
JUNE 22, 2021

Supreme Court Preserves PTAB, But Holds PTAB's Current Structure Is Unconstitutional

On June 21, 2021, the Supreme Court held in *United States v. Arthrex*, that the structure of the Patent Trial and Appeal Board (PTAB) violates the Appointments Clause of the U.S. Constitution but left the overall structure of the PTAB intact and did not alter the ability of the PTAB or administrative patent judges (APJs) to issue decisions in inter partes review proceedings. The Court remedied the constitutional violation by severing Section 6(c) of the America Invents Act to allow the Director of the Patent Office to review the PTAB's inter partes review decisions. The PTAB may thus continue to hear and decide inter partes reviews, albeit now subject to discretionary review by the Director of the Patent Office.

Background

The PTAB is an administrative body in the U.S. Patent and Trademark Office (PTO) that conducts several kinds of patent-related administrative adjudications, the most common of which is inter partes review (review of the patentability of one or more claims of an earlier-issued patent). The PTAB consists of the Director of the Patent Office, the Deputy Director, the Commissioners for Patents and Trademarks, and APJs. APJs are appointed by the Secretary of Commerce in consultation with the Director of the Patent Office. They are not confirmed by the Senate, and they are removable "only for such cause as will promote the efficiency" of the Patent Office.

In *Arthrex*, a medical technology company petitioned for inter partes review of certain patent claims, and a PTAB panel consisting of three APJs found the claims invalid. The patent owner sought review by the Federal Circuit, arguing that APJs were principal officers under the Constitution's Appointments Clause and thus had to be appointed by the President and confirmed by the Senate. The Federal Circuit agreed; it further held that it could remedy the constitutional violation by severing the statutory provision protecting APJs from removal except for cause. The Supreme Court granted review.

The Supreme Court's Decision

In a fractured opinion written by Chief Justice Roberts, the Supreme Court held that the appointment of APJs by the Secretary of Commerce violated the Appointments Clause but that the violation could be remedied by partially severing a provision of the America Invents Act.

In a 5-4 portion of the decision, the Court first held that "the unreviewable authority wielded by APJs during inter partes review is incompatible with their appointment by the Secretary to an inferior office." The Court explained that APJs have the "power to render a final decision on behalf of the United States" and that such a decision is not reviewed by any principal officer in the Executive Branch. The Court further explained that a petition for rehearing under Section 6(c) of the America Invents Act is the only mechanism for review, but "Congress unambiguously specified that '[o]nly the Patent and Trial Appeal Board may grant rehearings.'"

In a 7-2 portion of the decision, the Court then held that the constitutional violation could be remedied by severing Section 6(c) to the extent that it prevented the Director of the Patent Office from reviewing final decisions issued by APJs. That remedy was appropriate, the Court reasoned, because “review by the Director better reflects the structure of supervision within the PTO and the nature of APJs’ duties.” The Court explained, however, that “the Director need not review every decision of the PTAB.” Instead, “[w]hat matters is that the Director have the discretion to review decisions rendered by APJs.” The Court then concluded that a remand to the Patent Office was necessary to allow the Acting Director to decide whether to rehear the petition for inter partes review in the case at hand.

Justice Gorsuch concurred in part and dissented in part from the judgment. He agreed with the majority that the PTAB’s structure violated the Appointments Clause. But in his view, the Court lacked the power under “traditional remedial principles” applied by “[e]arly American courts” to sever an offending portion of a duly enacted statute. Instead, he believed that the Court should simply set aside the PTAB’s decision and go no further.

Justice Breyer, joined by Justices Sotomayor and Kagan, also concurred in part and dissented in part from the judgment. In Justice Breyer’s view, the Court’s precedents interpreting the Appointments Clause required only that inferior officers be “directed and supervised at some level.” Here, reasoned Justice Breyer, APJs are “supervised by two separate Senate-confirmed officers, the Secretary of Commerce and the Director” of the Patent Office. With respect to severability, Justice Breyer explained that he was joining the majority’s remedial holding because the remedy of severance addressed the particular problem identified by the majority: namely, that “the APJ’s decisions are not reviewable by the Director alone.”

Justice Thomas, joined in part by Justices Breyer, Sotomayor, and Kagan, concurred in part and dissented in part from the judgment. In Justice Thomas’s view, the majority was holding “[f]or the very first time” that Congress violated the Constitution by providing that the head of a department could appoint a federal officer. According to Justice Thomas, APJs “sit at the bottom of an organizational chart, nestled under at least two levels of authority.” In his view, neither the Court’s precedent nor the original understanding of the Appointments Clause “requires Senate confirmation of officers inferior to not one, but two officers below the President.” Thus, Justice Thomas would have “simply le[ft] intact the patent scheme that Congress has created.”

Implications

The Court explained that the scope of its decision was limited in two key ways. First, the Court noted that the case concerned “only the Director’s ability to supervise APJs in adjudicating petitions for inter partes review”; the Court expressly declined to address other forms of adjudications conducted by the PTAB. Second, the Court explained that its decision does not “attempt to ‘set forth an exclusive criterion for distinguishing between principal and inferior officers’” and does not “address supervision outside the context of adjudication.” The Court reasoned that “Congress has assigned APJs ‘significant authority’ in adjudicating the public rights of private parties, while also insulating their decisions from review and their offices from removal.”

As a result of the Court’s decision, the PTAB may decide to issue guidance as to the procedures for seeking review by the Director. Whether and how the Court’s decision will affect inter partes reviews decisions that are on appeal at the Federal Circuit will likely become clearer following the issuance of any such guidance and following any requests by parties to remand pending appeals to the PTAB for Director review.

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This memorandum is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this memorandum should be directed to:

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