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WEBINAR

*SCOTUS Decides Arthrex – USPTO
APJs Are Principal Officers, PTAB
Decisions Subject to Director Review*

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WEBINAR

Speakers



Art II, Sec. 2, clause 2: Appointments Clause

- President “shall nominate, and by and **with the Advice and Consent of the Senate**. . . all other **Officers of the United States**, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such **inferior Officers**, as they think proper, in the President alone, in the Court of Law, or **in the Heads of Departments**.”
- Senate confirmation required only for “**principal officers**.”



35 U.S.C. § 6(c)

- “Each appeal, derivation proceeding, post-grant review, and *inter partes* review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings.”



Arthrex Procedural History



IPR

- Final Written Decision: Patent found unpatentable



Federal Circuit

- Held APJs are principal officers
- Remedy: Severed for-cause removal provision
- No waiver of constitutional question



En Banc Review

- Denied



Supreme Court

- Held APJs are principal officers
- Adopted different remedy: Severed restrictions on unilateral review by Director





Federal Circuit's Decision

- **Held:** PTAB APJs are unconstitutionally appointed Principal Officers.
- **Remedy:** Severed statute to remove “for cause” removal protections.
 - “[S]evering the restriction on removal of APJs renders them inferior rather than principal officers.” *Arthrex*, 941 F.3d 1320, 1338 (Fed. Cir. 2019).



SCOTUS - Cert Granted

- Cert granted on the following questions:
 1. Whether APJs are principal officers who must be appointed by the President with the Senate's advice and consent, or "inferior Officers" whose appointment Congress has permissibly vested in a department head.
 2. Whether, if APJs are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 U.S.C. § 7513(a) to those judges (i.e. for-cause removal).



Supreme Court's Decision



- **Held (5-4):** PTAB APJs are unconstitutionally appointed Principal Officers.
- **Remedy:** Severed statute to remove restrictions on unilateral review of Board decisions by Director.
 - Remedy adopted by four Justices who found constitutional violation, joined by three Justices who would not have found a constitutional violation.



Supreme Court's Decision: Violation



- **Held:** PTAB APJs are unconstitutionally appointed Principal Officers.
 - **Majority:** Roberts, Alito, Gorsuch, Kavanaugh, and Barrett
 - **APJ are officers:** “no party disputes that APJs are officers—not ‘lesser functionaries’ such as employees or contractors”
 - **Lack of review by Director:** “review by a superior executive officer—is absent here: APJs have the ‘power to render a final decision on behalf of the United States’ without any such review by their nominal superior or any other principal officer in the Executive Branch”



Supreme Court's Decision: Violation



- **Held:** PTAB APJs are unconstitutionally appointed Principal Officers.
- **Diminished political accountability:** “The restrictions on review relieve the Director of responsibility for the final decisions rendered by APJs purportedly under his charge.”
- “The Government proposes (and the dissents embrace) a roadmap for the Director to evade a statutory prohibition on review without having him take responsibility for the ultimate decision. Even if the Director succeeds in procuring his preferred outcome, such machinations blur the lines of accountability demanded by the Appointments Clause. The parties are left with neither an impartial decision by a panel of experts nor a transparent decision for which a politically accountable officer must take responsibility.”



Supreme Court's Decision: Violation



- **Held:** PTAB APJs are unconstitutionally appointed Principal Officers.
- **Removal inadequate to ensure control:** “reassigning an APJ to a different task going forward gives the Director no means of countermanding the final decision already on the books. Nor are APJs ‘meaningfully controlled’ by the threat of removal from federal service entirely, because the Secretary can fire them after a decision only ‘for such cause as will promote the efficiency of the service,’ 5 U. S. C. §7513(a).”



Supreme Court's Decision: Violation



- **Held:** PTAB APJs are unconstitutionally appointed Principal Officers.
 - **Historical practice:** “History reinforces the conclusion that the unreviewable executive power exercised by APJs is incompatible with their status as inferior officers.”
 - “Congress has carried the model of principal officer review into the modern administrative state. As the Government forthrightly acknowledged at oral argument, it ‘certainly is the norm’ for principal officers to have the capacity to review decisions made by inferior adjudicative officers.”



