ARE PTAB Law Alert: FEDERAL CIRCUIT DECLARES PTAB APJs TO BE SUPERIOR OFFICERS APPOINTED IN AN UNCONSTITUTIONAL MANNER, BUT OFFERS A FIX GOING FORWARD WITH LIMITED RELIEF GOING BACK

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On Thursday, October 31, 2019, in *Arthrex, Inc. v. Smith & Nephew, Inc.*, the U.S. Court of Appeals for the Federal Circuit issued a 30-page decision declaring that Administrative Patent Judges ("APJs") at the Patent Trial and Appeal Board ("PTAB") are "principal officers" as the Patent Act (Title 35) has been enacted and structured. As such, the appointment of APJs by the Secretary of Commerce, as set forth in Title 35, violates the Appointments Clause, U.S. CONST., art. II, § 2, cl. 2. *Arthrex, Inc. v. Smith & Nephew, Inc., No. 2018-2140, slip op. (Fed. Cir. Oct. 31, 2019)*.

Notwithstanding this sweeping holding, after rejecting other alternatives, *Arthrex* provided as a "fix" to this constitutional flaw, severing the portion of the Patent Act restricting removal of the APJs only "for cause" as sufficient to render APJs inferior officers going forward and remedy the appointment problem. In this regard, *Arthrex* relied upon the Supreme Court's holding: "[T]he power to remove officers at will and without cause is a powerful tool for control of an inferior." *Free Enterprise Fund. v. Public Company Accounting Oversight Board*, 561 U.S. 477, 501 (2010). Arthrex summed up its conclusion 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." *Arthrex*, slip op. at 2.

For the patentee in *Arthrex*, because the Board's decision was rendered by a panel of APJs that were not constitutionally appointed, this decision resulted in the Final Written Decision being vacated and the case remanded for a new panel of properly appointed APJs "to hear … anew on remand" without reaching the merits, as the Supreme Court instructed in *SEC v. Lucia*, 138 S. Ct. 2044 (2018). *Arthrex*, slip op. at 29-30.

Significantly, even *Arthrex* put limits on its holding:

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1. “To be clear, on remand the decision to institute is not suspect; we see no constitutional infirmity in the institution decision as the statute clearly bestows such authority on the Director pursuant to 35 U.S.C. § 314.” *Id*. at 30.

2. “[W]e see no error in the new panel proceeding on the existing written record but leave to the Board’s sound discretion whether it should allow additional briefing or reopen the record in any individual case.” *Id.*

In Lucia, as *Arthrex* noted, “[t]o cure the constitutional error, another ALJ … must hold the new hearing.” Id. at 30 (quoting Lucia, 138 S. Ct. at 2055). *Arthrex* does not appear to decide if a new oral hearing must be held on remand.

Arthrex recognized that a waiver of an Appointments Clause challenge does not arise by the failure to raise it before the Administrative Agency, here in the PTAB proceeding below. *Id*. at 5. But the panel also noted that such challenges are not “jurisdictional”. *Id*. at 29. Thus, *Arthrex* confirmed its holding was “only that this case, where the final decision was rendered by a panel of APJs who were not constitutionally appointed and where the parties presented an Appointments Clause challenge on appeal, must be vacated and remanded.” *Id*.

Thus, while *Arthrex* recognized that the patentee in that case did not waive its challenge by waiting until its Appeal to raise the issue, subsequent decisions have clarified that to preserve the argument on appeal, the argument must be raised in the opening brief or be forfeited. See, e.g., *Customedia Technologies, LLC v. Dish Network Corp.*, No. 2018-2239, Order (Fed. Cir. Nov. 1, 2019) (denying motions to vacate and remand because “Customedia did not raise any semblance of an Appointments Clause challenge in its opening brief or raise this challenge in a motion filed prior to its opening brief”); *Customedia Technologies, LLC v. Dish Network Corp.*, No. 2019-1001, Order (Fed. Cir. Nov. 1, 2019).

In sum, it appears that:

1. Any Final Written Decision of the PTAB issued by APJs appointed prior to October 31, 2019 by the Secretary of Commerce is at risk of being vacated and remanded to be decided by a new panel of properly appointed APJs on appeal, to the extent that a challenge is made on appeal either by motion before an opening brief is filed or in an opening brief on appeal. *See, e.g.*, *Uniloc 2017 v. Facebook, Inc.*, No. 2018-2251, Order (Fed. Cir. Oct. 31, 2019) (vacating and remanding PTAB decision to the Board “consistent with this court’s decision in Arthrex”).

2. Any institution decisions or records developed before or after October 31, 2019, remain in force and effect and unscathed by *Arthrex*.

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3. Any final written decisions in which the challenge was not timely made on appeal in a pre-Opening Brief motion or on a motion, remain in force and effect.

Presumably, future decisions by the PTAB will include APJs that are reappointed by the Secretary of Commerce that can be removed at will and thus made by inferior officers in accordance with the Appointments Clause.

Since the decision in *Arthrex*, the Court in *Polaris Innovations Ltd. v. Kingston Tech. Co.*, No. 18-2140 (Fed. Cir.), has requested additional briefing on essentially whether the Arthrex decision was correct. In addition, in two unrelated cases, the government has indicated its intent to seek rehearing en banc by moving to stay proceedings involving cases seeking remand post-*Arthrex*. *See Steuben Foods, Inc. v. Nestle USA, Inc.*, No. 20-1082, -1083 (Fed. Cir.); *VirnetX Inc. v. Cisco Systems, Inc.*, No 19-1671 (Fed. Cir.). Thus, it seems that in due time, other judges at the Federal Circuit will address the Arthrex holding.

We will continue to monitor and report on developments in this area. In the meantime, please feel free to contact us to learn more.

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