UNCONSTITUTIONALITY OF PTAB JUDGES CORRECTED BY FEDERAL CIRCUIT

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Intellectual Property Alert

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In a Halloween decision, the Federal Circuit issued its opinion in *Arthrex, Inc. v. Smith & Nephew, Inc. et al.*, an appeal from IPR2017-00275. Without wading into the technical merits of the decision, the three-judge panel of Judges Moore, Reyna, and Chen, issued a decision that, at first glance, sent tremors through those who practice before the PTAB in AIA-based post-grant review proceedings: finding the appointment of PTAB judges unconstitutional.

After the Supreme Court's decision in *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, held that *inter partes* reviews do not violate Article III or the Seventh Amendment of the Constitution, many practitioners expected the constitutionality challenges to wane from favor. 138 S. Ct. 1365, 1379 (2018). However, in the *Arthrex* appeal, the panel zeroed in on Arthrex's argument that "the appointment of the Board's Administrative Patent Judges ("APJs") by the Secretary of Commerce, as currently set forth in Title 35, violates the Appointments Clause, U.S. Const., art. II, § 2, cl. 2." *Arthrex, Inc. v. Smith & Nephew, Inc. et al.*, Appeal No. 2018-2140, slip op. at 2 (Fed. Cir. Oct. 31, 2019). The panel agreed, concluding that the as-written statute made the APJs of the PTAB "principle officers" subject to appointment by the president and confirmation by the Senate. *Id.* In response, the panel concluded that "severing the portion of the Patent Act restricting removal of the APJs is sufficient to render the APJs inferior officers and remedy the constitutional appointment problem." *Id.* The technical merits of the hearing were remanded for rehearing by a new panel of APJs. *Id.*

Arthrex failed to raise its constitutionality argument before the PTAB; however, the panel found that this issue was one that could be considered for the first time on appeal. *Id.* at 4. There exist rare instances where the Appointments Clause need not be raised at the fact-finding level, as the PTAB could not have corrected the problem identified by Arthrex even if it had wanted. Accordingly, there was no waiver by Arthrex as the issue "is an issue of exceptional importance" and was an appropriate use of the panel's discretion to decide the constitutional issue at hand, even in the face of Smith & Nephew's waiver argument.

Arthrex's Appointments Clause argument centered upon the characterization of the PTAB APJs as "principle officers" who must (and were not) be appointed by the president and confirmed by the Senate as required by U.S. Const., art. II, § 2, cl. 2. *Id.* at 6. Arthrex argued, and neither the government nor appellees disputed, that the APJs exercise the type of authority that renders them officers of the United States. *Id.* at 7. However, the parties disagreed whether the level of authority is sufficiently significant to render the APJs principle officers or inferior officers. While there is no exclusive criterion for distinguishing between principal and inferior officers for purposes of evaluation under the Appointments Clause, there are three factors to be analyzed: (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 goal of

such a determination is to ensure political accountability is preserved for the decisions issued by the officers in question. *Id.* at 9.

The ability to oversee, review, and reverse an officer's decision is a "significant" factor in determining the level of authority the officer has. There are more than 200 APJs at the patent office, and the Director of the PTO is the only member of these judges who is confirmed by the Senate. However, each panel decision issued by the PTAB comes from a panel of three judges (at least two of whom are not the Director) and there are no provisions or procedures in place that provide the Director with the power to nullify or otherwise modify any final written decision of a given PTAB panel. *Id.* at 10. Despite the ability of the Director to intervene in an appeal, there is no independent mechanism in place to make a change to a final written decision before the appeal process, which, statutorily can only be initiated by a party, not the Director. *Id.* at 10 (citing 35 U.S.C. § 319). In fact, the Director is statutorily required to issue a certificate if the parties elect not to appeal such that the "Director cannot, on his own, *sua sponte* review or vacate a final written decision." *Id.* at 10. There is "no review by other Executive Branch officers who meet the accountability requirements of the Appointments Clause." *Id.* at 11.

In addition to review within the agency, the panel reviewed the extent which the APJ's work is supervised or overseen. *Id.* at 13. This factor favored a characterization as an inferior judge as the "Director exercises a broad policy-direction and supervisory authority over the APJs." *Id.* at 13. The power includes the issuance of policy directives, instructions with examples of application of law to facts, the ability to designate a decision as precedential, the ability to decide institution, the ability to manage the composition of a panel, and control of APJ pay to name a few. *Id.* at 13-14.

Finally, the panel evaluated the "removal power" over the PTAB APJs. While the statutory language permitted the Director to designate a panel, it does not explicitly authorize de-designation; however, the panel left this interpretation for another day. *Id.* at 15 n.3. The Director's authority to assign APJs to a panel does not provide the authority to remove an APJ from judicial service. *Id.* at 16 (citing *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477, 501 (2010) ("[T]he power to remove officers at will and without cause is a powerful tool for control of an inferior")). Title 35 does not provide for the removal of APJs, reverting the analysis to Title 5. See 35 U.S.C. § 3(c) ("Officers and employees of the Office shall be subject to the provisions of title 5, relating to Federal employees."). APJs can only be removed from service for "such cause as will promote the efficiency of the service," meaning for "misconduct [that] is likely to have an adverse impact on the agency's performance of its functions." *Id.* at 19 (*citing* 5 U.S.C. § 7513). This factor also weighed in favor of the APJs being characterized as principle officers.

However, the federal circuit found that one way of remedying the constitutional issue arising from this is to, at the suggestion of the government's intervention in the appeal, partially severing 35 U.S.C. § 3(c), the provision that applies Title 5 to officers and employees of the USPTO such that it does not apply to APJs. *Id.* at 23. All parties in the case agreed that severing the application of Title 5's removal restrictions to APJs would cure the Appointments Clause infirmity. *Id.* at 24. The panel reasoned that while "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." The panel further reasoned that Congress would preserve the statutory scheme it created with the AIA in creating these procedures for reviewing patent grants and that Congress

intended APJs to be inferior officers, such that severing Title 5's applicability to APJs an appropriate measure to keep as much of the scheme in place as possible while curing the Appointments Clause issues. *Id.* at 26.

The technical merits of the case were remanded to a new panel of APJs. Id. at 29. In doing so, they held that the appropriate "remedy is not to vacate and remand for the same Board judges to rubber-stamp their earlier unconstitutionally rendered decision." *Id.* at 30.

The impact of this decision is likely limited to cases where an oral hearing occurred under the unconstitutional framework and a final written decision was issued by that PTAB panel. Those cases are likely entitled to a rehearing by a new PTAB panel. However, practically speaking, absent an anomaly in the first PTAB panel's decision, it is unlikely that a new panel will disturb a well-reasoned decision. It is not clear yet how (if at all) the PTAB will address proceedings where a hearing has occurred but no final decision issued. However, the Federal Circuit has already begun remanding cases where the Appointments Clause issue was properly raised in appellant's opening brief (*see e.g., Uniloc 2017 LLC v. Facebook, Inc. et al.*, No. 2018-2251 (Oct. 31, 2019)) and refusing to remand cases where the issue was not properly raised in the opening brief (*see e.g., Customedia Techs., LLC v. DISH Network Corp.*, No. 2019-1001 (Nov. 1, 2019)). There is unlikely to be any impact on cases where a final written decision has not yet been issued, whether or not oral hearing occurred, as there will be a constitutionally compliant removal provision in place when that PTAB panel issues its final written decision. We look forward to the PTAB issuing guidance on the issue, something we expect in the near future.

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