Supreme Court's Decision: Remedy



- **Remedy:** Severed statute to remove restrictions on unilateral review of Board decisions by Director.
 - **Majority:** Roberts, Alito, Kavanaugh, Barrett (joined by Breyer, Sotomayor, and Kagan)
 - **Review by Director:** “Section 6(c) cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs.”
 - “[W]e hold that 35 U.S.C. §6(c) is unenforceable as applied to the Director insofar as it prevents the Director from reviewing the decisions of the PTAB on his own.”
 - “[R]eview by the Director would follow the almost-universal model of adjudication in the Executive Branch”



Supreme Court's Decision: Remedy



- **Remedy:** Severed statute to remove restrictions on unilateral review of Board decisions by Director.
- **Federal Circuit remedy less tailored:** “regardless whether the Government is correct that at-will removal by the Secretary would cure the constitutional problem, review by the Director better reflects the structure of supervision within the PTO and the nature of APJs’ duties”
- **Remand to PTO:** “the appropriate remedy is a remand to the Acting Director for him to decide whether to rehear the petition filed by Smith & Nephew”



Supreme Court's Decision: Remedy



- **Remedy:** Three dissenters provide votes needed to adopt remedy
 - **Breyer concurrence (joined by Sotomayor and Kagan):** “For the reasons I have set forth above, I do not agree with the Court’s basic constitutional determination. For purposes of determining a remedy, however, I recognize that a majority of the Court has reached a contrary conclusion.”
 - “On this score, I believe that any remedy should be tailored to the constitutional violation. Under the Court’s new test, the current statutory scheme is defective only because the APJ’s decisions are not reviewable by the Director alone. The Court’s remedy addresses that specific problem, and for that reason I agree with its remedial holding.”



Supreme Court's Decision: Gorsuch Concurrence



- Would have left remedy to Congress
 - Unclear whether Congress would have preferred unilateral review by Director or Senate appointment.
 - Majority's remedy "risks undermining the very separation of powers its merits decision purports to vindicate."
 - "Short of summoning ghosts and spirits, how are we to know what those in a past Congress might think about a question they never expressed any view on—and may have never foreseen? . . . These legislative séances usually wind up producing only the results intended by those conducting the performance"



Supreme Court's Decision: Gorsuch Concurrence



- Deeply skeptical of PTAB
 - “I continue to think this Court’s recent decision in *Oil States*—upsetting this traditional understanding and allowing officials in the Executive Branch to “cancel” already-issued patents—departed from the Constitution’s separation of powers.”
 - “If each new case this Court entertains about the AIA highlights more and more problems with the statute, for me the largest of them all is the wrong turn we took in *Oil States*.”
 - “Even if our judgment demands some degree of democratic accountability in the IPR process, it does not begin to fix the revolving door or any of the other due process problems *Oil States* ignored.”



Supreme Court's Decision: Thomas Dissent



- Would have found no constitutional violation
- Joined by Breyer, Sotomayor, and Kagan
- APJs are not principal officers because they serve under two layers of other officers (Secretary of Commerce and Director of PTO)
- Director cannot singlehandedly reversed Board decisions, but has powerful tools to control the Board



Nature of Remedy

- Federal Circuit: Entitled to consideration by new PTAB panel
 - “[A] new panel of APJs must be designated and a new hearing granted.” *Arthrex*, 941 F.3d at 1340.
 - “[W]e see no error in the new panel proceeding on the existing written record but leave to the Board’s sound discretion whether it should allow additional briefing or reopen the record in any individual case.” *Id.*
- Supreme Court: Entitled to request discretionary review by Director
 - Requires that Director have authority to review Board decisions, not that the Director actually review every decision
 - “the appropriate remedy is a remand to the Acting Director for him to decide whether to rehear the petition filed by Smith & Nephew”



Near Term PTO Implications

- PTO must establish procedure for Director to exercise authority to review final written decisions
- Who will review petitions and advise Director which to grant?
- Relationship to POP review
 - Precedential Opinion Panel takes advisory role?
 - Dispense with panel role in POP process?



Examples of Discretionary Review by Agency Head

APA model: 5 U.S.C. § 557(b) – initial decision becomes final unless reviewed

Department of Justice: Attorney General has authority to review decisions of Board of Immigration Appeals, but rarely exercises that authority. 8 C.F.R. § 1003.1(h).

Department of Energy: “By the 30th day after receiving an appeal decision from the OHA Director, any party may file a petition for Secretarial review with the Office of Hearings and Appeals.” 10 CFR § 708.35.

