

Predictions For High Court Review Of Arthrex

By **William Milliken** (October 13, 2020, 6:42 PM EDT)

The U.S. Supreme Court has agreed to review the U.S. Court of Appeals for the Federal Circuit's holding in *Arthrex Inc. v. Smith & Nephew Inc.* that the appointment scheme for the Patent Trial and Appeal Board's administrative patent judges is unconstitutional under the appointments clause.

Below, I provide a brief background on the case and discuss five things that practitioners and litigants should know as the Supreme Court considers this case.



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Background

The U.S. Constitution's appointments clause provides that officers of the United States must be appointed by the president with the advice and consent of the U.S. Senate. Inferior officers, however, may be appointed by the president alone, by heads of departments or by the courts.

In *Arthrex v. Smith & Nephew Inc.*, a Federal Circuit panel held that Congress' decision to vest the appointment of APJs in the secretary of commerce was unconstitutional because APJs are principal officers.[1] As a remedy for the constitutional violation, the panel severed and invalidated APJs' tenure protections, making them removable at will.[2] This severance, the panel held, rendered the APJs inferior officers who may validly be appointed by the secretary of commerce.[3]

The full Federal Circuit denied rehearing en banc, with four judges dissenting,[4] and all parties to the case — *Arthrex*, *Smith & Nephew* and the U.S. — petitioned for certiorari. On Oct. 13, the Supreme Court agreed to take the case.[5] A decision is expected by the end of the Supreme Court term in June.

Five Things to Know About the Supreme Court's Grant of Certiorari in *Arthrex*

1. The court will review both the merits of the constitutional issue and the propriety of the Federal Circuit's remedy.

The three petitions in *Arthrex* collectively presented three issues for the Supreme Court's review: (1) whether APJs are principal or inferior officers; (2) whether, if APJs are principal officers, the Federal Circuit properly cured the appointments clause violation by severing and invalidating APJs' tenure protections; and (3) whether the Federal Circuit erred in considering *Arthrex's* appointments clause

challenge given that the argument was not raised to the PTAB. The Supreme Court limited its grant of certiorari to the first two questions.[6]

Accordingly, we can expect the court to decide the merits of the constitutional issue — i.e., whether the Federal Circuit correctly concluded that APJs are principal officers and thus that the appointment regime violates the appointments clause. We can also expect that, if the court decides that APJs are principal officers, it will also review the propriety of the Federal Circuit's severance remedy.

2. The court will not review the issue of whether Arthrex forfeited its appointments clause challenge by raising it for the first time in the court of appeals.

The U.S. has argued in Arthrex and similar cases posing the appointments clause issue that parties who do not raise objections to the PTAB's appointment structure before the agency thereby forfeit that argument for appeal.

The Arthrex panel rejected that argument for two reasons: (1) the appointments clause issue involved "important structural interests and separation of powers concerns" and (2) raising the argument to the agency would have been futile because the agency had no power to fix the constitutional problem.[7]

Arthrex, the panel explained, properly and timely raised its appointments clause argument "before the first body capable of providing it with the relief sought — a determination that the board judges are not constitutionally appointed." [8]

The Federal Circuit has since adopted a practice of considering all appointments clause challenges in cases where a final written decision issued prior to the Arthrex decision and the appellant raised the appointments clause issue in, or prior to, its opening brief on appeal.[9]

The U.S. sought Supreme Court review of the forfeiture issue, but, as noted above, the court declined to grant review on that question — thereby leaving intact the Federal Circuit's holding that raising an appointments clause argument in an opening brief on appeal is sufficient to preserve the argument.

3. Cases remanded to the board following Arthrex will likely remain stayed, and several pending petitions on the appointments clause issue will likely be held pending the court's disposition of Arthrex.

The Federal Circuit vacated and remanded over 100 appeals from board decisions based on Arthrex. After the full court denied rehearing en banc, the board issued a general order staying all remanded cases pending the Supreme Court's disposition of any petitions for certiorari in Arthrex.[10] Now that the court has granted certiorari, those cases will likely remain stayed until the court issues its decision.

In several of the remanded cases, one or more of the parties has petitioned for certiorari and requested that the court hold the petition pending its disposition of Arthrex. The U.S., for example, filed a single petition covering dozens of remanded cases.[11] The Supreme Court has not yet acted on these cases, and it likely will not act on them until Arthrex is decided.

4. Arthrex will present the Supreme Court with an opportunity to clarify the line between principal and inferior officers.

The line between principal and inferior officers is a notoriously murky one. As the Supreme Court

observed in *Edmond v. U.S.*, the caselaw does "not set forth an exclusive criterion" for distinguishing between the two.[12]

The court has stated that "'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" and has provided three factors that courts should consider in making that decision: (1) whether the officer's decisions are subject to review and reversal by a higher executive branch official; (2) the level of supervision to which the officer is subject; and (3) whether the officer is removable at will.[13]

However, these factors are not necessarily exhaustive, and their relative weight in the analysis is not always clear.

Arthrex presents an opportunity for the court to clarify this line and provide the lower courts and parties with guidance on the distinction between an inferior and a principal officer. For this reason, the case's appeal will not be limited to the patent law community; it will likely be of interest to a broad swath of practitioners and scholars of administrative law.

5. The disposition of Arthrex will not necessarily affect the constitutionality of other administrative adjudication regimes.

In concluding the APJs were principal officers, the Arthrex panel emphasized that APJs can "issue final decisions on behalf of the United States without review by any presidentially appointed officer." [14]

This feature of APJs distinguishes them from most other administrative law judges who conduct agency adjudications. In most agencies, administrative law judges issue an initial decision that is then subject to review by the agency itself or the agency head. For example, administrative law judges of the U.S. International Trade Commission issue initial determinations that are then reviewable by the full commission.[15]

Accordingly, even if the Supreme Court were to agree with the Federal Circuit that APJs are unconstitutionally appointed principal officers, it would not necessarily call into question the constitutionality of other administrative adjudication regimes.

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[1] *Arthrex v. Smith & Nephew Inc.* 941 F.3d 1320, 1325 (Fed. Cir. 2019).

[2] *Id.*

[3] *Id.*

[4] *Arthrex, Inc. v. Smith & Nephew, Inc.*, 953 F.3d 760 (Fed. Cir. 2020).

[5] *Order, United States v. Arthrex*, No. 19-1434 (U.S. Oct. 13, 2020).

[6] See *id.*

[7] *Arthrex*, 941 F.3d at 1326–27, 1339–40.

[8] *Id.* at 1339.

[9] See *Arthrex*, 953 F.3d at 764 (Moore, J., concurring).

[10] General Order in Cases Remanded Under *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019) at 1–2 (P.T.A.B. May 1, 2020).

[11] See *Iancu v. Luoma*, No. 20-74 (U.S. filed July 23, 2020).

[12] 520 U.S. 651, 661 (1997).

[13] *Id.* at 660–63.

[14] *Arthrex*, 941 F.3d at 1331.

[15] See 19 U.S.C. § 1337(c).