

Supreme Court's appointments clause ruling will keep PTAB intact, lawyers predict

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(March 4, 2021) - The U.S. Supreme Court has grilled the government and two medical device manufacturers over the appointment of administrative patent judges, and attorneys say the justices probably will leave the process in place but require more oversight.

United States v. Arthrex Inc. et al., Nos. 19-1434, 19-1452 and 19-1458, *oral argument held* (U.S. Mar. 1, 2021).

The justices held oral argument March 1 to help them decide if the Patent Trial and Appeal Board's system for appointing APJs should be overhauled.

Arthrex Inc. argued that it should, while Smith & Nephew Inc. said it wants to keep the current process. The U.S. government, which has intervened in the dispute, agrees with Smith & Nephew.

The Supreme Court's decision rests on whether APJs are "inferior" officers, appointed as they are now by the secretary of commerce and director of the U.S. Patent and Trademark Office, or "principal" officers who must be appointed by the president.

U.S. Deputy Solicitor General Malcolm L. Stewart, arguing on behalf of the government, said APJs should be considered inferior officers because "the director's supervisory powers are fully sufficient."

The government is seeking to overturn *Arthrex Inc. v. Smith & Nephew Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), in which the U.S. Court of Appeals for the Federal Circuit found the designation of APJs violated the U.S. Constitution's appointments clause, *U.S. Const., art. II, § 2, cl. 2*.

Arthrex, represented by [MoloLamken LLP](#) attorney Jeffrey A. Lamken, agreed with the Federal Circuit and said a complete replacement of all the PTAB judges is the only remedy.

'Rare bird'?

Justice Neil Gorsuch asked about severing Section 6(c) of the Patent Act, *35 U.S.C.A. § 6(c)*, which gives the PTAB exclusive rights to rehearings. Lamken, however, insisted this "wouldn't even fix the problem," because the director's part would still be limited.

Mark A. Perry of [Gibson, Dunn & Crutcher LLP](#) argued for Smith & Nephew. Principal officers are those whom the Supreme Court has recognized as "the ambassadors and the cabinet officers, and the heads of agencies," not those who preside over patent disputes, he said.

Justice Elena Kagan asked how the USPTO could call its officers "inferior" when they make decisions with little accountability.

Justice Gorsuch posed a similar question: "Is it fair to say that, yes, this is a rare bird ... in the sense that there isn't final review in the agency head?"

"It is unusual, but it is also well and historically founded and ... until now, unchallenged," Perry answered, noting a 150-year-old "patent-specific tradition."

'They seemed wary of the drastic remedy'

Attorneys not involved in the case offered their predictions of how the dispute will turn out based on the justices' questions during the oral argument.

Darius Gambino, a partner at [Saul Ewing Arnstein & Lehr LLP](#), said he expects the Supreme Court to find a way to save the PTAB by adding director oversight.

"The USPTO has always had the power and authority to adjudicate patent validity issues, both pre-grant and post-grant, and the PTAB is really no different in that regard," he said.

Blair Silver, an attorney with [Banner Witcoff](#), said the justices appeared to find the appointment of APJs to be unconstitutional, but "they seemed wary of the drastic remedy sought by Arthrex of dismantling the [PTAB] and overturning the current system."

"The court may be poised to strike portions of the statute in a surgical manner by giving the USPTO director authority to directly review decisions of the APJ panels," he said.

Aziz Burgy, a patent attorney at [Axinn, Veltrop & Harkrider LLP](#), also said the majority of justices appeared to view APJs as principal officers given their authority and lack of accountability.

"Even though the odds favor a finding that APJs are principal officers, it is unlikely the court will throw out the entire PTAB scheme with the bathwater," he said. "Instead, the substance and tenor of the questions seem to suggest that the court will attempt to fix the problem by 'blue-penciling' the statute by perhaps requiring additional oversight over the APJs."

Scott Hejny, an attorney at [McKool Smith](#), said the Supreme Court could still maintain a strict reading of the Patent Act and not have the PTO's director review PTAB decisions, but this would require Congress to fix the issue and "could take time."

"The easiest paths for the Supreme Court are to either overturn the Federal Circuit decision, finding that the PTAB structure truly is a 'rare' — but constitutional — bird, or affirm the Federal Circuit decision."

George E. Quillin of [Foley & Lardner LLP](#) said "a decision with the least immediate impact would be one in which the court agrees with the government and Smith & Nephew that administrative patent judges have been inferior officers all along."

"Hence, there would be no need for a judicial fix to anything," he said.

Donald Falk, a partner in [Mayer Brown's](#) Supreme Court & Appellate and Intellectual Property practices, said that the final holding, which is due by the end of June, will probably include several opinions by a divided court.

"One can only hope that there is a firm majority that can provide clear instructions on how to fix the statute (in the case of an affirmance) or how to keep future administrative adjudicatory systems within constitutional limits (in the case of a reversal)," he said.

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