Arthrex Decision - Overview of Facts and Implications

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This document provides a factual overview of the Federal Circuit's decision in *Arthrex v. Smith & Nephew*, discusses the court's remedy, and addresses implications for litigants with Patent Trial and Appeal Board cases pending at the Federal Circuit and at the PTAB itself. The discussion below is current as of November 25, 2019.

ARTHREX, INC. V. SMITH & NEPHEW, INC., NO. 2018-2140 (FED. CIR. OCT. 31, 2019)

1. The Federal Circuit held that the appointment scheme for PTAB APJs is unconstitutional under the Appointments Clause. The court remedied the constitutional violation by severing and invalidating the portion of the Patent Act that prevents the Secretary of Commerce from removing APJs from service without cause.

THE APPOINTMENTS CLAUSE

2. The Appointments Clause, U.S. Const. art. II, 2, cl. 2, provides that "principal" officers of the United States must be appointed by the President with the advice and consent of the Senate. "Inferior" officers, by contrast, may be appointed by the President alone, by the courts, or by heads of departments. Title 35 § 6(a) provides for the appointment of APJs by the Secretary of Commerce, in consultation with the Director of the USPTO.

REVIEW POWER

3. The court held that APJs enjoy principal-officer status because the Director has no ability to "single-handedly review, nullify or reverse a final written decision issued by a panel of APJs." The PTAB issues final decisions on behalf of the executive branch, and the power of appellate review of those decisions lies only with the Federal Circuit.

SUPERVISION POWER

4. The court concluded that "[t]he Director exercises a broad policy-direction and supervisory authority over the APJs." In reaching this conclusion, the panel noted the Director's ability to (i) issue regulations and policy directives concerning *inter partes* review, (ii) designate decisions as precedential; (iii) institute *inter partes* review; (iv) designate the panel of judges who decides each IPR; and (v) control APJs' pay.

REMOVAL POWER

5. The court held that APJs were subject to the removal restrictions set forth in 5 U.S.C. § 7513(a), which provides for removal of federal employees "only for such cause as will promote the efficiency of the service" and only upon written notice of the specific reasons for removal (with the employee having the right of appeal the removal to the Merit Systems Protection Board).
6. These removal restrictions, combined with the APJs' ability to render final decisions that are not subject to the Director's review, convinced the court that APJs are principal officers.

THE REMEDY

7. The court endeavored to find a narrow "remedial approach" that would allow it to "sever any problematic portions [of the statute] while leaving the remainder intact." The panel severed and invalidated Title 5's removal restrictions, set forth in 35 U.S.C. § 3(c), as applied to APJs. The result is that the Secretary can now remove APJs without cause—rendering them inferior as opposed to principal officers.

8. The Federal Circuit remanded the *Arthrex* case to PTAB for rehearing by new panel.

ADDITIONAL ACTION BY THE COURTS

1. Smith & Nephew or the government could seek a rehearing by the same Federal Circuit panel, as well as a rehearing en banc by the entire Federal Circuit. Petitions for rehearing are currently due December 16, 2019. The government has indicated in filings in other cases that it intends to seek rehearing en banc.
2. Smith & Nephew or the government could appeal the Federal Circuit's decision to the U.S. Supreme Court via a writ of certiorari.

WAS THE REMEDY IN ARTHREX SUFFICIENT TO CORRECT THE UNCONSTITUTIONAL ISSUES?

3. *In Polaris v. Kingston*, No. 18-176 (argued November 4, 2019), appellant Polaris argued that the *Arthrex* fix does not go far enough to fix the constitutional defect and that the Director still lacks the ability to change or revoke a FWD.
4. Polaris argued that a possible fix might be to have all the APJs confirmed by the Senate, but that does not address previously decided post-grant proceedings. Another possible fix would be to give the Director the ability to review all FWDs (akin to the USITC Commission review of ALJ 337 investigation decisions). These fixes, however, could only be done by legislation.
5. Polaris told the panel that they will seek both en banc and Supreme Court review of the constitutional issue. The scope of the *Arthrex* appeal would be more limited because there was no dispute over the sufficiency of the remedy in *Arthrex*. The panel of Reyna, Hughes, and Wallach seemed to concur.
6. The lack of an issued mandate in *Arthrex* is causing procedural obstacles for the *Polaris* litigants. *Polaris v. Kingston* is perhaps a better vehicle for en banc review given the issues at play, but the *Polaris* court likely won't issue a decision until the mandate issues in *Arthrex*. Accordingly, *Arthrex* and *Polaris* are unlikely to stay on relatively parallel tracks for en banc review requests.
7. On Friday, Nov. 8, Federal Circuit requested additional briefing from the parties on the following issues:
    a. What level of supervision and review distinguish a principal from an inferior officer;
    b. Whether severing the application of Title 5's removal restrictions with respect to APJs under 35 U.S.C. § 3(c) sufficiently remedies the alleged unconstitutional appointment at issue in these appeals;
    c. Whether, and how, the remedy for an Appointments Clause violation differs when it stems from an unconstitutional removal restriction, rather than an unconstitutional appointment itself; and
    d. Whether severing the application of Title 5's removal restrictions with respect to APJs under 35 U.S.C. § 3(c) obviates the need to vacate and remand for a new hearing, given the Supreme Court's holdings on the retroactive application of constitutional rulings.

