‘Anthrex v. Smith & Nephew’: Are PTAB APJs Constitutionally Appointed?

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On Oct. 31, 2019, the U.S. Court of Appeals for the Federal Circuit issued a shocking decision in which a three-judge panel found that administrative patent judges (APJs) for the Patent Trial and Appeal Boards (PTAB) were appointed in violation of the Appointments Clause of the U.S. Constitution, U.S. Const., art. II, §2, cl. 2. *Arthrex v. Smith & Nephew*, No. 2018-2140, slip op. (Fed. Cir. Oct. 31, 2019). *Arthrex*, involving the constitutionality of the appointment process used for PTAB APJs, is no doubt the most controversial decision in patent law for the past year. Although other Federal Circuit panels have been following *Arthrex’s* decision to vacate and remand decisions of the PTAB currently under appeal, it has been questioned not just by the parties and the government in pending en banc petitions to the full court, but also by numerous Judges of the Federal Circuit in concurring decisions.

The U.S. Supreme Court has already been called to action and denied a party’s application to stay the Federal Circuit’s mandate while it files a petition for certiorari arguing that *Arthrex’s* “significant change of law should be applied to all pending appeals.” *Sanofi-Aventis Deutschland GmbH v. Mylan Pharms.*, No. 19A886, Order (U.S. Feb. 14, 2020).

Part I provides a short summary of the issues presented by *Arthrex* and the panel’s holdings. Part II covers the decisions following or challenging *Arthrex*. Finally, Part III analyzes the various issues that are being raised in the en banc petitions in *Arthrex* that need to be addressed and decided by the full court, and perhaps eventually by the U.S. Supreme Court.

The Appointment of PTAB APJs and the ‘Arthrex’ Decision

Under the Appointments Clause, “officers” of the United States must be appointed in one of two ways. A “principal” officer must be appointed by the President of the United States with the advice and consent of two-thirds of the Senate. Other officers of the United States, so-called “inferior officers,” may be appointed by heads of executive departments if Congress so authorizes. The Constitution imposes no limitation on the appointment process of other employees, or lesser functionaries, of the government. *Buckley v. Valeo*, 424 U.S. 1, 126 n.162 (1976).

The Patent Act provides that PTAB APJs are appointed by the Secretary of Commerce (a head

of department), in consultation with the Director of the U.S. Patent and Trademark Office. 35 U.S.C. §6(a). To the extent that PTAB APJs are deemed inferior officers, the procedure set up by Congress under the Patent Act would be consistent with the Appointments Clause. However, if PTAB APJs are principal officers of the United States, their appointment under the Patent Act would violate the Constitution's Appointments Clause.

Arthrex found that PTAB APJs were, under criteria set forth in applicable U.S. Supreme Court cases, "principal officers" of the United States, and thus, prior to Oct. 31, 2019, were appointed in violation of the Appointments Clause. To "fix" this issue going forward, *Arthrex* removed the protections afforded to PTAB APJs, like other officers and employees of the United States, restricting their removal "only for such cause as will promote the efficiency of the service." 5 U.S.C. §7513(a). This change purports to render the PTAB APJs to inferior officer status, and thus remedy the constitutional infirmity from the date of the *Arthrex* decision.

Following *Lucia v. SEC*, 138 S. Ct. 2044 (2018), the *Arthrex* panel vacated the PTAB's final written decision and remanded the case for a new panel of properly appointed APJs "to hear … anew on remand" without reaching the merits, as the Board's decision was rendered by a panel of APJs that were purportedly not constitutionally appointed. *Arthrex*, slip op. at 29-30.

Significantly, even *Arthrex* pointed out that the decision to institute the case and the soundness of the proceedings in the case should not be affected by its decision on the constitutionality of the APJs:

(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.

That said, *Arthrex* quoted Lucia in finding that "[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 discuss whether a new oral hearing must be held on remand.

Panel Decisions After 'Arthrex'

Arthrex had an immediate effect on pending appeals from final written decisions in PTAB proceedings at the Federal Circuit.

On the same day as *Arthrex*, the Federal Circuit in a per curiam decision cancelled oral argument and vacated and remanded another PTAB decision to the Board, consistent with the decision in *Arthrex. Uniloc 2017 v. Facebook*, 18-2251, Order (Fed. Cir. Oct. 31, 2019)

(petition for rehearing and rehearing en banc filed on Dec. 2, 2019 and currently pending).

Similar orders vacating the Board's decisions and remanding to the Board for proceedings consistent with the decision in Arthrex have been issued in multiple other cases. See, e.g., *Polaris Innovations Ltd. v. Kingston Technology Company,* No. 18-1768, 18-1831 (Fed. Cir. Jan. 31, 2020); *VirnetX v. Cisco Sys.*, No. 19-1671, Order (Fed. Cir. Jan. 24, 2020); *Bedgear v. Friedman Bros. Furniture*, No. 18-2082, et al. (Fed. Cir. Nov. 7, 2019) (appellee's petition for rehearing and rehearing en banc filed Jan. 8, 2020 and currently pending).

While panel decisions have continued to follow *Arthrex*, members of such panels have raised doubts about the correctness of at least some of its holdings in concurring opinions.

For example, in *Bedgear*, Judge Dyk, in a concurring opinion joined by Judge Newman, questioned whether *Arthrex* was wrong to not apply the remedy to past decisions. Judge Stoll did not join in the concurrence.

