

CLIENT ALERT

Supreme Court's recent decision in *US v. Arthrex* found that Section 6(c) of the AIA was unconstitutional

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On Monday, the Supreme Court issued its decision in the closely watched *Arthrex* case—where the constitutionality of the Administrative Patent Judges (APJs) at the USPTO was at issue. The Court did not go as far as holding the entire IPR system unconstitutional, which *Arthrex* had sought, but a divided Court did find constitutional problems with the USPTO's handling of PTAB decisions. In particular, the Court agreed with the Federal Circuit's conclusion that the appointment of APJs by the Secretary of Commerce was unconstitutional, but found the Federal Circuit's remedy to the constitutional violation unsuitable.

At issue was Section 6(c) of the AIA, which requires that "each . . . inter partes review shall be heard by at least 3 members of the [PTAB]" and that "only the [PTAB] may grant rehearings." Yet the Court said the "structure of the PTO and the governing constitutional principles chart a clear course: Decisions by APJs must be subject to review by the Director." Slip op. at 20. The Court thus found, much like the Federal Circuit, that Section 6(c) "cannot constitutionally be enforced to the extent that its requirements prevent the Director from reviewing final decisions rendered by APJs." Slip op. at 21.

While the Federal Circuit attempted to cure this constitution issue by removing the APJs' tenure protections, making them removable at will by the Secretary, the Supreme Court took an entirely different remedial approach. The Court instead ordered that the Director of the USPTO "may review final PTAB decisions," and "may issue decisions himself on behalf of the Board." Slip op. at 21. The other sections of 6(c) remain operative as to the other members of PTAB. *Id.* The Court took no position the Federal Circuit's proposed remedy, finding instead that "review by the Director better reflects the structure of supervision within the PTO and the nature of APJs duties." Slip op. at 22.

The Court remanded the case to the Director to decide whether to rehear the IPR petition filed by Smith & Nephew at issue. On remand, however, *Arthrex* is not entitled to a hearing before a new panel of APJs; because the Court found the source of the constitutional violation to be the Director's lack of reviewing authority, the APJs who presided over the underlying IPR were deemed properly appointed. Slip op. at 23.

What this means for past, current, and future IPR litigants will be largely in the Director's discretion. Because "the Director need not review every decision of the PTAB," and because "[w]hat matters is that the Director have the discretion to review decisions rendered by APJs," the amount of oversight actually exercised by the Director will be key. Slip op. at 23. We expect to see guidance issued from the Director's Office (a Director has not yet been appointed by President Biden since Director Iancu's departure in January) explaining how the USPTO will comply with this order.

Until that guidance issues, we believe it is likely that any pending IPR proceedings before PTAB will be subject to Director review after a Final Written Decision is issued. Whether parties in cases that are after Final Written Decision but currently on appeal to Federal Circuit have preserved their arguments so as to take advantage of this ruling will need to be evaluated on a case-by-case basis. Also uncertain is whether the parties will be required to—or if they at least have an option to—Petition the Director to request review of a Final Written Decision, or whether the review will be triggered automatically for every Decision. And if the

latter, open is whether parties will be able to request reconsideration of the Director's decision to not review their case. Given the logistical challenges anticipated with the Court's decision, one avenue the USPTO could take is to replace the rehearing procedure—currently used to request reconsideration by the panel of APJs—with one that seeks review by the Director. Or maybe the USPTO will require a request for rehearing to be filed first, and only if that request is unsuccessful will a party be able to request Director review. Neither option is ideal for a losing party seeking to expeditiously resolve its case.

Regardless of how the USPTO implements the Court's recent decision, we expect a low success rate in Director review, perhaps even lower than the notoriously low success rates for requests for rehearing to the APJs (typically less than 5%).

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

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