

November 1, 2019



Client Alert

Federal Circuit Finds the Appointment of PTAB Judges Unconstitutional and Provides Remedial Solution

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Yesterday, in *Arthrex, Inc. v. Smith & Nephew, Inc.*, a panel of the Federal Circuit unanimously held that the appointment scheme for the Patent Trial and Appeal Board's (PTAB) Administrative Patent Judges (APJ) is unconstitutional under the Appointments Clause. The court 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. The court then remanded the case to the PTAB for a hearing before a new panel of APJs. The court emphasized that there was “no constitutional infirmity in the institution decision.” This decision raises a number of key questions and reinforces the need for practitioners to stay abreast of the ever-evolving PTAB landscape. Here we provide a summary of the holding and discuss some of the implications.

Background

Arthrex appealed a final written decision of the PTAB finding all challenged claims of its patent anticipated. On appeal, Arthrex argued for the first time that the appointment of PTAB APJs violates the Appointments Clause and, therefore, the final decision should be vacated.

The court's rejection of the government's forfeiture argument

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 Appointments Clause analysis

Generally speaking, the Appointments Clause provides that “principal” officers of the United States must be appointed by the President with the advice and consent of the Senate. “Inferior” officers, by contrast, may be appointed by the President alone, by the courts, or by heads of departments. Title 35 § 6(a) provides for the appointment of APJs by the Secretary of Commerce, in consultation with the Director of the USPTO. Arthrex, whose patent claims had been found invalid by the PTAB, argued that this appointment structure was unconstitutional because APJs are principal officers that may be appointed only by the President with the advice and consent of the Senate.

The Federal Circuit (Judge Moore, joined on the panel by Judges Reyna and Chen) agreed with Arthrex and held that APJs are 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."

Review power. 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 because the Director is nonetheless unable to "control[] or influence[] the votes" of any other judge.

Supervision power. 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.

Removal power. Finally, 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" and only upon written notice of the specific reasons for removal (with the employee having the right of 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 are principal officers that must be appointed by the President with the advice and consent of the Senate.

The remedy

The court endeavored to find a narrow "remedial approach" that would allow it to "sever any problematic portions [of the statute] while leaving the remainder intact." After considering and rejecting two of the government's proposed remedies, the panel determined to sever and invalidate Title 5's removal restrictions, set forth in 35 U.S.C. § 3(c), as applied 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. Importantly, the court left to the PTAB's discretion whether to allow additional briefing or reopen the record on remand.

Implications of the decision

1. Cases currently on appeal to the Federal Circuit: The panel opinion states 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." This language suggests that litigants in PTAB appeals who have already raised Appointments Clause challenges may rely on this decision to obtain a remand for re-adjudication by a new, constitutionally appointed panel of APJs. The decision does not indicate how appeals in which Appointments Clause challenges have not already been raised will be treated from a waiver standpoint. If you have a pending appeal, we recommend that you consult with appellate counsel to evaluate your options.

In the coming weeks, we expect the Patent Office to offer guidance concerning its plans for constituting panels and for adjudicating the remanded cases. The panel opinion made it clear, however, that it saw "no error in the new panel proceeding on the existing written record but le[ft] to the Board's sound discretion whether it should allow additional briefing or reopen the record in any individual case."

2. Cases pending before the PTAB: The impact of *Arthrex* on post-grant proceedings that are currently pending is less clear. The panel's holding does not appear to affect the validity of any previously issued institution decisions, but the impact on pending proceedings remains to be seen. We expect guidance from the Patent Office on this important issue soon. In the meantime, we recommend that you consult with PTAB counsel to evaluate your options.

Finally, it is important to note that the panel opinion may not be the last word on this issue. Given the importance and the far-reaching impact of the decision, the Federal Circuit may decide to hear the case en banc, and the government (or Smith & Nephew, the appellee) may petition for certiorari in the Supreme Court. We will continue to closely monitor these issues as they develop.

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