

The PTAB and the *Arthrex* Decision: A Constitutional Question

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THE PTAB AND THE *ARTHREX* DECISION: A CONSTITUTIONAL QUESTION

The Appointments Clause of the U.S. Constitution¹ provides that “principal officers” of the United States must be appointed by the President upon the advice and consent of the Senate. “Inferior officers,” on the other hand, do not require Senate confirmation and the appointment power may be delegated to “the President alone ... the Courts of Law or ... the Heads of Departments,”² e.g., Cabinet Secretaries.

In the case of the Administrative Patent Judges (APJ) of the Patent Trial and Appeal Board (PTAB) in the U.S. Patent and Trademark Office (USPTO), since the implementation of the post-grant provisions of the America Invents Act (AIA) in 2012, the power of appointment rests with the Secretary of Commerce, the agency in which the USPTO resides.³ Until a recent decision of the Court of Appeal for the Federal Circuit (CAFC), however, they were considered “inferior officers,” allowing the Secretary to appoint them in keeping with the Appointments Clause.

Arthrex v. Smith-Nephew

In the recent case, *Arthrex Inc. v. Smith & Nephew, Inc.*⁴, Judge Moore, writing for a unanimous panel of the CAFC (Circuit Judges Moore, Reyna and Chen) upheld a challenge to that understanding, ruling that the APJs were actually “principal officers” under the Appointments Clause, and that the APJ appointment provisions of the AIA creating the PTAB were unconstitutional because the APJs were not appointed by the President and confirmed by the Senate, as is required for “principal officers.”^{5,6} On its face, this case has the potential to raise serious questions about the validity of many PTAB rulings.⁷

However, the panel also felt that it had the authority to craft a remedy which they felt eliminated the unconstitutional provision, allowing the rest of the statute to remain in effect, resulting in the APJs being lawfully appointed. There are still some questions concerning the efficacy of the holdings of the case, however, which await further elucidation.

¹ U. S. Constitution, Article II, Section 2, Clause 2.

² *Id.*

³ This has not always been the case. Before 2000, the APJs of the Board of Appeals and Interferences (BPAI), the predecessor board to the PTAB, were indeed appointed by the Secretary of Commerce. In the 1999 “American Inventor’s Protection Act”, (AIPA), that power was given to the Director of the USPTO, effective in 2000. However, in 2007, Prof. John Duffy published an influential article concluding that (1) APJs were “inferior officers” and not mere employees, and (2) the USPTO Director was not a “Head of Department” under the Appointment Clause, and therefore that portion of the AIPA granting the Director that appointment authority was unconstitutional and that any decisions rendered by panels with any of those judges were void. The losing party in a pending infringement litigation subsequently raised this issue in an appeal to the Supreme Court. https://www.scotusblog.com/wp-content/uploads/2008/09/07-1303_pet.pdf. While the certiorari petition was pending, Congress enacted a fix which provides that the Secretary of Commerce will again appoint the APJs, that APJs appointed between the effective date of the AIPA and this legislation shall be deemed to have been appointed by the Secretary as of the effective date of the AIPA, and that it is a defense to infringement on this grounds that Director-appointed judges were de facto officers, i.e. retroactive. 35 U.S.C. §6(d).

⁴ *Arthrex Corp. v. Smith and Nephew, Inc., et al.* <http://www.caafc.uscourts.gov/sites/default/files/opinions-orders/18-2140.Opinion.10-31-2019.pdf>

⁵ *Id.*

⁶ NB: There are approximately 250 APJs currently serving.

⁷ Further, the *Arthrex* court remanded the case to the PTAB for a hearing before another panel of APJs.

THE PTAB AND THE *ARTHREX* DECISION: A CONSTITUTIONAL QUESTION

Opinion

In its opinion, the *Arthrex* panel began by ruling that they had the right to hear the constitutionality question in the first place, even though it was only first raised on appeal. This normally constitutes a waiver of the right to have it considered on appeal. However, citing *Freytag*⁸, the Court found that it had the discretion to hear this issue on appeal. Finding “important structural interests and separation of powers concerns,”⁹ the Court found that this case rises to the level of “exceptional importance” and believed it should exercise its discretion to decide the issues.¹¹

On the merits of the Appointments Clause issues, the Court began by holding that APJs are considered to be “officers” *per se* under the Clause. The Court reasoned that an Officer of the United States, as opposed to a mere employee, is someone who “exercis[es] significant authority pursuant to the laws of the United States,”¹² and that the APJs “exercise significant discretion when carrying out their function of deciding inter partes reviews” and are therefore “officers.”¹³ Among other functions, the Court noted that APJs oversee discovery, apply the Federal Rules of Evidence, hear oral arguments and issue final written decisions containing fact findings and legal conclusions, ultimately deciding the patentability of the claims at issue.