Similarly, in *Polaris*, after seeking briefing on many of the same issues previously addressed in *Arthrex*, the court ultimately issued a per curiam decision vacating and remanding the final written decision in view of *Arthrex*. Judge Hughes, in a concurring opinion joined by Judge Wallach, agreed that *Arthrex* controlled, but noted disagreement with the merits and the remedy presented in Arthrex. Judge Reyna did not join the concurrence, but did join without dissent or concurrence in the original *Arthrex* decision.

In other cases, the court refused to consider challenges that were not timely made as of the time of an appellant's opening brief on appeal. See, e.g., *Verify Smart v. Askeladden* , No. 19-1076, Order (Fed. Cir. Feb. 21, 2020); *Sanofi-Aventis Deutschland GmbH v. Mylan Pharms.*, Nos. 19-1368, 19-1369, slip op. at 20 n.4 (Fed. Cir. Nov. 19, 2019) ("Our precedent holds that failure to raise the Arthrex Appointments Clause issue in the opening brief forfeits the challenge.") (anticipated petition for certiorari; application to stay mandate denied); *Customedia The Technologies v. Dish Network*, No. 18-2239, 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 v. Dish Network*, No. 19-1001, Order (Fed. Cir. Nov. 1, 2019), reh'g and reh'g en banc denied (Fed. Cir. Dec. 23, 2019) (per curiam) (Newman, J., dissenting).

In addition, the government has now intervened in more cases where these issues are being raised to oppose appellants' motions to vacate and remand pending resolution of this issue. See, e.g., *Steuben Foods v. Nestle USA*, No. 20-1082 (Fed. Cir. Jan. 30, 2020) (director of the USPTO added as an intervenor and appellant's motion to vacate and remand was denied because its failure to challenge the APJ appointments during an earlier appeal; motion for reconsideration filed Feb. 13, 2020 currently pending); *VirnetX*

v. Cisco Sys., No. 19-1671 (Fed. Cir. Jan. 24, 2020) (director of USPTO added as an intervenor and the PTAB's decision was vacated and case remanded for proceedings consistent with the decision in *Arthrex*).

Further, the court has denied unsuccessful petitioners' motions to vacate and remand PTAB decisions in view of *Arthrex*, as such petitioners forfeited their Appointments Clause challenges when they "sought out the [PTAB's] adjudication." See, e.g., *Ciena v. Oyster Optics*, No. 19-2117 (Fed. Cir. Jan. 28, 2020).

Petitions for Rehearing En Banc in 'Arthrex'

The issues raised by *Arthrex* and its progeny are difficult, complex and the subject of much disagreement. This is made clear by the fact that rehearing en banc of the *Arthrex* decision has been sought not just by the losing party and the U.S. government, but also by the winning party.

Unsurprisingly, multiple amicus briefs have been filed in support of rehearing, including one by the authors on behalf of the New York Intellectual Property Law Association.

In particular, these petitions have raised the following challenges:

• Whether *Arthrex* correctly held that the PTAB APJs are "principal officers", rather than "inferior officers"?
• Even assuming PTAB APJs are "principal officers", did *Arthrex* "fix" the constitutional infirmity properly, and if so, should it be also be applied retroactively?

• Must an Appointments Clause challenge be raised in writing for a PTAB decision to be appealable? If so, when?

While petitions for rehearing en banc in other cases continue to raise similar issues, the full court has been denying such petitions. See, e.g., *Image Processing Techs. v. Samsung Elecs. Co. Ltd*., No 2018-2156, reh'g and reh'g en banc denied (Fed. Cir. Feb. 24, 2020) (per curiam). Given that the *Arthrex* decision may affect all PTAB appeals heard before Oct. 31, 2019, which numbers more than 10,000, there is no doubt that more clarity needs to be provided on these issues if chaos is to be avoided. Hopefully, the Federal Circuit sitting en banc will take this opportunity to provide a single authoritative position on these difficult and complex questions.

UPDATE:

After this article went to print on Monday, March 23, 2020, a split court (8-4) at the U.S. Court of Appeals for the Federal Circuit issued a per curiam order denying all parties' petitions for rehearing and/or rehearing en banc in *Arthrex*. In addition to the per curiam order,

the court issued five additional opinions which concurred and/or dissented in whole or part with the per curiam order as follows:

Judge Moore, who authored the *Arthrex* panel decision, wrote a concurring opinion, in which she defended the original panel decision and concurred in the denial of the petitions for rehearing en banc. Judge Moore's concurring opinion was joined by Judges O'Malley, Reyna and Chen.

Judge O'Malley wrote a separate concurring opinion with respect to the denial of rehearing en banc, which was joined by Judges Moore and Reyna.

Judge Dyk wrote a dissenting opinion, which was joined by Judges Newman and Wallach, and joined in part by Judge Hughes.

Judge Hughes wrote a dissenting opinion with respect to the denial of the petitions for rehearing en banc, which was joined by Judge Wallach.

Judge Wallach wrote a separate dissenting opinion with respect to the denial of the petitions for rehearing en banc.

Judges Prost, Taranto and Stoll did not write or join in any of the concurring or dissenting opinions, and appeared to merely agree with the denial of rehearing en banc.

At this point, it is expected that this issue will be taken up to the U.S. Supreme Court in one or more petitions for certiorari and is likely to be raised in Congress.

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National Law Journal: March 23, 2020 at 9:10 AM

https://www.law.com/newyorklawjournal/2020/03/23/anthrex-v-smith-nephew-are-ptab-apjs-constitutionally-appointed/)