Arthrex v. Smith & Nephew, 941 F.3d 1320 (Fed. Cir. 2019)

BY WILLIAM H. MILLIKEN

Arthrex appealed a final written decision from an *inter partes* review (IPR) where the Patent Trial and Appeal Board (PTAB) found all challenged claims of its patent anticipated. On appeal, Arthrex argued for the first time that the appointment of Administrative Patent Judges (APJs) to the PTAB violates the Appointments Clause of the U.S. Constitution and, therefore, the final decision should be vacated. A unanimous panel of the Federal Circuit (Judge Moore, joined on the panel by Judges Reyna and Chen) agreed. The court held that APJs' appointments were unconstitutional and remedied the constitutional violation by severing the portion of the Patent Act that prevents the Secretary of Commerce from removing APJs from service without cause. That remedy changed the status of the APJs from "principal officers" to "inferior officers," which cured any Appointments Clause violation. The court then remanded the case to the PTAB for a hearing before a new panel of APJs.

The court held that APJs' appointments were unconstitutional and remedied the constitutional violation by severing the portion of the Patent Act that prevents the Secretary of Commerce from removing APJs from service without cause.

As an initial matter, the panel rejected the argument of the government (appearing as intervenor) that Arthrex forfeited its Appointments Clause challenge by failing to raise the issue to the PTAB. The panel noted that the Supreme Court had previously addressed Appointments Clause challenges raised for the first time on appeal and that "[t]imely resolution" of the issue was important given the "wide-ranging effect [of the court's holding] on property rights and the nation's economy." The court also explained that Arthrex had no incentive to raise the constitutional issue to the PTAB because the PTAB lacked the authority to hold its own appointment scheme unconstitutional. The court stated, however, 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."

Turning to the merits, Title 35 § 6(a) provides for the appointment of APJs by the Secretary of Commerce, in consultation with the Director of the U.S. Patent and Trademark Office. Arthrex argued that this appointment structure was unconstitutional because APJs are "principal officers" that, under the Appointments Clause, U.S. Const., art. II, § 2, cl. 2, may be appointed only by the President with the advice and consent of the Senate. "Inferior officers," in contrast, may be appointed by the President alone, by the courts, or by heads of departments like the Secretary of Commerce.

The Federal Circuit agreed with Arthrex and held that APJs were principal officers. In reaching this holding, the court analyzed three factors that the Supreme Court has deemed relevant to an officer's constitutional status: "(1) whether an appointed official has the power to review and reverse the officers' 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."

The first factor, the court held, indicated 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 to review those decisions lies only with the Federal Circuit. The court rejected the argument that the Director's ability to convene the Precedential Opinion Panel and to designate certain decisions as precedential provided him with the requisite oversight of APJs. The Director, the panel explained, is nonetheless unable to "control[] or influence[] the votes" of any other judge.

Turning to the second factor, 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.

Finally, the court held that APJs were subject to the removal restrictions set forth in 5 U.S.C. § 7513(a). That section 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 to appeal the removal to the Merit Systems Protection Board). 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 were principal officers that must be appointed by the President with the advice and consent of the Senate. Since APJs were appointed not by the President, but by the Secretary of Commerce, their appointments were unconstitutional.

To remedy the constitutional violation, the panel determined to sever and invalidate the removal restrictions applicable to APJs. The result is that the Secretary can now remove APJs without cause. Stripping APJs of these removal protections, the court held, rendered them inferior as opposed to principal officers.

The court then vacated and remanded the PTAB's decision without reaching the merits. On remand, the court held, "a new panel of APJs must be designated and a new hearing granted." The court emphasized that there was "no constitutional infirmity in the institution decision" because the Director had statutory authority to institute the IPR under 35 U.S.C. § 314. The court also left to the PTAB's discretion whether to allow additional briefing or reopen the record on remand.

Arthrex, Smith & Nephew, and the government have each petitioned for rehearing en banc. The full court will likely decide in early 2020 whether to hear the case en banc.

RELATED CONSTITUTIONAL ISSUES

- *Celgene Corp. v. Peter*, 931 F.3d 1342 (Fed. Cir. 2019) (retroactive application of IPR proceedings to pre-AIA patents is not an unconstitutional taking under the 5th Amendment)