The Court then turned to the question of whether the APJs are “principal” or “inferior” officers. If they are the former, they then must be Presidentially-appointed and Senate confirmed, a substantial procedure. However, the Court held that the APJs were indeed “principal officers.”

“The Supreme Court explained that “[w]hether one is an ‘inferior’ officer depends on whether he has a superior,” and “‘inferior officers’ are officers whose work is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.” *Edmond v. United States*.¹⁴ There is no “exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes.” *Id.* at 661. However, the Court in *Edmond* emphasized three factors: whether an appointed official has the power to review and reverse the officers’ decision; the level of supervision and oversight an appointed official has over the officers; and the appointed official’s power to remove the officers. See *id.* at 664–65.”¹⁵

Noting that the only two Presidentially-appointed officers who provide direction to the USPTO at the moment are the Secretary of Commerce and the Director of the USPTO, and “[n]either of those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers.”¹⁶

First, they noted that neither of these two officers have the authority to overturn a final written decision of the PTAB before it issues from the USPTO. Second, while the Director by statute is himself a member of the PTAB, he is only a single individual. Since PTAB panels consist of three APJs, the Director still cannot exercise the requisite authority over PTAB

⁸ *Freytag v. Commissioner of Internal Revenue*, 501 U.S. 868 (1991).

⁹ The PTAB is governed by Article I of the Constitution and the CAFC is governed by Article III.

¹⁰ *Arthrex*, p.8.

¹¹ The Court distinguished *In re DBC*, 545 F.3d 1373 (Fed. Cir. 2008), where the CAFC chose not to exercise its discretion on the grounds that, unlike in *DBC*, no corrective action had been taken.

¹² *Buckley v. Valeo*, 424 U.S. 1, 125–26 (1976).

¹³ *Arthrex*, p.8.

¹⁴ 520 U.S. 651, 662–63 (1997)

¹⁵ *Id.*, p.8-9.

¹⁶ *Id.*, p. 9.

THE PTAB AND THE *ARTHREX* DECISION: A CONSTITUTIONAL QUESTION

panels as a whole, sufficient to render the APJs “inferior” officers. Lastly, neither of them has the “unfettered” right to remove the APJs, a lack of power which further supported a holding that they were “principal” officers, citing *Edmond*.¹⁷

Shorthand for these factors is the “review power”, the “supervision power” and the “removal power.” The Court held that the Director’s inability to exercise certain aspects of both the “review power”¹⁸ and the “supervision power”¹⁹ weighed against constitutionality. Regarding the “removal power,” the Court considered it as both the power to remove from or refuse to assign an APJ to a particular panel, as well as the power to remove an APJ from their position altogether. In both cases, they also held that the lack of such power weighed against constitutionality.

Accordingly, the Court concluded that the provision of the AIA governing the appointment of APJs was contrary to the Appointments Clause and therefore unconstitutional.

“[T]he lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs, combined with the limited removal power, lead us to conclude...[that t]hese factors, considered together, confirm that APJs are principal officers...[and as] such, they must be appointed by the President and confirmed by the Senate; because they are not, the current structure of the Board violates the Appointments Clause [of the Constitution]”²⁰

Remedy

The Court acknowledged, however, that this holding would create the substantial possibility of bringing into question perhaps hundreds or more PTAB rulings. To try and correct or avoid this possibility, the Court took up the question of whether they had the power to fashion a remedy that would remove this constitutional infirmity, ameliorating the impact of the holding, and, if so, what should that power be. In particular, they looked at whether they could “sever” some portion of the statute which would affect this cure while leaving the rest of the statute in place.

Reviewing appropriate case law, the Court held that their authority does permit severability, so long as they exercise that power “cautiously” and “try to limit the solution to the problem, [by] severing any problematic portions while leaving the remainder intact.”²¹

Having determined that they had such authority, and considering various approaches, the Court decided that severing protections of removal only “for cause” was the narrowest viable modification of the statute and proceeded to do just that.

