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Federal Circuit Holds PTAB Judges Unconstitutional, Constructs a Fix, But Not All Judges Agree On What Happens Next

By Joshua R. Stein and Jeff Ginsberg

On Oct. 31, 2019, a Federal Circuit panel of Judges Moore, Reyna, and Chen issued a decision in *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. 2019), holding that the appointment of the Administrative Patent Judges (APJs) of the Patent Trial and Appeals Board (the Board) violates the U.S. Constitution. To remedy the unconstitutional appointments, the panel constructed a remedy by severing a portion of the Patent Act that restricted the removal grounds of APJs. With an *en banc* decision on the horizon and disagreement between the Federal Circuit judges on the proper remedy, this case may be far from over.

Procedural History

Arthrex, Inc. owns U.S. Patent No. 9,179,907 (the '907 patent), which was the subject of an inter partes review petition brought by Smith & Nephew, Inc. and Arthrocare Corp. *Id*. at 2-3. The Board instituted review and issued a final written decision holding a number of claims of the '907 patent unpatentable as anticipated. Arthrex appealed. *Id*.

On appeal, Arthrex argued, for the first time, that APJs were unconstitutionally appointed. Before addressing the merits of this, the panel discussed whether Arthrex had waived its constitutional challenge, and held that it had not. *Id*. at 4-6. In particular, the panel determined that this issue "is one of those exceptional cases that warrants consideration" because it "implicates the important structural interests and separation of powers concerns protected by the" Constitution. *Id*. at 5. In addition, the court noted that the Board "was not capable of providing any meaningful relief to this type of Constitutional challenge and it would therefore have been futile for Arthrex to have made the challenge there." *Id*. at 27.

The Court's Constitutional Analysis

Turning to the substance of the constitutional challenge, Arthrex argued that the APJs who presided over the *inter partes* review were not constitutionally appointed. *Id*. at 6-8. Under the Appointments Clause, the president shall nominate, with the advice and consent of the U.S. Senate, all "Officers of the United States," which are often referred to as "principal officers." U.S. Const. art. II, §2, cl. 2. The Constitution also provides that "inferior Officers" may be appointed by the president, the courts, or the heads of departments.

The Federal Circuit first had to determine whether APJs are officers, as opposed to employees, of the federal government. Under well-established law, an officer is someone who exercises "significant authority pursuant

Joshua R. Stein is an associate at Patterson Belknap Webb & Tyler LLP. **Jeff Ginsberg** is a Partner at the firm and Assistant Editor of this newsletter.

to the laws of the United States." *Arthrex*, No. 2018-2140, at 7 (quoting *Buckley v. Valeo*, 424 U.S. 1, 125-26 (1976)). The Appointments Clause "ensures that the individuals in these positions of significant authority are accountable to elected Executive officials" — that is, the president, the Senate, and the president's appointees. *Id*.

Neither the appellees nor the government disagreed that APJs are officers of the United States. The court agreed, noting that APJs exercise "significant discretion when carrying out their function of deciding *inter partes* reviews," including overseeing discovery, applying the Federal Rules of Evidence, hearing oral argument, and issuing final written decisions that decide the patentability of the patent claims at issue. *Id*. at 8. This "exercise [of] significant authority" renders APJs officers, and not employees, of the United States. *Id*.

Therefore, the remaining question was whether APJs should be considered principal or inferior officers. APJs are appointed by the Secretary of Commerce in consultation with the Director of U.S. Patent and Trademark Office (USPTO), both of which are principal officers. Because APJs are not nominated by the president and confirmed by the U.S. Senate, they are not properly appointed principal officers. According to Arthrex, APJs are not inferior officers because they are not adequately directed and supervised by a principal officer.

Applying the test articulated in *Edmond v. United States*, 520 U.S. 651 (1997), the Federal Circuit examined: 1) "whether an appointed official has the power to review and reverse the officer's decision"; 2) "the level of supervision and oversight an appointed official has over the officers"; and 3) "the appointed official's power to remove the officers." *Id*. at 9. Applying this test, the Federal Circuit concluded that neither the Secretary of Commerce nor the Director of the USPTO, either individually or collectively, exercise "sufficient direction and supervision over APJs to render them inferior officers." *Id*.