Department of Labor: “The Secretary may, at any point within the time periods provided . . . , and in his or her sole discretion, assume jurisdiction to review the decision. 29 C.F.R. § 18.95(c)(2)(i). “The Solicitor of Labor, or his or her designee, shall have the responsibility for providing legal advice to the Secretary with respect to the Secretary’s exercise of review under this Section . . .” *Id.* § 18.95(c)(2)(iv).



Transitional Issues

- Timing of PTAB decision?
- Who benefits?
- Forfeiture?
 - Failure to raise on appeal
 - Failure to raise before Board



Cases in the Pipeline

PTAB

Federal
Circuit

Supreme
Court

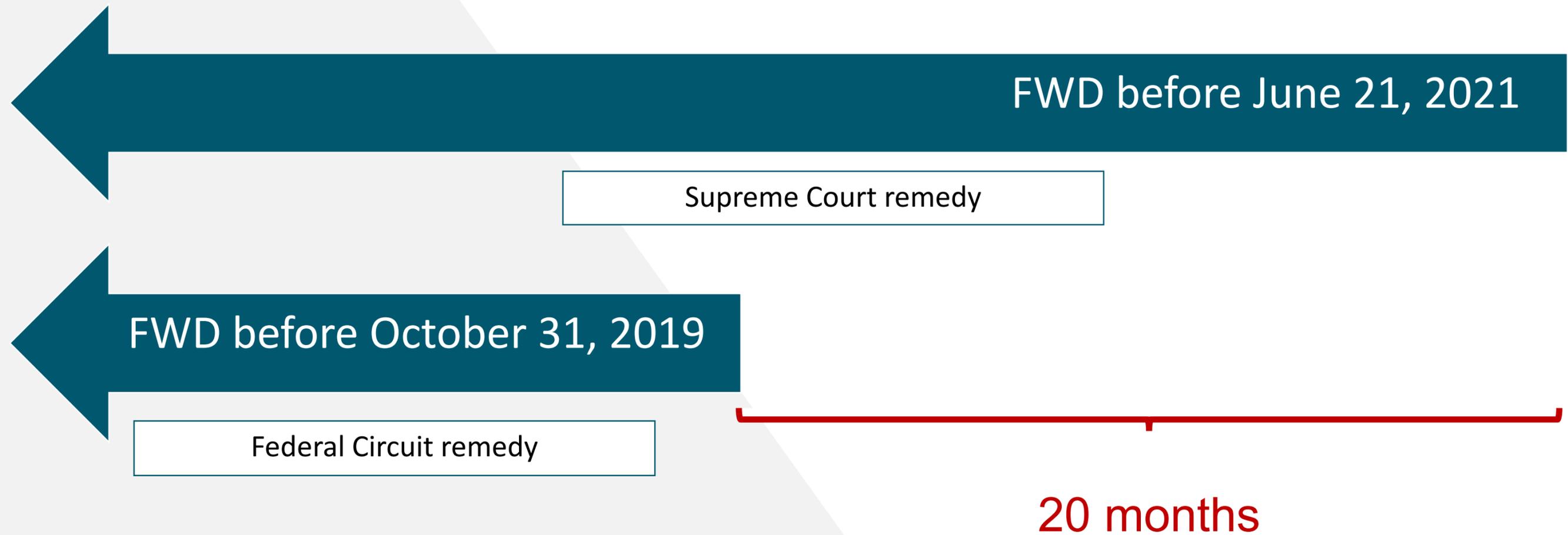


Federal Circuit Remedy Limited by Timing of PTAB Decision

- Federal Circuit remedy affected only PTAB decisions issued before October 31, 2019
 - *Caterpillar Paving Prods. Inc. v. Wirtgen Am., Inc.*, 957 F.3d 1342, 1343 (Fed. Cir. 2020) – denying motion to vacate and remand where the Board’s decision issued in November 2019, after the Federal Circuit’s *Arthrex* opinion
 - *Document Sec. Sys., Inc. v. Nichia Corp.*, 813 F. App’x 599, 600 (Fed. Cir. 2020) – no remand because final written decision issued on November 19, 2019
 - *Daikin Industries Ltd. v. The Chemours Company FC, LLC*, No. 20-1616 (Fed. Cir. Feb. 24, 2021) – no remand because final written decision issued on January 23, 2020
 - *Cywee Group LTD. v. Google LLC*, No. 20-1565 (Fed. Cir. March 16, 2021) – no remand because final written decision issued on March 6, 2020
- Irrelevant that *Arthrex* mandate did not issue until April 2020
 - *Infineum USA L.P. v. Chevron Oronite Co. LLC*, 844 F. App’x 297, 308 (Fed. Cir. 2021)
 - *Corephotonics, Ltd. v. Apple Inc.*, No. 2020-1425, 2021 WL 2012601 (Fed. Cir. May 20, 2021)



New Remedy Potentially Affects More Cases





Who Benefits?