This remedy, of course, leaves the APJs without the protections of Title 5²², a not insignificant loss of right. Presumably lessening any negative impact initially, it is said this will not come into effect until the possibility of further appeals has been exhausted. The longer-term practical effect of this decision on the employment conditions and restrictions of APJs, especially as they relate to the Director’s powers, will have to be determined down the road.

¹⁷ *Edmond v. U.S.*, 520 U.S. 651.

¹⁸ Whether the Director has the power to review an APJs decisions such that the APJ cannot independently render a final decision on behalf of the United States.

¹⁹ The extent to which an APJs work is supervised or overseen by the Director.

²⁰ *Arthrex*, p. 20.

²¹ *Id.*, p.21.

²² 5 U.S.C., et seq. This governs the employment rights of most Federal employees, including those of the USPTO.

THE PTAB AND THE *ARTHREX* DECISION: A CONSTITUTIONAL QUESTION

Retroactivity

Concerns about the legal effect of the Court's decision on other pending cases, and possible defects in its approach, have arisen almost immediately.

This is particularly true on the question of whether it applies retroactively, potentially invalidating all pre-*Arthrex* decisions by the PTAB with an unconstitutionally appointed?

Just a week later, on November 7, a different CAFC panel,²³ citing *Arthrex*, vacated three final written decisions of the PTAB and remanded them to the Board for proceedings consistent with *Arthrex*. However, two of the three judges (Circuit Judges Dyk and Newman²⁴) filed a concurring opinion to the *Per Curium* panel opinion, which noted that they were required to follow the Court's precedent, i.e. *Arthrex*, but expressing significant reservations about *Arthrex*'s overall impact on the post-grant system and, in particular, its treatment of retroactivity. In their concurrence, they stated their belief it had been dealt with "improperly" and specifically that retroactivity should apply.²⁵

"[E]ven putting one side the question of whether [APJs] would have been improperly appointed (if not subject to at will removal), it seems to me that the remedy aspect of *Arthrex* (requiring a new hearing before a new panel) is not required by *Lucia*²⁶ ..., imposes large and unnecessary burdens on the system of inter partes review, requiring potentially hundreds of new proceedings, and involves unconstitutional prospective decision-making."²⁷

"The contrary decision in *Arthrex* is inconsistent with binding Supreme Court precedent and creates a host of problems in identifying the point in time when the appointments became valid ..."²⁸

Noting that the *Arthrex* panel had relied on *Lucia*, Judge Dyk distinguished *Lucia*, pointing out that the "fix" in *Lucia* was an "agency fix", whereas the fix in *Arthrex* is a "judicial fix", and

"Agencies and legislatures generally act only prospectively, which a judicial construction of a statute or a holding that a part of the statute is unconstitutional and construing the statute to permit severance are necessarily **retrospective as well as prospective**"²⁹(emphasis added).

The next day, in *Polaris v. Kingston* another panel (Circuit Judges Reyna, Wallach, Hughes),³⁰ ordered supplemental briefing by the parties and the government calling for supplemental briefing on basically the same questions raised or addressed in *Arthrex*: what level of supervision and review distinguishes "principal" and "inferior" officers; whether the severance as in *Arthrex* is a sufficient remedy; whether and how there is a difference between an unconstitutional removal of an APJ and an unconstitutional appointment; and whether severing Title 5 obviates the need to vacate and remand for a new hearing in view of the Supreme Court's retroactivity jurisprudence.³¹

²³ <http://www.cafc.uscourts.gov/sites/default/files/opinions-orders/18-2082.Opinion.11-7-2019.pdf>

²⁴ Judge Stoll was the third judge on the *Bedgear* panel.

²⁵ *Bedgear*, p 2.

²⁶ *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018)

²⁷ *Bedgear*, p 1.

²⁸ *Id.*, at 9.

²⁹ *Id.*, at 3.

³⁰ N.B.: Judge Reyna was on both the unanimous panel in *Arthrex* and the unanimous panel in *Polaris*.

³¹ For additional background on *Polaris* see <https://www.law360.com/ip/articles/1219119/a-possible-uspto-solution-to-ptab-constitutionality-ruling>.

