

10 Open Appellate Issues Following High Court Arthrex Ruling

By **Mark Selwyn, Kevin Yurkerwich and Lauren Mangano Drenkard** (September 13, 2021)

On June 21, the U.S. Supreme Court issued its decision in *U.S. v. Arthrex Inc.*

Two questions were before the court. First, are administrative patent judges principal officers who must be appointed by the president and confirmed by the U.S. Senate under the appointments clause of the U.S. Constitution? Second, if APJs are principal officers, what remedy should be adopted to cure the constitutional violation?

The Supreme Court held that APJs are principal officers. But the Supreme Court disagreed with the remedy adopted by the U.S. Court of Appeals for the Federal Circuit, which had severed restrictions on removing APJs from their positions by "invalidat[ing] the tenure protections for APJs" and making APJs removable at will.[1]

Instead, the Supreme Court struck down restrictions on the director's authority to unilaterally review final decisions of the Patent Trial and Appeal Board.

The U.S. Patent and Trademark Office quickly issued guidance following *Arthrex*. But the USPTO's guidance leaves open many questions that are — or may be — the subject of current and future appeals.[2]

This article will discuss 10 of these potential open issues, including the constitutionality of the procedures implemented by the USPTO, the impact of *Arthrex* on pending inter parts review appeals, and questions concerning the scope of director review, including who can request it.

1. Is the USPTO's procedure providing the director with authority, but not the obligation, to review board decisions constitutional?

The USPTO's interim procedures for director review indicate that not all requests for director review will be granted. They also provide that the director may separately "choose to conduct a sua sponte Director review of any final written decision or corresponding decision on rehearing." [3]

The first question is whether parties will challenge the constitutionality of the superior officer (director) not reviewing all final written decisions issued by inferior officers (the panel of APJs). *Arthrex* requires director review but states that "the appropriate remedy is a remand to the Acting Director for him to decide whether to rehear the petition" and not necessarily to actually review the decision.[4]

The *Arthrex* decision also only found that Title 35 of the U.S. Code, Section 6(c), is unenforceable "insofar as it prevents the Director from reviewing the decisions of the PTAB on his own" and that "[t]he Director may engage in such review." [5] Nonetheless, parties may suggest that certain issues must be considered by the director as review practice continues.



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2. Will review by an acting director be constitutional?

Commissioner Drew Hirshfeld is currently "Performing the functions and duties of the Under Secretary of Commerce for Intellectual Property and Director of the USPTO,"[6] including issuing decisions on multiple requests for director review,[7] but he is not Senate-confirmed.

In *Arthrex*, the court stated that the appropriate remedy to the constitutional violation "is a remand to the Acting Director for him to decide whether to rehear the petition." [8] Proponents of director review may argue that, under *Arthrex*, review by the acting director is sufficient to resolve the unconstitutional "restraint on the review authority of the Director" and that director review can occur prior to the nomination and Senate confirmation of a new USPTO director.[9]

The USPTO and Hirshfeld have issued guidance and signaled that he will begin issuing director review decisions in his current capacity, and he has in fact now issued several such decisions.[10] However, some litigants have already noted that Hirshfeld is not Senate-confirmed and does not officially hold the title of acting director, and they have questioned whether someone other than a Senate-confirmed director has the constitutional authority to carry out director review.[11]

3. Is delegation of the director's review power to an advisory board constitutional?

Under the USPTO's guidance, requests for director review will be "evaluated by an advisory committee established by the Director" that will "advise the Director on whether decisions merit review." [12] Some parties may argue that reliance on a review board constitutes an unconstitutional delegation of the director's power. At least one litigant has questioned the composition of the advisory committee.[13]

Under the USPTO guidance, "[t]he Director will determine whether review will be granted or denied," even if the decision whether to review a decision is informed by an advisory panel.[14] And the director delegates authority to USPTO officers in other contexts — e.g., for IPR institution decisions.[15]

In view of the *Arthrex* decision, however, it remains to be seen whether a party will mount a challenge to individuals other than the director having a role in director review, and such challenges may depend on the composition of the review committee and particular issues for decision.

