

Challenges to the Constitutionality of the Patent Trial and Appeal Board

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Summary

Since the Patent Trial and Appeal Board's inception, it has faced questions regarding its constitutionality. This past year was no different. In 2019, aggrieved patent owners raised numerous constitutional challenges addressing loose ends following the *Oil States* decision, most of which were addressed by the Federal Circuit in *Celgene*. *Celgene* did not resolve the PTAB's constitutionality, however. The Federal Circuit held in *Arthrex* that the appointment scheme for PTAB Administrative Patent Judges (APJs) was unconstitutional and remedied the constitutional defect by allowing APJs to be removed without cause. Needless to say, *Arthrex* created significant angst and uncertainty that will continue to be addressed in 2020 and likely beyond.

The Legacy of *Oil States*

In 2018, the Supreme Court issued its much-awaited decision in *Oil States*, which presented the question of whether *inter partes* review (IPR) violates Article III of the Constitution because it gives the PTAB—an executive-branch entity—the authority to adjudicate the patentability of issued patents.¹ The Court held that IPRs do not violate Article III because the re-examination of an issued patent is a matter of “public rights” that may constitutionally be adjudicated by an administrative agency. But the Court took pains to “emphasize the narrowness of [its] holding,” stating that the case did not present a challenge to the retroactive application of IPRs to pre-AIA patents or a challenge based on the Due Process Clause or the Takings Clause.² Not surprisingly, perhaps, *Oil States* prompted many aggrieved patent owners to raise just these challenges to the Federal Circuit.

After declining to address several such challenges because they had not been adequately preserved,³ the Court addressed these issues in *Celgene Corp. v. Peter*.⁴ *Celgene* argued that the retroactive application of IPRs to pre-AIA patents was an unconstitutional taking under the Fifth Amendment.⁵ The panel disagreed, concluding that IPRs do not “differ from the pre-AIA review mechanisms [such as *ex parte* and *inter partes* reexamination] significantly enough, substantively or procedurally, to effectuate a taking.”⁶ Those review mechanisms, the panel explained, are merely “different forms of the same thing—reexaminations.”⁷ The Federal Circuit has applied *Celgene* to reject Fifth Amendment challenges to the IPR system in multiple cases since.⁸ Following *Celgene*, it seems settled that there is no Fifth Amendment problem with IPRs—although one litigant

recently filed a petition for writ of certiorari, re-raising the same question to the Supreme Court.⁹

And Then Came *Arthrex*

But *Celgene* did not resolve the PTAB's constitutionality once and for all. In *Arthrex v. Smith & Nephew*—perhaps the most explosive Federal Circuit decision of 2019—a unanimous panel held that the appointment scheme for PTAB Administrative Patent Judges (APJs) was unconstitutional.¹⁰

Title 35 U.S.C. § 6(a) provides for the appointment of APJs by the Secretary of Commerce, in consultation with the Director of the United States 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.)

Arthrex held that APJs were principal officers, analyzing 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.”¹¹

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.”¹² The court treated the second factor more equivocally, concluding that “[t]he Director exercises a broad policy-direction and supervisory authority over the APJs.”¹³ Finally, regarding the third factor, 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.”¹⁴ 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 improperly appointed principal officers.¹⁵

To remedy the constitutional violation, the panel severed and invalidated Title 5's removal restrictions, set forth in 35 U.S.C. § 3(c), as applied to APJs.¹⁶ The result is that the Secretary can now remove APJs without cause—rendering them inferior as opposed to principal officers.¹⁷

The court then vacated and remanded the PTAB's decision. On remand, the court held, "a new panel of APJs must be designated and a new hearing granted."¹⁸ The court left to the PTAB's discretion whether to allow additional briefing or reopen the record on remand.

All parties in *Arthrex* have petitioned for rehearing *en banc*. Additionally, a different panel requested supplemental briefing on various issues raised by *Arthrex*.¹⁹ It appears likely that the full Federal Circuit—and possibly the Supreme Court—will eventually weigh in on, at least, the following questions:

- Whether the *Arthrex* panel correctly held that APJs are principal officers.
- Whether, assuming APJs are principal officers, *Arthrex* correctly held that APJs' removal protections are severable from the remainder of the statute.
- Whether, assuming APJs are principal officers, severing APJ's removal protections renders them inferior officers and thus remedies the constitutional violation.
- When *Arthrex*'s remedy takes effect.²⁰
- Whether *Arthrex*'s remedy requires vacatur and remand for a new hearing.²¹
- Whether a litigant's failure to raise an Appointments Clause challenge in its opening brief waives that argument.²²

Stay tuned for further updates in this fluid and quickly changing area of the law.

¹ *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 138 S. Ct. 1365 (2018).

² *Id.* at 1379.

³ See, e.g., *Trading Techs. Int'l, Inc. v. IBG LLC*, 921 F.3d 1378 (Fed. Cir. 2019).

⁴ *Celgene Corp. v. Peter*, 931 F.3d 1342 (Fed. Cir. 2019).

⁵ *Id.* at 1358.

⁶ *Id.* at 1358–59.

⁷ *Id.* at 1361.

⁸ See, e.g., *Genentech, Inc. v. Hospira, Inc.*, 2020 WL 111268, at *7 (Fed. Cir. 2020); *Arthrex, Inc. v. Smith & Nephew, Inc.*, 935 F.3d 1319 (Fed. Cir. 2019); *Collabo Innovations, Inc. v. Sony Corp.*, 778 F. App'x 954, 961 (Fed. Cir. 2019).

⁹ *Collabo Innovations, Inc. v. Sony Corp.*, 778 F. App'x 954 (Fed. Cir. 2019), petition for cert. filed (U.S. Nov. 4, 2019) (No. 19-601).

¹⁰ *Arthrex v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019).

¹¹ *Id.* at 1329.

¹² *Id.*

¹³ *Id.* at 1331.

¹⁴ *Id.* at 1333.

¹⁵ *Id.* at 1335.

¹⁶ *Id.* at 1337–38.

¹⁷ *Id.*

¹⁸ *Id.* at 1340.

¹⁹ See *Polaris Innovations Ltd. v. Kingston Technology Co.*, No. 18-1768 (Fed. Cir. Apr. 4, 2018).

²⁰ See *Bedgear v. Fredman Bros. Furniture Co. Inc.*, 783 F. App'x 1029, 1034, n.8 (Fed. Cir. 2019) (Dyk, J., concurring).

²¹ See *id.* at 1032.

²² See *Customedia v. Dish*, No. 19-1001 (Fed. Cir. Oct. 1, 2018).