THE PTAB AND THE *ARTHREX* DECISION: A CONSTITUTIONAL QUESTION

These opinions on the same issue in such a short period of time suggest both that these questions are now controversial within the CAFC, specifically appearing that there is potential disagreement among the Federal Circuit judges, both on the constitutionality question itself and the *Arthrex* remedy and its impact on pending and past PTAB decisions.

Even the timing of the opinions has raised questions. Given the somewhat odd timing of the issuance of the *Arthrex* opinion³², some have asked whether that panel knew there were these disagreements and tried to issue first, establishing precedent.

Additional Questions

Other questions have also arisen quickly:

1. **The Administrative Procedures Act (APA).** The APA was originally enacted in no small part because of a concern that “agency adjudicators” were under too much control of their agencies and too subservient to the head of the agency, i.e. they were not sufficiently independent. The APA sought to alleviate that concern. One way in particular was to require that the “agency adjudicators” (called “hearing examiners” at the time, “Administrative Law Judges” (ALJs) now) may only be removable for “good cause” as established by the Civil Service Commission at the time. The *Arthrex* decision potentially creates a doctrinal problem that may require future judicial attention. Specifically, §556 of the APA,³³ requires that ALJ’s, as decision makers, must be subject to the Title 5 removal procedures. However, since the *Arthrex* decision has stripped these removal procedures from the APJs, it raises the question of whether APJs actually remain APJs legally and, if not, by what authority can they decide IPRs. This potential doctrinal problem will likely need to be addressed and resolved.
2. **Other proposed solutions.** A number of other curative suggestions and amendments have been put forward, most by statutory change. These include:
 - a. Giving the USPTO Director the express authority to overrule PTAB decisions, which would itself render them “inferior officer” instead of “principal” ones, stripping the APJs’ Title 5 rights. This has both policy and political issues.
 - b. Require the APJs to be nominated by the President and confirmed by the Senate, also eliminating the “principal officer” conundrum³⁴. This has both political and logistical issues.
 - c. Pass legislation similar to the 2008 corrective legislation (see fn 2, above). This may be subject to litigation, with the possibility that the Supreme Court might deem those fixes inadequate, presumably following *Lucia*. Among other things, the CAFC found *Lucia* would require that on remand, a new APJ panel, different from the original is required, although the remedy may only be available to those parties who timely file a constitutional challenge.

³² The CAFC’s usual practice is to issue its opinions by 11 am ET each day. *Arthrex* issued late in the afternoon on Oct. 31, and some have suggested that it might appear that the panel may have rushed it out, instead of simply waiting until the next morning for this purpose.

³³ 5 U.S.C. §556.

³⁴ At one point in their history, their predecessors, Examiners-in-Chief, were indeed Presidential/Senate confirmed. Of course, that is when there were far fewer than today.

House Judiciary Committee IP Subcommittee Hearing

As perhaps another indication of the impact of *Arthrex*, on November 19, 2019, the IP Subcommittee of the House Judiciary Committee held a hearing on this issue with four expert witnesses.³⁵ Each witness initially testified that they felt a legislative fix was necessary in the first place, as opposed to waiting for a judicial one. In their individual testimonies they detailed a variety of possible curative fixes.

Among them, they outlined five possible solutions:

1. Codifying the right of discretionary, unilateral review of PTAB decisions by the Director (also noted above);
2. Making all PTAB judges Presidential nominated, Senate-confirmed appointees (also noted above);
3. Creating a panel of Presidential nominated, Senate-confirmed PTAB judges with the authority to review decisions;
4. Making the PTAB Chief Judge alone a Presidential nominated, Senate-confirmed appointee with the authority to review decisions; and
5. Creating a separate review board for patent validity challenges from the PTAB whose head was Presidentially nominated and Senate-confirmed.

Conclusion

The bottom line of the impact of *Arthrex* at this point is that it is the precedent of the CAFC. However, it also appears there is sharp disagreement among the CAFC judges, both on the Constitution question issue itself as well as the remedy set out. Since this is a very timely and relevant issue, given the number of PTAB appeals which may be called into question, it is possible that some resolution, either by *en banc* review by the CAFC, *cert* granted by the Supreme Court or a new statute passed quickly through Congress might occur, expediting a resolution of this matter.

³⁵<https://judiciary.house.gov/legislation/hearings/patent-trial-and-appeal-board-and-appointments-clause-implications-recent-court>.