New York Law Journal
SERVING THE BENCH AND BAR SINCE 1888
WWW.NYLJ.COM
An ALM Publication
VOLUME 264—NO. 97
WEDNESDAY, NOVEMBER 18, 2020

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

SCOTUS To Decide Constitutionality Of PTAB Judge Appointments

By **Eric Alan Stone** And **Catherine Nyarady**

The America Invents Act created the inter partes review proceeding and provided for the appointment of Administrative Patent Judges to preside over them. This term the Supreme Court will decide whether the Federal Circuit correctly held that the appointment of those judges was unconstitutional, in a decision that could have a significant impact not only on inter partes reviews but on the power of administrative law judges in other agencies. *Arthrex v. Smith & Nephew*, 941 F.3d 1320 (Fed. Cir. 2019), reh'g denied, 953 F.3d 760 (Fed. Cir. 2020), cert. granted, Nos. 19-1434, 19-1452, 19-1458 (Oct. 13, 2020). We report here on the Federal Circuit's decision, its denial of rehearing, and the pending Supreme Court appeal.

The Appointments Clause and The America Invents Act

The Appointments Clause of the Constitution states that the president "shall nominate, and by and with the Advice and Consent of the Senate, shall appoint … Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments." U.S. Const. art. II, §2, cl. 2.

Title 5 of the United States Code further provides procedural limitations on when certain federal employees may be removed from office, ensuring that they may be removed "only for such cause as will promote the efficiency of the service." 5 U.S.C. §7513(a).

The America Invents Act created the inter partes review (IPR) proceeding and gave the Secretary of Commerce, in consultation with the Director of the United States Patent and Trademark Office, the authority to appoint Administrative Patent Judges (APJs) to constitute the Patent Trial and Appeal Board and to preside over IPR proceedings. 35 U.S.C. §6(a). The procedural and substantive limitations on removal of Title 5, §7513 apply to "Officers and employees of the" USPTO. 35 U.S.C. §3(c).

The America Invents Act created the inter partes review (IPR) proceeding and gave the Secretary of Commerce, in consultation with the Director of the United States Patent and Trademark Office, the authority to appoint Administrative Patent Judges (APJs) to constitute the Patent Trial and Appeal Board and to preside over IPR proceedings.

ERIC ALAN STONE *and* CATHERINE NYARADY *are litigation partners at Paul, Weiss, Rifkind, Wharton & Garrison.* MICHAEL F. MILEA, *an associate at the firm, assisted in the preparation of this column.*

Federal Circuit Decision and Denial of Rehearing

Smith & Nephew petitioned for IPR of certain claims of Arthrex's patent directed to a knotless suture securing assembly. 941 F.3d at 1325. The Board instituted review and issued a final written decision finding the claims invalid. Id. at 1326.

Arthrex appealed, arguing that the Secretary of Commerce's appointment of APJs violated the Appointments Clause. The Federal Circuit agreed, holding that "the statute as currently constructed makes the APJs principal officers" and thus "they must be appointed by the President and confirmed by the Senate; because they are not, the current structure of the Board violates the Appointments Clause." Id. at 1325, 1335.

In so holding, the court first determined that APJs are officers, rather than employees, because they exercise "significant authority," including exercising "significant discretion when carrying out their function of deciding" IPRs, overseeing discovery, applying the Federal Rules of Evidence, and, "at the close of review proceedings," issuing "final written decisions containing fact findings and legal conclusions, and ultimately deciding the patentability of the claims at issue." Id. at 1328 (citations omitted).

Having determined that APJs are officers, the court then evaluated three factors to determine whether they are principal or inferior officers: "(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." Id. at 1329.

The court concluded that the first factor suggested that APJs are *principal* officers, because "[n]o presidentially-appointed officer has independent statutory authority to review a final written decision by the APJs before the decision issues on behalf of the United States." Id. While the Director of the USPTO—the only member of the Board who is nominated by the President and confirmed by the Senate—could intervene in appeals of board decisions, could designate any panel decision as precedential, and could convene the Precedential Opinion Panel to rehear decisions, the court found that these powers do not "provide the type of reviewability over APJs' decisions comparable to the review power principal officers in other cases have had." Id. at 1329-30.

The court concluded that factor two, in contrast, suggested that APJs are *inferior* officers, because "the Director exercise[s] administrative supervisory authority over the APJs based on his issuance of procedures" and "has authority over the APJs' pay." Id. at 1331. The court explained that the Director "has the power to issue policy directives," may "provide instructions that include exemplary applications of patent laws to fact patterns," has independent authority to decide whether to institute an IPR based on a filed petition and response, and can designate Board decisions as binding on future panels. Id.

