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Fed. Circ.'s Arthrex Ruling: Unforeseen Consequences For IPR

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In Arthrex Inc. v. Smith & Nephew Inc., a panel of the U.S. Court of Appeals for the Federal Circuit unanimously held that the appointment scheme for the Patent Trial and Appeal Board's administrative patent judges is unconstitutional under the appointments clause of the U.S. Constitution.

The Arthrex panel held that APJs are "principal" officers who, under the appointments clause, must be appointed by the president with the advice and consent of the Senate. Because APJs are instead appointed by the secretary of commerce and the director of the U.S. Patent and Trademark Office, the court explained, their appointments are unconstitutional.

As a remedy for the constitutional violation, the court severed and invalidated the portion of the Patent Act that prevents the secretary of commerce from removing APJs from government service without cause. Subjecting APJs to at-will removal, the court held, rendered them "inferior" officers that may validly be appointed by a "head of department," such as the secretary. The upshot is that, as a result of the Federal Circuit's holding, APJs are removable at will by the secretary.

The panel identified a simple path for bringing Patent Trial and Appeal Board APJs into conformance with the constitutional need for them to be inferior officers. However, while we have seen a number of smart predictions and potential scenarios that may play out in the aftermath of the Arthrex decision, we have not seen any discussion of what we believe to be a critical and fundamental problem with the solution prescribed by the panel.

The problem is this: making APJs removable at will renders them unable to preside over inter partes review proceedings consistent with the Administrative Procedure Act. Thus, in trying to rectify one infirmity, the panel created another (equally serious) infirmity in its stead. Assuming, as seems likely, that the Arthrex case is reheard en banc, the full Federal Circuit will likely need to address this issue as it considers the severability issue and the scope of any ordered remedy.

To understand why, a bit of background on the APA is in order. In the years leading up to the statute's passage, many stakeholders complained that agency adjudicators — who at the time were known as

"hearing examiners" and now are more typically called administrative law judges or ALJs — "were mere tools of the agency concerned and subservient to the agency heads in making their proposed findings of fact and recommendations."[1]

Thus, in enacting the APA in 1946, one of Congress' principal goals was to ensure that these adjudicators could decide disputed matters independently and impartially, without interference by the agency.[2] To that end, Congress established certain "formal requirements to be applicable '[i]n every case of adjudication required by statute to be determined on the record after opportunity for agency hearing.'"[3]

One of those requirements was that such adjudications be conducted by a hearing examiner who is "removable by the agency in which [she is] employed only for good cause established and determined by the Civil Service Commission ... after opportunity for hearing upon the record thereof."[4]

The for-cause removal protections for hearing examiners, which ensured that the examiners' decisions were not unduly influenced by the agency of which they were a part, was a central pillar of the APA.[5] Indeed, in the years following the APA's passage, the U.S. Supreme Court suggested that the provisions of the statute ensuring the independence of agency adjudicators — including the for-cause removal restrictions — were constitutionally required by the due process clause.[6]

These protections remain in the statute today, substantively unaltered. Section 556 of Title 5, which governs formal adjudications under the APA, requires that such adjudications must be conducted by one of three categories of actors: "(1) the agency; (2) one or more members of the body which comprises the agency; or (3) one or more administrative law judges appointed under [5 U.S.C. §] 3105."[7]

Section 3105, in turn, permits agencies to "appoint as many administrative law judges as are necessary for proceedings required to be conducted in accordance with [5 U.S.C. §§] 556 and 557" and requires that ALJs must be "assigned to cases in rotation so far as practicable."[8] Finally, another provision of Title 5, Section 7521, prohibits removal of ALJs appointed under § 3105 except "for good cause established and determined by the Merit Systems Protection Board on the record after opportunity for hearing before the Board."[9]

And here lies the problem with the Arthrex court's appointments clause fix. It is settled law in the Federal Circuit that inter partes reviews are formal adjudications subject to the requirements of Title 5 U.S .Code Section 556.[10] That means that they must be heard by either (1) the agency; (2) members of the body comprising the agency; or (3) one or more ALJs appointed pursuant to Section 3105.[11]

APJs are not the USPTO, and they are not members of the body comprising the USPTO; so, if they are to hear formal adjudications under Section 556, they must be ALJs.[12] But ALJs must be subject to the removal protections of Title 5 U.S. Code Section 7521. Because the Federal Circuit has now ruled that APJs are not subject to those removal protections, they are, by definition, not ALJs — and, because they are not ALJs, they can no longer decide inter partes reviews.

