfies the appointment criteria for an inferior officer, all that a court would be required to decide in this circumstance is whether the person performing temporarily the duties and functions of a principal office (i.e., the Director) must be someone appointed by the President with the Senate's advice and consent. The Supreme Court already has answered that question: A "subordinate officer [who] is charged with the performance of the duty of the superior for a limited time, and under special and temporary conditions, ... is not thereby transformed into the superior and permanent official." *United States v. Eaton*, 169 U.S. 331, 343 (1898); accord United States v. Smith, 962 F.3d 755, 765 (4th Cir. 2020) ("*Eaton* stands for the basic principle that acting heads of departments are not principal officers because of the temporary nature of the office."). For that reason, since the Founding, non-Senate-confirmed persons have been authorized "to temporarily carry out the duties of a vacant [principal] office in an acting capacity." *NLRB v. SW General, Inc.*, 137 S. Ct. 929, 934-35 (2017).

Under that precedent, Mr. Hirshfeld's *temporary* performance of the duties and functions of the PTO Director appears to be consistent with the Constitution—and thus any Appointments Clause challenge to his authority to review PTAB decisions would seem to be dead on arrival. This doesn't mean that Mr. Hirshfeld's service as acting Director is forever immune from challenge. On the contrary, as noted above, the only reason why an acting Director isn't a principal officer is because his or her service is temporary. At some point, then, someone may have a viable claim against Mr. Hirshfeld's authority. Such a claim would be especially forceful if there's no presidential nomination of a Director pending before the Senate and Mr. Hirshfeld's acting service continues for more than 210 days, the limitation period provided in the Federal Vacancies Reform Act.

The PTO's Interim Procedure and the Appointments Clause: There are at least two concerns that patent owners may inevitably assert relating to the design and implementation of the PTO's interim procedure in the wake of *Arthrex*. These concerns involve: (1) the Director's potential rubber-stamping of PTAB decisions and the lack of meaningful review; and (2) the exclusion of certain PTAB decisions from the interim procedure.

1. The first concern is based on the reasonable expectation that the Director rarely will review and reverse final written decisions or rehearing decisions by the PTAB. While that may be true, it doesn't follow that such a scheme is at odds with *Arthrex*. Under *Arthrex* and the Supreme Court's Appointments Clause jurisprudence, all that matters is that the Director is afforded the opportunity to review APJs' decisions. As the lead opinion makes clear, so long as the Director has "the authority to take control of a PTAB proceeding"—specifically, that he or she can review and potentially overrule PTAB decisions—"APJs would properly function as inferior officers" in accordance with the Appointments Clause. 141 S. Ct. at 1987 (internal quotation marks omitted). And that system, which merely affords the opportunity for Director review, "follow[s] the almost-universal model of adjudication in the Executive Branch, ... and aligns the PTAB with the other adjudicative body in the PTO, the Trademark Trial and Appeal Board." *Id.* The Chief Justice couldn't have been clearer when he said that "the Director need not review every decision of the PTAB. What matters is that the Director have the discretion to review decisions rendered by APJs." *Id.* at 1988.

   Far from expressing disagreement with a rubber-stamping scheme, counsel for Arthrex conceded at oral argument that "the availability of review" is what matters for purposes of the Appointments Clause. He said this in response to questions by Justice Thomas on whether "pro forma review" and "rubber-stamp review" would be acceptable and "address [Arthrex's] concerns." Indeed, as counsel for Arthrex explained, "the lower federal courts don't cease to be inferior courts merely because this Court denies certiorari in the vast majority of cases. It is the availability of review that makes them inferior courts and this Court the Supreme Court." So, too, here with respect to the Director and the PTAB.

2. The second concern is based on the fact that the PTO's interim procedure for Director review only applies to final written decisions and rehearing decisions by a PTAB panel. It doesn't extend to other PTAB decisions, such as institution or de-institution of IPRs. But any challenge based on this concern also is unlikely to succeed. As noted above, *Arthrex* and the Supreme Court's Appointments Clause jurisprudence repeatedly highlight that, in the context of an adjudication, a principal officer must ultimately be accountable to the public and the President for important decisions that bind the Executive Branch. The decision to institute or de-institute a PTAB proceeding arguably is one of those decisions and one that Congress authorized the Director to make. Under 37 CFR 42.4(a), the Director has delegated part of that authority to the PTAB. And while that delegation to the PTAB may be legally defective under the statute and the Administrative Procedure Act, it probably doesn't violate the Appointments Clause. More specifically, that delegation is likely consistent with *Arthrex* because the Director has the statutory authority to make that decision and it is the Director

(not Congress) who delegated some of that authority to the PTAB. Unlike with the IPR final written decision at issue in *Arthrex*, Congress didn't deprive the Director of overruling a PTAB institution-related decision. Because the Director could always revoke that delegation of authority, any institution-related decision can be traced to the Director, which is all that the Appointments Clause requires.