4. Does the director need to issue a formal decision affirming the board's decision?

The *Arthrex* decision addressed whether the director has the power to review a final written decision issued by inferior officers but did not discuss how the USPTO should implement director review and whether decisions denying director review will need to provide their reasoning.

Some parties that seek, but are not granted, director review may challenge the constitutionality of the procedure if no decision explaining the director's reasoning is issued.[16] On Aug. 2, the USPTO issued its first decisions denying requests for director review without providing any reasoning.[17]

5. Are parties entitled to director review of institution decisions?

The Arthrex decision does not expressly address whether the institution decision must also be subject to director review. The court stated that "[o]nly a principal [officer] may issue a final decision binding the Executive Branch." [18]

The USPTO's guidelines suggest that the director will only review final written decisions. [19] It remains to be seen whether parties will seek director review of institution decisions, whether immediately after such a decision is made, or as part of seeking review after a final written decision.

Some petitioners may argue that decisions denying institution must be subject to director review because those decisions are a final decision on the merits, even though such decisions do not result in binding action by the executive branch. [20] Such requests or challenges would implicate the director's authority to delegate institution decisions to a panel of APJs.

In addition, parties may separately argue that the director must be capable of reviewing institution decisions because the statute expressly assigns responsibility for such decisions to the director, and the board may make those decisions only by virtue of a delegation of authority from the director. Parties may therefore argue that regardless of whether institution decisions count as final decisions, the director has inherent authority to revoke that delegation to the board and should have a mechanism for reviewing when to do so.

6. Does the Federal Circuit have jurisdiction over pending appeals that were filed before director review was available?

The Federal Circuit may need to consider whether it has jurisdiction over pending appeals that were filed before Arthrex. Specifically, parties may raise that because there was no opportunity to exhaust an administrative remedy that was not, but should have been, available, the Federal Circuit lacks jurisdiction. [21]

However, this argument may be difficult for appellants that appealed to the Federal Circuit. [22] The Federal Circuit issued supplemental briefing orders in cases where an appointments clause challenge was raised, which provided that the party that raised the challenge may file a brief by July 7, and the other party was permitted to respond by July 21. The Federal Circuit is evaluating those remand requests and has begun granting remands, even in cases in which an appointments clause challenge was not previously raised in an earlier appeal. [23]

7. Which pre-Arthrex final written decisions are eligible for review by the director?

According to USPTO guidance, the general time for filing a request for rehearing set forth in Title 37 of the Code of Federal Regulations, Section 42.71(d), within 30 days of the entry of a final written decision, will apply to the filing of a request for rehearing by the director. [24]

The deadline for cases in which a final written decision has issued, but the deadline for filing a request for director review has lapsed at the time Arthrex was decided, may be subject to a waiver of this deadline, so long as the waiver is requested before the due date for filing a notice of appeal under Title 37 of the Code of Federal Regulations, Section 90.3, per the USPTO's Arthrex Q&As. [25]

The USPTO's guidance does not address proceedings in which the notice of appeal deadline

has passed, but no appeal was noticed or taken. In such circumstance, it remains to be decided whether a party that did not preserve a challenge to the PTAB's decision should now be given the opportunity — via a waiver by the director — to avail itself of a request for director review in view of *Arthrex*.

If the director does not grant a waiver in such circumstances, it remains to be seen whether the requesting party will have jurisdiction to appeal such decision to the Federal Circuit and if the Federal Circuit will entertain a challenge to the director's waiver decision.

8. Will final written decisions issued by the PTAB after the Federal Circuit's *Arthrex* decision need to be reheard by the director?