- Likely will depend on where you are in the proceedings
- *Ciena Corp. v. Oyster Optics, LLC*, 958 F.3d 1157 (Fed. Cir. 2020)
 - Petitioner who chose review by the PTAB waived any Appointments Clause argument
- New PTO Process
 - Likely to be available to all parties



Forfeiture

- Federal Circuit excused failure to raise issue before PTAB
 - This is “one of those exceptional cases that warrants consideration despite Arthrex’s failure to raise its Appointments Clause challenge before the Board” because “this case implicates the important structural interests and separation of powers concerns protected by the Appointments Clause.” *Arthrex*, 941 F.3d at 1326.
- Government petition sought review of whether patent owner had to raise the constitutional challenge in the PTAB
- Supreme Court declined to grant review on waiver issue



Forfeiture: Failure to raise on appeal

- Federal Circuit: Appointments Clause challenge waived if not raised in opening brief on appeal
 - *Customedia Technologies, LLC v. Dish Network Corp.*, 941 F.3d 1173, 1174 (Fed. Cir. 2019)
- Is the Supreme Court's decision an intervening change in the law?



Forfeiture: Failure to raise before Board

- *Carr v. Saul*, 141 S. Ct. 1352 (2021)
 - Social Security applicant not required to present Appointments Clause challenge to agency
 - Issue exhaustion requirement “depends on the degree to which the analogy to normal adversarial litigation applies in a particular administrative proceeding”
 - “[T]wo additional considerations tip the scales decidedly against imposing an issue-exhaustion requirement”
 - “First, this Court has often observed that agency adjudications are generally ill suited to address structural constitutional challenges, which usually fall outside the adjudicators’ areas of technical expertise.”
 - “Second, this Court has consistently recognized a futility exception to exhaustion requirements.”



Exhaustion Requirement

- Will exhaustion of discretionary review be required before an appeal?
 - **Pre-APA:** “the trend in the law prior to the enactment of the APA was to require exhaustion of motions for administrative reconsideration or rehearing only when explicitly mandated by statute.” *Darby v. Cisneros*, 509 U.S. 137, 147 (1993).
 - **APA model:** 5 U.S.C. § 704 “explicitly requires exhaustion of all intra-agency appeals mandated either by statute or by agency rule; it would be inconsistent with the plain language of [§ 704] for courts to require litigants to exhaust optional appeals as well.” *Darby*, 509 U.S. at 147.
 - **IPR rehearing not required:** “Nowhere does the statute granting parties the right to appeal a final written decision in an [inter partes review] require that the party first file a request for rehearing before the Board....” *In re Magnum Oil Tools Int’l, Ltd.*, 829 F.3d 1364, 1377 (Fed. Cir. 2016).



Implications Going Forward

- Another step can extend IPR timelines
 - How will rehearing process work? Could a backlog occur?
 - Effect on race to finality with parallel proceedings
 - Effect on application of NHK/Fintiv factors
- Effects on petitioner/patent owner IPR practice
 - Motivation to preserve appealable issues
 - Motivation to file test-cases for certain issues



Implications Going Forward

- Director gains more direct control over IPR decisions
 - Increases potential influence of PTO Director
 - Possibility of shifting approaches across Administrations
- Tension between political control and ideal of neutral decision-maker



Congressional Action

- Less likely in light of remedy adopted.
- Congressional Subcommittee on Courts, Intellectual Property, and the Internet held hearing on Nov. 19, 2019
 - after CAFC decision, before denial of re-hearing en banc.
- Discussed issues raised by *Arthrex*. All outside panelists agreed that easiest remedy would be to amend statute to give the Director discretion to review and reverse APJ decisions.



Congressional Action

- The Trademark Modernization Act, enacted in December 2020, already granted the Director authority to reconsider decisions of the Trademark Trial and Appeal Board
- “The Director may reconsider, and modify or set aside, a decision of the Trademark Trial and Appeal Board under this section.”



Questions?



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