On the first prong, the court concluded that "no presidentially-appointed officer has independent statutory authority to review a final written decision" by an APJ. *Id*. The court acknowledged that the Director has a variety of roles to play in *inter partes* reviews, including the discretion to make the decision whether or not to institute an *inter partes* review, the ability to intervene in an appeal, through the Precedential Opinion Panel, and by the ability to designate a decision precedential. *Id*. 9-12. However, the Director cannot unilaterally reverse a final written decision, resulting in the revocation of "patent rights, without any principal officers having the right to review those decisions." *Id*. at 12. This, the court held, weighed in favor of the conclusion that APJs are principal officers.

Second, the court held that the Director has adequate levels of supervision over APJs, including in the Director's ability to promulgate regulations governing the conduct of *inter partes* reviews, designating decisions precedential, and exercising administrative authority both in the decision to institute a review and in the selection of the panel of APJs conducting the review. *Id*. at 13-14. For those reasons, the court held that this factor weighed in favor of finding APJs to be inferior officers.

And on the removal prong, the court noted that, although the Director has the ability to designate APJs to a particular panel, it was not clear whether Congress intended for the Director to have the power to de-designate them. *Id*. at 14-15. Regardless, the "Director's authority to assign certain APJs to *certain panels* is not the same as the authority to remove an APJ *from judicial service* without cause." *Id*. at 16. By statute, an APJ may be removed "only for such cause as will promote the efficiency of the service." 5 U.S.C. §7513(a). This weighed in favor of APJs being principal officers.

Evaluating these factors, and noting that APJs "do not have limited tenure, limited duties, or limited jurisdiction," the court held that APJs are principal

officers and, because they are not appointed by the president and confirmed by the Senate, "the current structure of the Board violates the Appointments Clause." *Id*. at 19-20.

Remedy

The court then turned to whether the statute could be fixed by "severing any problematic portions while leaving the remainder intact." *Id*. at 21. The court considered a variety of solutions, including a change from a three-judge panel to a single APJ panel appointed by Director, or permitting the Director to unilaterally revise any decision before it comes final. *Id*. at 21-23. However, the court concluded that the narrowest and least disruptive approach would be to sever the protections provided by 5 U.S.C. §7513, and therefore make APJs removable at will. *Id*. at 23-26. "Although the director still does not have independent authority to review decisions rendered by APJs, his provision of policy and regulation to guide the outcomes of those decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions." *Id*. at 25-26.

In concluding, the panel noted that they have "decided only that this case, where the final decision was rendered by a panel of APJs who were not constitutionally appointed and where the parties presented an Appointments Clause challenge on appeal, must be vacated and remanded." *Id*. at 29. Viewing its remedy as prospective, the panel noted that "we see the impact of this case as limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." *Id*. The panel therefore vacated the Board's decision and remanded to a new panel of APJs. *Id*. at 29-30.

Analysis

In the aftermath of the *Arthrex* decision, commentators have noted that there may be hundreds of cases that, under *Arthrex*'s analysis, may be subject to rehearing before the Board.

The Federal Circuit is not unanimous. Just a week after the decision in *Arthrex*, in *Bedgear, LLC v. Fredman Bros. Furniture Company, Inc*., No. 2018-2082, -2083, -2084 (Fed. Cir. 2019), a panel of Judges Newman, Dyk, and Stoll vacated and remanded three *inter partes* review decisions based on the Apportionments Clause *per curiam*.

However, a concurring opinion written by Judge Dyk, and joined by Judge Newman, noted that *Arthrex* could, and should, have held that the severing of 5 U.S.C. §7513 applied retroactively, "so that the actions of APJs in the past were compliant with the constitution and the statute." *Id*. at 2. If a retroactive remedy applied, the "APJs were properly appointed … and their prior decisions are not invalid." *Id*. at 10. In addition, applying the panel decision in *Arthrex*, Judge Dyk noted the "difficulty of identifying at what point in time the appointments became effective," suggesting that it could be "when the[] panel issues the decision, when the mandate issues, when *en banc* review is denied, [or] when certiorari is denied." *Id*. at 9 n.8.

En banc review was sought on Dec. 16, 2019. If Judge Dyk and Judge Newman's concurrence is any indication, there will be strong interest at the Federal Circuit to hear *Arthrex en banc*, at least to address the issue of remedy. And, even if the case is not taken *en banc*, the Federal Circuit will continue to grapple with the aftereffects of *Arthrex* in the upcoming months, including in scores of pending appeals from the Board that would, under *Arthrex*'s holding, require a new hearing.

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