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Federal Circuit Invites Do-Overs in Numerous Cases

Last week, the United States Court of Appeals for the Federal Circuit issued a decision giving losing parties the right to a do-over in numerous recent Patent Trial and Appeal Board (PTAB) cases. *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019). The Appointments Clause in the U.S. Constitution prescribes two different methods to name individuals to fill official governmental positions: higher level positions – ambassadors, justices of the Supreme Court, and other important "Officers of the United States" – require a presidential nomination and the advice and consent of the Senate; "inferior Officers" can be appointed as Congress determines. On which side of this line do PTAB Administrative Patent Judges (APJs) fall? APJs adjudicate proceedings challenging patent validity such as *inter partes* review (IPR) proceedings. By statute, APJs are appointed by the secretary of commerce, in consultation with the director of the U.S. Patent and Trademark Office (USPTO), and may be removed "only for such cause as will promote the efficiency of the service." 5 U.S.C. § 7513(a). The Federal Circuit declared that the process for naming APJs, when coupled with the restrictions on their removal, violates the Appointments Clause.

To remedy this problem, the court essentially made APJs less important officers, by invalidating the statutory limitation on their removal from office. Thus, the director of the USPTO may now dismiss APJs. The court declared this fix would insulate future patent validity decisions from challenge. The court nonetheless vacated and remanded the case before it for decision by a new panel of APJs.

The court recognized its decision would affect other cases "where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." (Slip op. at 25.) Because parties may appeal PTAB decisions by filing a notice of appeal with the director within 63 days after the date of final written decision (or the decision on any motion for rehearing), validity decisions going back at least to the beginning of September (and longer in the case of decisions for which rehearing was sought or a party can establish excusable neglect) may be upended.

The *Arthrex* Case

Arthrex, Inc. owns U.S. Patent No. 9,179,907, which is directed to a knotless suture securing assembly. Smith & Nephew, Inc. and Arthrocare Corp. petitioned for IPR of 12 claims of the '907 patent. The director instituted the IPR, and a panel of three APJs subsequently determined all of the claims at issue to be invalid as anticipated by the prior art. On appeal, Arthrex argued the APJs had been unconstitutionally appointed by the secretary of commerce. Though the Federal Circuit had discretion not to hear the argument, which had not been raised at the PTAB, the court did so because the case implicated "important structural interests and separation of powers concerns" and the issue could have "a wide-ranging effect on property rights and the nation's economy." (Slip op. at 5.)

The Appointments Clause provides the president "shall nominate, and by and with the Advice and Consent of the Senate, shall appoint … Officers of the United States … but the Congress may by Law vest the Appointment of such inferior Officers … in the Heads of Departments." U.S. Const. Art. II, § 2, cl. 2. Because APJs are officers of the United States (a threshold determination that was not in dispute) appointed by the secretary of commerce, the Federal Circuit evaluated whether APJs are, in the words of the Constitution, "inferior officers" who may be appointed by the secretary or instead so-called principal officers requiring appointment by the president.

Inferior officers must be directed and supervised by others appointed by the president. (Slip op. at 8 (citing *Edmond v. U.S.*, 520 U.S. 651, 662-63 (1997).) Three factors primarily distinguish inferior officers from principal officers: (1) whether an appointed official can review and reverse the officer's decisions, (2) the level of supervision and oversight, and (3) the

appointed official's power to remove the officer. (*Id.*) The "ultimate concern is 'preserv[ing] political accountability.'" (*Id.* (quoting *Edmond*, 520 U.S. at 663).) The Federal Circuit concluded neither the secretary of commerce nor the USPTO director can directly control the decisions of APJs. Though the director can participate in PTAB decision-making, all IPRs must be decided by three judges such that the director may be in the minority. There is no procedure, moreover, permitting the director alone to alter PTAB decisions, as decisions on rehearing are again decided by panels of three. Other control mechanisms identified by the government, which intervened in the case, were likewise deemed inadequate. The government's arguments with respect to the second factor — general supervision — were more successful, and the Federal Circuit acknowledged that numerous factors — including the director's authority to promulgate regulations governing IPRs, provide exemplary instructions, control designation and de-designation of precedential decisions, institute IPRs, and designate panels of APJs — supported the conclusion that APJs are inferior officers. Nonetheless, the court rejected the government's central contentions concerning the purported power of the director to remove APJs (leaving unresolved the government's contentions with respect to the director's power to de-designate an APJ from a particular IPR), concluding the third factor therefore, like the first, supported the conclusion APJs are principal officers. The court therefore concluded the APJs who decided the patentability of the '907 patent were principal officers whose appointments had been unconstitutional.

Unfortunately for the appellees, because the '907 patent claims had been invalidated "by a panel of APJs that were not constitutionally appointed at the time the decision was rendered," the court vacated the decision and remanded for a new hearing before a new panel of APJs. (Slip op. at 27.) Because the PTAB would have been powerless to consider the appellant's challenge to the PTAB's own governing statutes, the court granted this relief despite the appellant's failure to raise the issue below. In doing so, the court acknowledged its decision might impact other cases "where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." (Slip op. at 29.) Such challenges, however, "are 'nonjurisdictional structural constitutional objections' that can be waived when not presented." (*Id.*) The court's order therefore did not reach any of the many cases whose outcomes it might affect, requiring instead that the appellant in each case affirmatively raise the issue.

Nonetheless, the court concluded the PTAB patent review program more generally could and should be saved by the expedient of "partially severing 35 U.S.C. § 3(c), the provision that applies Title 5 [which limits authority to remove employees] to officers and employees of the USPTO." (Slip op. at 23.) All parties and the government agreed constitutionality could be restored going forward by severing the application of Title 5's removal restrictions to APJs, facilitating the director's control over them and rendering them "inferior officers." Further, the court concluded "Congress intended for the [IPR] system to function to review issued patents and that it would have preferred a [PTAB] whose members are removable at will rather than no [PTAB] at all." (Slip op. at 25.) Thus, thanks to *Arthrex*, the director can now fire APJs without cause, and the PTAB patent review program is saved.

What *Arthrex* Means to You

For most patent owners and accused infringers, *Arthrex* signals only that the PTAB patent review process has survived yet another constitutional challenge — albeit a close one —and IPR and other procedures created by the America Invents Act for challenging issued patents remain available, substantially unchanged. For many, *Arthrex* may illustrate the value of thinking outside the box and even tilting at windmills. For dozens of parties to recent PTAB decisions, however, *Arthrex* has real and immediate consequences. The Federal Circuit invited any aggrieved litigant whose time for appeal has not yet run (or who can persuade the director or his designee to grant an extension of time to appeal based on excusable neglect) to have a do-over. While the clock is ticking, extensions of time to appeal may be available for good cause before the time for appeal has expired.

Authors



Elizabeth A. Alquist
Partner

Hartford, CT | (860) 275-0137

eaalquist@daypitney.com



Jonathan B. Tropp
Partner

New Haven, CT | (203) 977-7337

jbtropp@daypitney.com



Richard H. Brown
Partner

Parsippany, NJ | (973) 966-8119

New York, NY | (212) 297-5854

rbrown@daypitney.com