One might respond that perhaps Congress intended inter partes reviews to be an exception to the general rule that formal adjudications must be heard by independent decision-makers who are removable only for cause. After all, Section 556 contains a savings clause providing that "[t]his subchapter does not supersede the conduct of specified classes of proceedings ... by or before boards or other employees specially provided for by or designated under statute."[13]

The problem with this argument is that, as noted above, the Federal Circuit held in Belden — and has reaffirmed in many cases since — that inter partes reviews are subject to the formal-adjudication requirements of the APA, which include the requirements of Section 556.

And another provision of the APA, Title 5 U.S. Code Section 559, provides that "[s]ubsequent statute[s] may not be held to supersede or modify ... sections ... 3105 ... or 7521 of this title, ... except to the extent that [they] do[] so expressly."[14] Given Belden and Section 559, if Congress wishes to carve out an at-will removability exception for the triers of fact in inter partes reviews, it must do so expressly, not by implication.

But Congress did not do that. In fact, if anything, it did the opposite, providing in the AIA that "[o]fficers and employees of the [Patent] Office shall be subject to the provisions of title 5, relating to Federal employees."[15]

Moreover, even if Congress wished to take advantage of the savings clause and legislatively ratify the Arthrex court's fix, Congress would have to contend with the potential due process concerns presented by a regime in which petitioners and patent owners have their rights adjudicated by an actor who is entirely beholden to the agency that appointed her.

As the Federal Circuit itself recognized in Belden, "[t]he indispensable ingredients of due process are notice and an opportunity to be heard by a disinterested decision-maker."[16] Indeed, Section 556 explicitly provides that, notwithstanding its savings clause, officials presiding over administrative adjudications must conduct the proceedings "in an impartial manner."[17]

Where does this leave us? The most likely answer is that it leaves us in need of help from Congress. As the Arthrex decision explains, the other remedial approaches proposed by the government in that case are unworkable, inconsistent with the statutory text or both.

The judiciary may simply not have the tools to craft a revised post-grant review regime that is consistent with the appointments clause, the APA and the due process clause. But Congress does — and, given the importance of these issues, it should consider doing so quickly. We will be closely monitoring what the Federal Circuit does en banc. And, if it cannot find an appropriate remedy, we hope a fix will be passed swiftly by Congress.

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[1] Ramspeck v. Federal Trial Examiners Conference, 345 U.S. 128, 131 (1953).

[2] See Wong Yang Sung v. McGrath, 339 U.S. 33, 38-45 (1950). The idea that executive officers who perform adjudicatory functions should have some measure of independence from the executive has an impressive pedigree. "[A]s early as 1789 James Madison stated that 'there may be strong reasons why

an' executive 'officer' such as the Comptroller of the United States 'should not hold his office at the pleasure of the Executive branch' if one of his 'principal duties' 'partakes strongly of the judicial character.'" Free Enter. Fund v. Public Co. Accounting Oversight Bd., 561 U.S. 477, 530 (2010) (Breyer, J., dissenting) (alterations omitted).

[3] Wong Yang Sung, 339 U.S. at 48 (quoting APA § 5, 60 Stat. 237, 239, 5 U.S.C. §1004 (1946)).

[4] Ramspeck, 345 U.S. at 132 (quoting APA § 11, 60 Stat. at 244, 5 U.S.C. § 1010 (1946)).

[5] See Butz v. Economou, 438 U.S. 478, 513-14 (1978); Ramspeck, 345 U.S. at 131-32.

[6] See Goldberg v. Kelly, 397 U.S. 254, 271 (1970); accord Belden Inc. v. Berk-Tek LLC, 805 F.3d 1064, 1080 (Fed. Cir. 2015).

[7] 5 U.S.C. § 556(b).

[8] 5 U.S.C. § 3105.

[9] 5 U.S.C. § 7521(a).

[10] See Arthrex, Inc. v. Smith & Nephew, Inc., 935 F.3d 1319, 1326 (Fed. Cir. 2019) ("As we have often explained, IPR proceedings are formal administrative adjudications subject to the procedural requirements of the APA."); accord Belden, 805 F.3d at 1080.

[11] See 5 U.S.C. § 556(b).

[12] See also 154 Cong. Rec. H7233-01, 7234-35 (July 29, 2008) (statement of Rep. King) (noting that APJs are "administrative law judges").

[13] 5 U.S.C. § 556(b).

[14] 5 U.S.C. § 559.

[15] 35 U.S.C. § 3(c).

[16] Belden, 805 F.3d at 1080 (quoting Abbott Labs. v. Cordis Corp., 710 F.3d 1318, 1328 (Fed. Cir. 2013)).

[17] 5 U.S.C. § 556(b).