And the court concluded that factor three—the appointed official's power to remove the officers—suggested that APJs are *principal* officers. Id. at 1334. Because the Director and Secretary's ability to remove APJs is subject to the limitations of Title 5, the court concluded, they "lack unfettered removal authority." Id. at 1332. Additionally, the court held that the Director's other powers did not provide sufficient oversight ability: "[t]he Director's authority to assign certain APJs to *certain panels* is not the same as the authority to remove an APJ *from judicial service* without cause. Removing an APJ from an *inter partes* review is a form of control, but it is not nearly as powerful as the power to remove from office without cause." Id. at 1332-33 (emphases in original). The court also concluded that "other factors which have favored the conclusion that an officer is an inferior officer are completely absent here … APJs do not have limited tenure, limited duties, or limited jurisdiction." Id. at 1334.

The Federal Circuit concluded that "[t]hese factors, considered together, confirm that APJs are principal officers" and that the structure of the Board therefore violates the Appointments Clause. Id. at 1335.

The court then considered whether there was an "approach we can take to remedy the constitutionality issue." Id. The court concluded that it could do so by removing APJs from the termination protections of

Title 5, which the court described as "partially severing" the statute. Id. at 1337. "Severing the statute is appropriate if the remainder of the statute is '(1) constitutionally valid, (2) capable of functioning independently, and (3) consistent with Congress' basic objectives in enacting the statute." Id. at 1335. The court reasoned that "Congress would preserve the statutory scheme it created for reviewing patent grants and that it intended for APJs to be inferior officers. Our severance of the limits on removal of APJs achieves this" and that "[a]lthough the Director still does not have independent authority to review decisions rendered by APJs, his provision of policy and regulation to guide the outcomes of those decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions." Id. at 1338.

The government had proposed instead that the court permit the Director "to unilaterally revise a Board decision before it becomes final," but the court found that there was no "language in the statute that could plausibly be so construed." Id. at 1336. The court also rejected the government's proposal to allow the Director "to appoint a single Board member to hear or rehear any" IPR, because "severing three judge review from the statute would be a significant diminution in the procedural protections afforded to patent owners and we do not believe that Congress would have created such a system." Id. Finally, the court held that because "the final written decision on appeal issued while there was an Appointments Clause violation" the case should be remanded to a new panel of APJs. Id. at 1325.

Both the parties and the government petitioned for rehearing, which the full court denied. 953 F.3d at 761. In a dissent joined by Judges Newman and Wallach and joined in part by Judge Hughes, Judge Dyk concluded that "the draconian remedy chosen by the panel—invalidation of the Title 5 removal protections for APJs—rewrites the statute contrary to Congressional intent." Id. at 769 (Dyk, J., dissenting). Instead, Judge Dyk proposed a temporary stay of the court's judgment to give Congress the opportunity to "pass a far simpler and less disruptive fix": "Congress could amend the statute to provide agency review of APJ decisions." Id. at 771. Judges Hughes and Wallach also separately dissented.

Petitions for Certiorari

All parties—Arthrex, Smith & Nephew, and the government—petitioned for certiorari. The Supreme Court granted the writ and consolidated the cases. In its petition, the government argued that the Federal Circuit "erred in holding that administrative patent judges are principal officers" and that this case "will have substantial practical effects" because of the "many dozens of Board decision that were still subject to appellate review when the Federal Circuit ruled." 2020 WL 3545866, at **14-15, 16.

Arthrex argued that the Federal Circuit's "attempt to remedy the constitutional defect by striking APJ tenure protections … does not fix the problem. Even without tenure protections, there is still no principal executive officer who can review APJ decisions. That alone makes APJs principal officers." 2020 WL 3805820, at *25. Thus, according to Arthrex, the Federal Circuit "should have left the solution to Congress." Id. at *33.

Smith & Nephew argued that APJs are inferior Officers because "the Director has sole discretion to assign the panel, prescribe the procedures, set the precedent, supply the exemplary interpretations, convene a re-hearing panel, and decide whether a final decision should issue (or the proceedings terminated)." 2020 WL 3651171, at *24.

The government's and Smith & Nephew's opening merits briefs are due on November 25. Arthrex's combined opening and response merits brief is due on December 23. Oral argument has not yet been scheduled.

While the Supreme Court's decision will be important for APJs in the Patent Office and the future of IPR proceedings, it may also be significant in assessing the status of administrative law judges in a broad range of federal agencies.