Again, counsel for Arthrex conceded as much during oral argument. Justice Thomas asked whether Congress could address the constitutional defect alleged by Arthrex "by providing the director with discretion" to make final written decisions on the IPRs and "the director then delegat[ing] that authority to the APJs." In response, counsel for Arthrex said that the scheme "would be permissible so long as it's consistent with the statute." More specifically, he explained that since Justice Thomas's hypothetical "statute authorizes [the Director's] review, that [legislative fix] would be permissible ... because the public and the President could hold the director accountable." The Director "is accountable for having done the delegation," counsel for Arthrex said, and "he could always withdraw that delegation."

It is for these reasons, then, that any Appointments Clause challenge to the exclusion of institution (or de-institution) decisions from the interim procedure for Director review is likely to fail as a matter of law.

The PTO's Interim Procedure and Due Process: The parties' briefs and oral argument in *Arthrex* involved some discussion of whether the practice of panel-stacking and the Director's manipulation of panel composition to achieve desired outcomes could give rise to due process concerns. A majority of the justices appeared sympathetic to this claim—or, at least, to the notion that panel-stacking is unfair. The newly recognized ability of the Director to review final PTAB decisions makes it unlikely that the Director will find the need to engage in such overt (and constitutionally dubious) manipulation. Accordingly, it is fair to assume that due process claims grounded on panel-stacking practices will be a rare occurrence in a post-*Arthrex* world.

The PTO's Interim Procedure and the Administrative Procedure Act: There are two APA-based objections that patent owners already have made against the PTO's interim procedure. We address each in turn.

1. Some patent owners have pointed out that the PTO didn't promulgate its interim procedure through notice-and-comment rulemaking. They seem to believe that such failure is sufficient to doom the current process, at least until the Director promulgates a regulation formally establishing the procedure. To their credit, it is true that, although *Arthrex* makes clear that the Constitution compels the Director's ability to review final PTAB decisions, there are many ways in which the PTO could structure its procedure to satisfy the holding in *Arthrex*. And whatever method the PTO chooses, it must comply with the APA. In response to this objection, we can expect the Government (and others defending the procedure) to make at least two arguments (or some version of them).

   First, the Government could argue that this is an interim-final rule, which can be implemented without notice-and-comment procedures when there's good cause to do so. *See* 5 USC § 553(b)(B). Interim-final rules are effectively proposed rules that have immediate effect while the agency receives and considers public comment. That is essentially what the PTO purports to be doing through the implementation of this Director review procedure. Whether or not this is such a rule and the PTO has demonstrated good cause in the wake of *Arthrex* may be the subject of further litigation—as will be any reluctance by the PTO to address incoming comments requesting changes to the interim procedure.

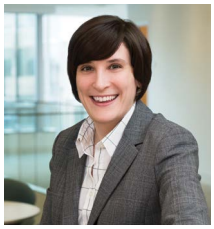
   Second, the Government could argue that the interim procedure is an example of a procedural rule—namely, a "rule[] of agency organization, procedure, or practice"—to which the APA's notice-and-comment requirements do not apply. *See* 5 U.S.C. § 553(b)(A). But whether something is a procedural rule or a legislative rule that has a substantive effect on someone's rights and obligations (and thus must undergo notice-and-comment rulemaking) is the subject of perennial dispute.

There are certainly some portions of the PTO's interim procedure that have a procedural flavor to it—such as, the fact that the timing requirements of 37 C.F.R. 42.71(d) will apply to requests for Director review, or that a Director may extend a party's rehearing deadline for good cause. Other aspects of the rule—such as if a party opts for PTAB rehearing (instead of Director review) and the request is denied, then that decision is final unless the Director reviews the decision *sua sponte*—are much more substantive in nature, affect the party's rights and obligations, and aren't required by *Arthrex* (even if they are consistent with the decision). We expect these issues to be litigated in the coming weeks or months, and for the PTO to receive public comment on these more substantive aspects of the established procedure.

2. Other patent owners have argued that the Director's denial of a petition for review without any reasoned explanation would also violate the APA. That argument seems more far-fetched and appears to be inconsistent with the adjudicative scheme of other agencies. Supreme Court precedent, including *Arthrex*, makes clear that the principal officer has the last word in the agency because he or she must be accountable for whatever adjudicative decision the inferior officers make.

In this new post-*Arthrex* world, when the Director denies review of the PTAB's decision, the final agency decision subject to appeal in the Federal Circuit is the Director's, not the PTAB's. So, the Director adopts, and is accountable for, the PTAB's decision when he or she denies review. Stated differently, by denying review, the Director agrees with the PTAB's decision, which is why the Director need not provide any additional explanation on top of what the PTAB has said. That is precisely what happens in the Social Security Administration and the Securities and Exchange Commission when their principal officers (the SSA Commissioner and the SEC, respectively) do not review their respective ALJ decisions.

Contacts



Mel Bostwick
Partner, Washington, D.C.
mbostwick@orrick.com
202 339 8483

Jason Lang
Partner, Silicon Valley
jlang@orrick.com
650 614 7427

Cesar Lopez-Morales
Senior Associate,
Washington, D.C.
clopez-morales@orrick.com
202 339 8471

Jonathan Liu
Associate,
Silicon Valley
jonathonliu@orrick.com
202 339 8471

Orrick, Herrington & Sutcliffe LLP | 51 West 52nd Street | New York, NY 10019-6142 | United States | tel +1 212 506 5000