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3 Arthrex-Adjacent High Court Cases Could Affect PTAB's Fate

By **William Milliken** (March 23, 2021, 4:11 PM EDT)


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Chatter about U.S. v. Arthrex Inc., the case in which the U.S. Supreme Court is considering the constitutionality of the appointments of the administrative patent judges of the Patent Trial and Appeal Board, has dominated the intellectual property landscape in recent weeks.

The focus on Arthrex is understandable, given that the very existence of the PTAB — a major feature of the patent landscape today — potentially hangs in the balance.

But IP practitioners would be well served to keep their eyes on three other pending Supreme Court cases that, while not IP-related, involve legal issues that overlap with those at play in Arthrex.

Depending on how and when they are decided, these three cases — California v. Texas, Collins v. Mnuchin and Carr v. Saul — could affect the ultimate outcome in Arthrex. This article describes these three Arthrex-adjacent cases and explains their potential implications for the fate of the PTAB.

An Arthrex Refresher

In 2019, the U.S. Court of Appeals for the Federal Circuit held in Arthrex v. Smith & Nephew that APJs are principal officers, meaning that under the appointments clause of the U.S. Constitution they must be appointed by the president with the advice and consent of the Senate.

Because APJs are instead appointed by the secretary of commerce, the Federal Circuit held their appointments unconstitutional. To fix the constitutional problem, the court severed and invalidated APJs' tenure protections, which, the court held, rendered them inferior officers that may properly be appointed by the secretary of commerce.

All three parties — Arthrex, Smith & Nephew, and the U.S., which had intervened in the Federal Circuit to defend the constitutionality of the PTAB — petitioned for certiorari. Arthrex argued that the Federal Circuit correctly found APJs to be principal officers but that the court's severance remedy was improper. According to Arthrex, the constitutional problem is for Congress, not the courts, to fix.

Smith & Nephew and the U.S. argued that (1) the Federal Circuit erred in even considering Arthrex's appointments clause argument because Arthrex had forfeited it by failing to raise it to the PTAB and (2)

there was no constitutional problem in any event because APJs are inferior officers.

The Supreme Court granted certiorari to consider the merits of the constitutional question and the propriety of the Federal Circuit's remedy. The court did not grant certiorari on the forfeiture issue. Oral argument took place on March 1.

California v. Texas: Obamacare Reredux

California v. Texas, consolidated with Texas v. California, represents the third time the Supreme Court has considered the fate of the Affordable Care Act.[1] The issues in this case center on the law's so-called individual mandate — the requirement that all individuals obtain health insurance or else pay a penalty.

The first time the ACA was before the court — in a 2012 case called National Federation of Independent Businesses v. Sebelius — a majority of the court found that the individual mandate exceeded Congress' constitutional authority under the Interstate commerce clause but represented a permissible exercise of Congress' taxing power.

In 2017, Congress reduced the penalty for complying with the individual mandate to $0. Several states then sued, arguing that the individual mandate was now unconstitutional because it lacks a penalty for noncompliance and therefore no longer qualifies as a tax.

The states also argued that the individual mandate was not severable from the remainder of the Affordable Care Act, meaning that, if the mandate were found unconstitutional, the entire ACA would go down with it. A federal district court agreed with that argument and struck down the law in its entirety. After inconclusive proceedings in the U.S. Court of Appeals for the Fifth Circuit,[2] the Supreme Court stepped in to hear the case.

At a high level, the thematic overlap between Arthrex and the ACA case is significant. In both instances, a party has levied a constitutional challenge against a specific provision of an expansive statutory regime and argued that the unconstitutional provision is inseverable from the remainder of the statute — meaning that, if the constitutional argument succeeds, the whole law goes down.

Whichever decision comes down first — assuming the court finds a constitutional violation and therefore reaches the severability issue — may thus provide us a clue regarding how receptive the current court is to this sort of argument.

Is the court inclined to use the severability doctrine to surgically remove unconstitutional provisions and leave congressionally enacted statutes as intact as possible so as to minimize the amount of disruption caused by its decisions? Or is the court inclined to avoid the thorny questions of congressional intent and the risk of judicial lawmaking that inhere in severability law and leave the job of fixing the laws to Congress?

None of this is to say that the court will necessarily reach the same decision on severability in the two cases, even assuming it reaches the issue in both. The cases obviously have many differences, at the risk of understatement. But the ACA case, if it issues before Arthrex, could provide some useful clues about the current court's mood vis-à-vis the severability doctrine that might inform prognostications about the fate of the PTAB.