DOES SEVERING THE AIA, MAKING APJS "AT WILL" EMPLOYEES, VIOLATE THE APA?

1. Some believe the *Arthrex* remedy violates the Administrative Procedure Act ("APA").
2. *Inter partes* review ("IPR") proceedings are "formal adjudications" under the APA. *See Belden Inc. v. Berk-Tek LLC*, 805 F.3d 1064, 1080 (Fed. Cir. 2015). Assuming APJs are now removable at-will, they lack authority to conduct "formal adjudications[s]" in accordance with 5 U.S.C. § 556. Under § 556(b), formal adjudications must be conducted by: (1) the agency; (2) members of the body comprising the agency; or (3) administrative law judges appointed under 5 U.S.C. § 3105.

3. APJs do not fall in categories (1) or (2), so they necessarily fall in category (3). Under 5 U.S.C. § 7521, administrative judges in category (3) may be removed *only for good cause*.

NEW LEGISLATION

1. Some have advocated for new Legislation from Congress, such as:
    a. APJs need to be appointed by the President and confirmed by the Senate.
    b. APJ FWDs need to be reviewable de novo by some person or persons appointed by the President and Confirmed by the Senate (e.g., The Director, a new appellate ALJ panel, new or existing official in the PTO).
    c. Have an automatic review de novo of a FWD to a Federal district court to overcome the constitutional defect.
2. Advocates of new legislation recognize other issues must be taken into consideration
    a. Volume of cases;
    b. Timeliness of proceedings to meet statutory mandate;
    c. Political impact if Director is sole reviewer of FWDs.

HOW WILL THE PTAB UNION VIEW THIS UNILATERAL EMPLOYMENT CHANGE?

1. Some have questioned whether the APJs themselves may have a cause of action based on the *Arthrex* panel's decision to make them at-will employees.
    a. It is unlikely APJs could act on their own and they would probably have to appeal via the Department of Justice. If an en banc petition is filed in *Arthrex* or *Polaris*, the APJs could file an amicus brief individually or collectively.

ADDITIONAL QUESTIONS RAISED

1. What impact will this have on judges in Ex Parte Reexam proceedings? Do the same rules apply?
2. Was the *Arthrex* panel correct in holding that institution decisions are OK?
    a. Under the SCOTUS decision in *Freytag v. Commissioner*, 501 U.S. 868, 878–79 (1991), an officer is not inferior for some purposes and principal for some purposes; you are either one or the other. Accordingly, there is a strong argument that, since APJs have been improperly appointed, *everything they've done* is void.
3. Has the Federal Circuit correctly denied remand in cases where the Appointments Clause issue was not raised in the opening brief?
4. Has the Federal Circuit correctly remanded other cases before the government has a chance to pursue further appeals of the panel decision?
    a. The *Arthrex* decision and follow-on decisions may not stand up to en banc review and/or a cert petition.

CASES CURRENTLY ON APPEAL TO THE FEDERAL CIRCUIT

1. The *Arthrex* panel stated that "the impact of this case [is] limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal."
    a. This language suggests that litigants in PTAB appeals who have already raised Appointments Clause challenges may rely on this decision to obtain a remand for re-adjudication by a new, constitutionally appointed panel of APJs.
2. The decision does not indicate how appeals in which Appointments Clause challenges have not already been raised will be treated from a waiver standpoint. However, in *Customedia v. Dish,* No. 19-1001 (Nov. 1, 2019), the Federal Circuit issued a precedential order finding an Appointments Clause challenge forfeited because it had not been raised in the appellant's opening brief. The

Federal Circuit has issued other orders following *Customedia* in the past few weeks.

