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Principal Or Inferior? PTAB APJ Appointment Held Unconstitutional

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In what has quickly turned into a controversial decision, the US Court of Appeals for the Federal Circuit held the appointment of administrative patent judges (APJs) at the Patent Trial and Appeal Board (PTAB) unconstitutional. The Court found that PTAB judges were appointed as if they were "inferior officers" but vested by the PTAB with authority that is reserved for Senate-confirmed "principal officers." *Arthrex, Inc. v. Smith & Nephew, Inc.*, Case No. 18-2140 (Fed. Cir. Oct. 31, 2019) (Moore, J). The decision creates uncertainty in dozens of *inter partes* review (IPR) proceedings.

Arthrex appealed a final PTAB decision based on a challenge to the APJs under the Appointments Clause. Arthrex argued that the APJs were not constitutionally appointed because as principal officers, they must be appointed by the president with the advice and consent of the Senate. APJs are appointed by the secretary of commerce, in consultation with the director of the US Patent and Trademark Office (PTO) pursuant to 35 USC § 6(a).

At issue on appeal was whether APJs are inferior or principal officers under the Constitution's Appointment Clause. While there are no exclusive criteria for distinguishing between principal and inferior officers under the Appointments Clause, the main difference between the two is that the work of inferior officers is directed and supervised at some level by others who were appointed by presidential nomination with the advice and consent of the Senate. In the 1997 case of *Edmond v. United States*, the Supreme Court of the United States emphasized three factors to consider to determine whether officers are inferior or principal officers:

- Whether an appointed official has the power to review and reverse the officers' decision
- The level of supervision and oversight an appointed official has over the officers
- The appointed official's power to remove the officers.

The Federal Circuit found that the secretary of commerce and the PTAB director are the only two presidentially appointed officers that provide direction to the PTO, and focused its analysis on the roles of these two officers in relation to the PTAB APJs.

First, the Federal Circuit found that no presidentially appointed officer has independent statutory authority to review a final written decision by the APJs before the decision issues on behalf of the United States. Even though the director of the PTAB has the power to intervene and become a party in an appeal following a final written decision with which she disagrees, the director has no power to review, nullify or reverse a final written decision issued by a panel of APJs. In general, the director participates as a member of the PTAB, rather than as a supervisor of the PTAB, which the Federal Circuit found insufficient to rise to the level of review and reversal power over the APJs' decisions so as to render the APJs inferior officers. Thus, the Court found that this factor weighed in favor of a conclusion that APJs are superior officers.

Second, the Federal Circuit analyzed the extent to which an APJ's work is supervised or overseen by another executive officer. The PTAB director exercises a broad policy-direction and supervisory authority over the APJs. The Court found that the director has discretion to promulgate regulations governing the conduct of IPR, issue policy directives, and provide exemplary applications of patent laws to fact patterns, which may guide the APJs' decision-making. Further, the director's administrative authority, such as the independent authority to decide whether to institute an IPR based on a filed petition and any corresponding preliminary response, as well as the authority to designate the panel of judges that decides each IPR, can affect the procedure of individual cases, which the Federal Circuit found demonstrated the director's authority over the APJs. The Court concluded that while this oversight authority is high-level, arms-length control, the nature of the director's supervisory powers weigh in favor of a conclusion that APJs are inferior officers.

Third, the Federal Circuit considered the extent of the power of another officer to remove an APJ. Both the secretary of commerce and the director lack unfettered removal authority over an APJ under the America Invents Act (AIA). Although the director can remove an APJ from a given panel based on the director's authority to designate which members of the PTAB will sit on any given panel, the director lacks the statutory authority to remove an APJ from office without cause. The Federal Circuit found that even though removing an APJ from a particular IPR panel is a form of control, it is not the power to remove an APJ from office without cause. The only actual removal authority the director or secretary has over an APJ is the standard removal procedures relating to federal employees, namely, removal "only for such cause as will promote the efficiency of service," requiring that the employee's misconduct be likely to have an adverse impact on the agency's performance of its functions. 5 USC § 7513(a). Given that no other officer has significant removal authority over the APJs, the Court found that this factor weighed in favor of a conclusion that APJs are superior officers.

Having concluded that APJs are principal officers and that lack of control over these officers renders their appointment in violation of the Appointment Clause, the Federal Circuit next considered potential remedial approaches to this issue. The Court gave the PTO director the power to fire PTAB judges without cause, explaining that such authority would create the necessary oversight for the PTAB and its APJs to pass constitutional muster. However, in terms of the case on appeal, the Court vacated and remanded the PTAB's decision, ordering that a new panel of APJs must be designated and a new hearing granted.

The scope of this holding is narrow, requiring that an affected AIA review be reheard by a new panel only where "final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." Thus, this decision will affect already-appealed AIA reviews in which opening appeal briefs have not yet been filed, as well as AIA reviews that have not yet been appealed but are still within the appeal window. The Federal Circuit has made it clear that where an Appointments Clause challenge was not raised in opening briefing, the challenge was waived.

Practice Note: While the full impact of this decision remains unclear, it appears the holding will immediately affect many pending cases. Some estimates note that at least 200 AIA reviews may be subject to rehearing. *RPX Insight* (Nov. 8, 2019). The Federal Circuit is strictly adhering to its waiver ruling. See *e.g.*, *Customedia Tech v. Dish Network*.

Practitioners that have not already filed an opening appeal brief in an appealed AIA review, whether they have already filed for appeal or have not yet done so, may be entitled to a rehearing before the PTAB if they lodge an appeal based on the Appointments Clause.

Judges Dyk and Newman publicly criticized the *Arthrex* decision in Judge Dyk's concurring opinion in *Bedgear v. Fredman Bros. Furniture*, Case Nos. 18-2082, -2083, -2084 (non-precedential), arguing that the Federal Circuit's order mandating new hearings is not required under law and will only impose unnecessary burdens on the IPR system. Possibly heralding a *sua sponte en banc* review of the issue, a Federal Circuit panel (Judges Reyna, Wallach and Hughes) ordered supplemental briefing (due December 6, 2019, and limited to 20 pages) in a pending appeal, *Polaris Innovations v. Kingston Technology*, Case No 18-1768 (in which the United States has intervened), as follows:

O R D E R

IT IS ORDERED THAT:

The parties and the government shall file supplemental briefing addressing the constitutional questions raised in these cases, including:

- what level of supervision and review distinguish a principal from an inferior officer;
- whether severing the application of Title 5's removal restrictions with respect to APJs under 35

U.S.C. § 3(c) sufficiently remedies the alleged unconstitutional appointment at issue in these appeals;

- whether, and how, the remedy for an Appointments Clause violation differs when it stems from an unconstitutional removal restriction, rather than an unconstitutional appointment itself; and
- whether severing the application of Title 5's removal restrictions with respect to APJs under 35

U.S.C. § 3(c) obviates the need to vacate and remand for a new hearing, given the Supreme Court's holdings on the retroactive application of constitutional rulings.

Many trademark practitioners are now concerned that a challenge to the Trademark Trial and Appeal Board (TTAB) judges would be resolved (at the Federal Circuit) in a manner similar to the *Arthrex* decision

E.g., *Harper v. Virginia Dep't of Taxation*, 509 U.S. 86 (1993).

Each party’s response is limited to 20 pages, double spaced, and shall be filed no later than December 6, 2019.

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