In *Arthrex*, the court did not resolve whether the Federal Circuit's proposed solution — striking the for-cause removal provisions for APJs — was sufficient to resolve the constitutional issue. The court instead stated that director review was the most appropriate solution, noting that, "regardless whether [the Federal Circuit's remedy] would cure the constitutional problem, review by the Director better reflects the structure of supervision within the USPTO and the nature of APJs' duties."^[26]

The *Arthrex* decision leaves the question whether final written decisions issued by removable APJs in the time between the Federal Circuit's decision and the Supreme Court's *Arthrex* decisions are subject to a possible remand for rehearing by the director. Some litigants have argued that these decisions are subject to remand because the Federal Circuit's remedy did not cure the constitutional violation.^[27]

9. Is an *Arthrex* remand available to both petitioners and patent owners?

In *Arthrex*, the court considered whether it was unconstitutional for inferior officers to take away a party's patent rights. This suggests that at least patent owners will have the ability to seek remand from the Federal Circuit in view of *Arthrex*.

Petitioners, however, availed themselves of the existing IPR process, and parties may argue that, as a result, petitioners are not entitled to remand post-*Arthrex*. At least some parties have taken the position that petitioners have waived their ability to seek further director review.^[28]

10. Is a request for director review necessary to preserve issues for appeal?

Arthrex allows for director review but does not address whether parties must seek such review or whether, if they do seek such review, they must raise all issues to be raised on appeal. IPR regulations do not require a request for rehearing by the board before filing a notice of appeal, and the Federal Circuit has not required such requests before a party seeks appeal.

Appellees may argue that in view of *Arthrex*, however, a failure of a party to raise an issue for director review waives the party's ability to seek appellate review of an issue not presented to the superior officer. Courts have been reluctant to impose an exhaustion requirement before seeking judicial review where not strictly mandated.^[29] Indeed, the Federal Circuit has already held that even though board rehearing is available as an option, it is not mandatory before appealing.

If failing to raise issues in a request for director review does not waive the issue for appeal, parties that are planning to appeal the final written decision may think strategically about

whether to seek director review at all, and, if they do, which questions to raise. Since director review may give the USPTO opportunity to review its prior decision and address potential appellate issues, parties may consider the ramifications of seeking director review, and also rehearing, as opposed to Federal Circuit review.

In resolving the appointments clause challenge in *Arthrex*, the Supreme Court addressed the structure of the PTAB and the appointment of APJs, but left open many questions about the implications of its decision.

As the USPTO moves to implement new procedures in view of *Arthrex*, the director, PTAB, and Federal Circuit will grapple with new questions directed to, among other things, constitutionality, procedure, jurisdiction and appellate preservation. Parties should bear in mind these issues as they consider director review and strategy in ongoing or forthcoming appeals.

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[1] *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1978 (2021).

[2] See *Arthrex Q&As*, updated July 20, 2021, available at <https://www.USPTO.gov/patents/patent-trial-and-appeal-board/procedures/arthrex-qas> ("*Arthrex Q&As*").

[3] *Arthrex Q&As*.

[4] *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1987 (2021).

[5] *Id.*

[6] See, e.g., <https://www.USPTO.gov/initiatives/expanding-innovation/national-council-expanding-innovation/drew-hirshfeld>.

[7] See, e.g., *Google LLC v. Hammond Development Int'l, Inc.*, IPR2020-00081, Paper 39 (Aug. 2, 2021).

[8] *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1987 (2021).

[9] *Id.* at 1988.

[10] See <https://www.law360.com/ip/articles/1398748/USPTO-isn-t-waiting-on-biden-s-nominee-for-director-reviews>.

[11] See, e.g., *New Vision Gaming & Development, Inc. v. SG Gaming, Inc.*, No. 20-1399, D.I. 104, at 8 (July 7, 2021) ("Arthrex requires Director or Acting Director review. The USPTO has no current Director or Acting Director, however. Instead, Drew Hirshfeld is identified as 'performing the functions and duties of the Under Secretary of Commerce for Intellectual Property and Director' of the USPTO. He is neither the Director nor the Acting Director. His permanent role is Commissioner for Patents." (citation omitted)).