3. In *Uniloc 2017 LLC v. Facebook,* No. 18-2251, and *Bedgear v. Fredman Bros.*, No. 18-2082, decided shortly after *Arthrex*, the CAFC applied *Arthrex* — prior to its mandate issuing — to remand a case in which the appellant raised an Appointments Clause challenge in its opening brief.
    a. Judge Dyk wrote a concurring opinion in *Bedgear* suggesting that remands in light of *Arthrex* are not necessary because the *Arthrex* decision retroactively cured the Appointments Clause problem. This position seems unlikely to garner a majority of the Federal Circuit, given that the APJs that rendered final written decisions prior to *Arthrex* were unquestionably *not* at-will employees—meaning they were improperly appointed principal officers.
4. The decision by the panel in *Polaris* could have a major impact on *Arthrex*, in light of the additional briefing requested by panel.

CASES PENDING BEFORE THE PTAB

1. The impact of *Arthrex* on post-grant proceedings that are currently pending is less clear.
    a. On November 14, at a PTAB Bar Association event, Director Iancu and Chief Judge Boalick indicated that it was "business as usual" at the PTAB.
    b. The Office is currently taking the position that *Arthrex* has fixed the problem and the Office needs to do nothing more. The Office indicated they are open to input on any additional guidance stakeholders believe may be warranted from the PTAB in light of the *Arthrex* decision.
2. The panel's holding does not appear to affect the validity of any previously issued institution decisions, but the impact on pending proceedings remains to be seen.
3. Some have advocated for suspension of proceedings to allow for full appellate review of the panel decision in *Arthrex*, through rehearing before the Federal Circuit and potentially the U.S. Supreme Court.
4. Some have advocated for automatic review (by new Board panel) of all FWDs that are not yet on appeal to the Federal Circuit but issued prior to the *Arthrex* decision.
    a. Consistent with the Arthrex ruling, these FWDs were issued by unconstitutional judges and are entitled to a rehearing by a new Board panel.

KEY CASES RELIED UPON IN ARTHREX DECISION

1. **Buckley v. Valeo, 424 U.S. 1, 125–26 (1976):** "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.'"
2. **Morrison v. Olson, 487 U.S. 654 (1988):** "the Court concluded that the Independent Counsel was an inferior officer because he was subject to removal by the Attorney General, performed limited duties, had limited jurisdiction, and had a limited tenure."
3. **Freytag v. Commissioner of Internal Revenue, 501 U.S. 868,878–79 (1991):** "The Supreme Court exercised its discretion to decide an Appointments Clause challenge despite petitioners' failure to raise a timely objection at trial. 501 U.S. at 878–79. In fact, the Court reached the issue despite the fact that it had not been raised until the appellate stage. The Court explained that the structural and political roots of the separation of powers concept are embedded in the Appointments Clause. It concluded that the case was one of the 'rare cases in which we should exercise our discretion to hear petitioners' challenge to the constitutional authority.'"
4. **Edmond v. United States, 520 U.S. 651 (1997):** "'Whether 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.'"

5. **In re DBC 545 F.3d 1373, 1380 (Fed. Cir. 2008):** "In DBC, the Appointments Clause challenge was to the particular APJs who were appointed by the Director, rather than the Secretary. We observed that if the issue had been raised before the agency, the agency could have 'corrected the constitutional infirmity.' At that time, there were APJs who had been appointed by the Secretary who could have decided the case and thus the agency could have cured the constitutional defect."
6. **Lucia v. SEC — S. Ct. —, 2018 WL 3057895 (U.S., June 21, 2018):** "When a judge has heard the case and issued a decision on the merits, '[h]e cannot be expected to consider the matter as though he had not adjudicated it before. To cure the constitutional error, another ALJ. . . must hold the new hearing.'"
    a. In the wake of SEC v. Lucia, the SEC decided that all cases pending before ALJs or the commission should be reassigned to new ALJs who had been properly appointed. See In re: Pending Administrative Proceedings, Securities Act Release No. 10,536, Exchange Act Release No. 83,907, Investment Advisers Act Release No. 4,993, Investment Company Act Release No. 33,211, at 1 (Aug. 22, 2018)
7. **Free Enterprise Fund v. Public Company Accounting Oversight Board, 561 U.S. 477 (2010):** remedied separation-of-powers violation created by double layer of for-cause removal insulating PCAOB Board members by removing the second layer of for-cause removal.
8. **Intercollegiate Broadcasting System, Inc v. Copyright Royalty Board, 684 F.3d 1332 (D.C. Cir. 2012):** found Copyright Royalty Judges to be principal officers who were unconstitutionally appointed; remedied constitutional infirmity by severing the removal protections applicable to CRJs.