Collins v. Mnuchin: Fate of the Federal Housing Finance Agency

Like Arthex, Collins v. Mnuchin concerns the fate of an important but relatively recent congressional creation: the Federal Housing Finance Agency, which regulates the national mortgage loan companies Fannie Mae and Freddie Mac.

Shareholders of the mortgage companies brought suit arguing that the FHFA's enabling statute is unconstitutional because it permits the president to fire the FHFA's director only for cause, which — the shareholders claim — violates the separation of powers.

The Fifth Circuit agreed that the for-cause removal restriction was unconstitutional and severed it from the remainder of the statute. The Supreme Court granted certiorari to consider the constitutionality of the removal restriction and the severability issue.

Because Collins addresses severability, it could — like the ACA case — provide us with some clues regarding the current court's willingness to sever problematic statutory provisions from major pieces of legislation. The severability question in Collins is arguably even more relevant to Arthrex than the severability question in the ACA case, since the lower court's remedy in Collins — like the Federal Circuit's remedy in Arthrex — involved removing the tenure protections applicable to an officer of the U.S.

Again, however, the overlap between the two cases should not be overstated. In Collins, the challengers argued that the removal restriction itself was the constitutional problem because it created a separation-of-powers violation by preventing the president from enjoying sufficient control over the executive branch.

In Arthrex, the problem, according to the Federal Circuit, was that Congress created a category of principal officers but then provided for them to be appointed in an unconstitutional manner; the removal of the tenure protections was merely a means to reduce the officers to inferior status and therefore fix that problem.

So, in some sense, the severability issue in Collins is somewhat simpler than that in Arthrex. But Collins nevertheless could provide us some useful clues as to the current court's views on severability.

Carr v. Saul: Social Security Administration ALJ Appointments

Carr v. Saul, consolidated with Davis v. Saul, considers whether a claimant seeking Social Security benefits forfeits an appointments clause challenge to the appointment of a Social Security Administration ALJ if he or she fails to present that challenge to the agency, as opposed to for the first time on appeal.

On the surface, Carr appears to have perhaps the most overlap with Arthrex of the three cases discussed in this article: it concerns the constitutionality of administrative judge appointments, after all. However, the outcome of Carr may in fact prove less relevant to the outcome of Arthrex, for two primary reasons.

First, Carr is considering only the procedural issue of whether a claimant must raise the appointments clause issue to the agency; the court is not considering the appointments clause issue on the merits.[3] As indicated above, the court specifically declined to grant the government's request for certiorari on the timeliness issue in Arthrex.

Second, the timeliness issue in Carr is likely to turn on questions of administrative exhaustion that are specific to the Social Security Act context. The timeliness issue in Arthrex, in contrast, is more of a garden-variety forfeiture issue: In what circumstances can a litigant raise on appeal an issue that he or she did not raise in the tribunal below?

If the court's decision in Carr ultimately turns on the niceties of issue exhaustion in Social Security proceedings, the decision may have little relevance for any forfeiture issues in appeals from the PTAB.

Carr is still worth watching, though, and here is why: Depending on how the Supreme Court resolves Arthrex, the Federal Circuit may itself have to address a host of thorny timeliness questions after the decision comes down.

To take one example: Suppose the court finds that APJs were unconstitutionally appointed but imposes a different remedy to fix the constitutional violation — say, making APJ decisions directly reviewable by the director of the U.S. Patent and Trademark Office.

Which PTAB litigants will be able to take advantage of that decision once it issues? Only those who have preserved appointments clause challenges before the agency? Or any litigant with a still-live appeal? To the extent Carr provides some guidance to lower courts about how to address timeliness questions in the administrative appeal context, it could inform the Federal Circuit's resolution of these issues.

A decision in each of these cases is expected by the end of the Supreme Court term in June. IP practitioners — and federal courts casebook editors — may be sorting through their ultimate implications for a long time after that.

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[1] See Nat'l Federation of Independent Businesses v. Sebelius, 567 U.S. 519 (2012); King v. Burwell, 576 U.S. 473 (2015).

[2] Specifically, the Fifth Circuit agreed with the district court that the individual mandate was unconstitutional, but remanded to the district court for additional analysis of the severability issue. See Texas v. United States, 945 F.3d 355 (5th Cir. 2019).

[3] Everyone agrees that, under the Supreme Court's 2018 decision in Lucia v. SEC, 138 S. Ct. 2044 (2018), the ALJ was unconstitutionally appointed.