[12] Arthrex Q&As (describing advisory committee as including members from "the Office of the Under Secretary, the PTAB, the Office of the Commissioner for Patents, the Office of the General Counsel, and the Office of Policy and International Affairs").

[13] *Cellspin Soft, Inc. v. Canon U.S.A., Inc.*, No. 20-1947, D.I. 70, at 6-7 (July 7, 2021) (arguing that "rehearing cannot be delegated by the Director to the PTAB itself" because that "repeats" the constitutional violation and that "[i]f the Director does not conduct the review personally, reconsiderations must be delegated to members of the Director's staff that do not report up through the Chief APJ").

[14] Arthrex Q&As.

[15] See, e.g., 37 C.F.R. § 1.181(g) ("The Director may delegate to appropriate Patent and Trademark Office officials the determination of petitions.").

[16] See, e.g., *Cellspin Soft, Inc. v. Canon U.S.A., Inc.*, No. 20-1947, D.I. 70, at 5 (July 7, 2021) (arguing that Director rehearing decisions must not be "arbitrary and capricious" and that "the Director must give some explanation" of his reasoning).

[17] See, e.g., *Google LLC v. Hammond Development Int'l, Inc.*, IPR2020-00081, Paper 39 (Aug. 2, 2021).

[18] *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1985 (2021).

[19] Arthrex Q&As.

[20] See, e.g., *Cellspin Soft, Inc. v. Canon U.S.A., Inc.*, No. 20-1947, D.I. 70, at 8 (July 7, 2021) (arguing that 37C.F.R. § 42.71(c)'s provision of "final and nonappealable" authority to the Board to determine "whether to institute a trial" is invalid under Arthrex).

[21] *Document Security Systems, Inc. v. Nichia Corporation, Cree, Inc.*, No. 20-1383, D.I. 75, at 3 (July 7, 2021) (arguing the Federal Circuit lacks jurisdiction until a Senate-confirmed Director has the opportunity to review the decision).

[22] *Document Security Systems, Inc. v. Nichia Corporation, Corporation, Cree, Inc.*, No. 20-1383, D.I. 77, at 3 (July 20, 2021) (arguing that "by asking this Court to review the Board's Final Written Decision," Appellant assented to Federal Circuit jurisdiction).

[23] See, e.g., *LiquidPower Specialty Prod. Inc. v. Hughes*, No. 2020-2001 (Fed. Cir. 2020) (remanding case to allow opportunity to request Director rehearing of the final written decision).

[24] Arthrex Q&As.

[25] Arthrex Q&As.

[26] *United States v. Arthrex, Inc.*, 141 S. Ct. 1970, 1987 (2021).

[27] See, e.g., *Document Security Systems, Inc. v. Nichia Corporation, Cree, Inc.*, No. 20-1383, D.I. 75, at 6 (July 7, 2021) (arguing that the Federal Circuit's decision to make APJs "freely removable" did not cure the constitutional violation because there "would still remain 'no principal officer at any level within the Executive Branch' to 'direct and supervise' the work of APJ's").

[28] See, e.g., *Ciena Corp. v. Oyster Optics, LLC*, 958 F.3d 1157, 1159 (Fed. Cir. 2020) (holding IPR Petitioner waived Appointments Clause challenge because, "unlike the patent owner in *Arthrex*," Petitioner "affirmatively sought a ruling from the Board members, regardless of how they were appointed"); *Corephotonics Ltd. v. Apple, Inc.*, No. 20-1424, D.I. 65, at 3 (July 21, 2021) (citing *Ciena* and arguing that forfeiture should not be excused in view of standard waiver principles).

[29] See, e.g., *In re Magnum Oil Tools Int'l, Ltd.*, 829 F.3d 1364, 1377 (Fed. Cir. 2016) ("Nowhere does the statute granting parties the right to appeal a final written decision in an IPR require that the party first file a request for rehearing before the Board . . .").