Federal Circuit Upends Some IPRs in Holding Appointment of Administrative Patent Judges Unconstitutional

Written by Peter A. Sullivan, Philip C. Swain

November 4, 2019

The Appointments Clause in Article II of the Constitution requires the President, with the advice and consent of the Senate, to appoint "officers" of the United States. Many of us are familiar with this process as it applies to the appointment of cabinet officials and Supreme Court justices. The Federal Circuit has now weighed in on how the Appointments Clause applies to the appointment of Administrative Patent Judges (APJs) in the Patent Trial and Appeal Board (PTAB).

In *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019), the court held that the statutory scheme for appointing APJs violates the Appointments Clause. *Arthrex* is an appeal from a final written decision of an *inter partes review* (IPR). On appeal, the appellant challenged the construction of the panel itself, arguing that APJs are principal officers under the Appointments Clause and thus should have been appointed by the President directly, with the advice and consent of the Senate. Presently, APJs are appointed by the Secretary of Commerce in consultation with the Director of the PTO, themselves both presidential appointees.

The court considered whether APJs are "principal officers," who require presidential appointment, or "inferior officers," whom presidential appointees have the power to appoint under the Constitution. The court considered the Supreme Court's decision in *Edmund v. United States*, 520 U.S. 651, 664-65 (1997), which emphasized three factors in this analysis: (1) the power to review and reverse the officer's decision; (2) the level of supervision and oversight over the officer; and (3) the power to remove the officer. The court held that, while there is a level of supervision and oversight that the Director does maintain over APJs, the Director does not have sufficient review or removal power to render an APJ an inferior officer. With respect to review of APJ decisions, the court noted that the Director does not have the power to revise a decision himself or seek review of the decision to the Federal Circuit. Regarding removal power, the court noted that the Director has substantial restrictions on removing APJs under 35 U.S.C. § 7315, which allows removal "only for such cause as will promote the efficiency of service." The court concluded that the current statutory scheme for appointing APJs violates the Appointments Clause.

Having declared the statutory scheme unconstitutional, the court next decided whether it could sever aspects of the statutory scheme to remove the constitutional defect. The court noted that it has the power to sever where the remainder of the statute would be valid constitutionally, capable of functioning independently of the severed provision, and consistent with Congress's basic objectives in enacting the statute. Slip Op. at 21 (quoting *United States v. Booker*, 543 U.S. 220, 258-59 (2005)). At the same time, the court noted, it cannot rewrite a statute in the guise of severing a provision. *Id.* at 26 (citing *Railroad Retirement Bd. v. Alton R. Co.*, 295 U.S. 330, 362 (1935)). The court considered several severing options, and concluded that it can remedy the statutory scheme in a narrow fashion by removing the restrictions imposed on the Director for removing APJs, rendering the appointments at will. Making that change, the court reasoned, tipped the analysis in favor of finding APJs to be inferior officers.

There is a temporal limitation affecting this decision that bears noting. The court apparently is treating its decision as a change in the law. The panel remanded because it found that the APJs who had decided the merits were not validly appointed at the time of the merits decision. Going forward, however, panels would be validly constituted because the court severed the offending clause, transforming APJs to inferior officers, and thus validly appointed by the Secretary. For its part, the court states, "we see the impact of this case as limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." Slip Op. at 29.

Take-Away

As for take-aways, practitioners with an adverse final written decision who had not considered an Appointments Clause challenge would be well-advised to do so now. If you have not yet raised it in briefing on appeal, however, you risk waiver. Otherwise, the Federal Circuit will remand to a new panel. If you are in a live IPR without a final written decision, your panel should now be valid because the APJs are now inferior officers.

We expect that this will not be the last word on the issue. Other Federal Circuit panels will be hearing Appointments Clause arguments in the upcoming weeks, positioning this case for *en banc* review. There is also the potential for Supreme Court review as well. Stay tuned.

RELATED PRACTICES

- PTAB Proceedings
- Intellectual Property Litigation
