

Supreme Court to Review Arthrex Cases Regarding Whether PTAB Judges Are Constitutional

Dion Bregman, Maria Doukas, and Vishal Parikh

Dion Bregman focuses on Patent Trial and Appeal Board (PTAB) trials, and patent prosecution, counseling, and litigation. With decades of experience, he has led well over 100 PTAB trials. He also oversees large patent portfolios for Fortune 500 companies and startups alike. Dion is the deputy practice leader of the firm's IP group, leads the firm's PTAB group, is the Managing Partner of the firm's Silicon Valley office, co-leads the firm's technology group, and leads the IP group's technology practice.

Maria Doukas concentrates her practice on patent litigation matters as well as post-grant proceedings before the US Patent and Trademark Office (USPTO). Maria uses her former work experience at the USPTO as a patent examiner in the medical device arts and her M.S. degree in biomedical engineering to assist clients in a variety of technologies, including in pharmaceutical, biological, and mechanical arts. Her practice includes representing clients in Hatch–Waxman Act litigation matters in US district courts and representing clients in Section 337 investigations before the US International Trade Commission. She is an associate in Morgan Lewis's Chicago office.

Vishal Parikh advises on all aspects of intellectual property law, including patent prosecution and litigation. Vishal has experience prosecuting and obtaining both US and foreign utility and design patents in medical technologies, mechanical arts, and consumer products. He also represents clients in disputes involving patent infringement, enforceability, and validity, before US district courts, and the US Patent Trial and Appeal Board. Vishal is an associate in Morgan Lewis's Philadelphia office.

The US Supreme Court has granted certiorari in three cases relating to the US Court of Appeals for the Federal Circuit's controversial October 2019 decision in *Arthrex, Inc. v. Smith & Nephew, Inc.* In *Arthrex*, the Federal Circuit held that the statutory scheme governing administrative patent judges (APJs) of the Patent Trial and Appeal Board (PTAB) is in violation of the Appointments

Clause of the US Constitution. The Supreme Court consolidated the three cases and agreed to consider two of the three questions set forth in a July 22, 2020 memorandum of the United States: (1) whether APJs are properly appointed, and (2) if they are not properly appointed, whether removing employment protections corrects the defect.

Background

On October 31, 2019, the Federal Circuit shook up the patent world when it issued its opinion in *Arthrex, Inc. v. Smith & Nephew, Inc.* holding that the appointment of APJs to the PTAB is unconstitutional.¹ The Federal Circuit analyzed whether APJs are considered “principal officers,” who must be confirmed by the US Senate, or “inferior officers,” who need not be confirmed under the Appointments Clause of Article II of the US Constitution.² Ultimately, the Federal Circuit assessed three factors pertaining to the power of APJs versus that of the appointed officials who direct them: (1) how APJs' work is reviewed, (2) how APJs are otherwise supervised, and (3) how APJs can be removed from office.³

The Federal Circuit determined that the first factor regarding review of APJs' work and the third factor regarding removal of APJs both weighed in favor of categorizing the APJs as principal officers, while the second factor regarding supervision of the APJs weighed in favor of them being inferior officers.⁴ Thus, on balance, the Federal Circuit held that APJs qualify as principal officers, and their appointment violates the Appointments Clause of the US Constitution.⁵

Despite this holding, the Federal Circuit declined to take the drastic step of invalidating the entirety of the Leahy–Smith America Invents Act (AIA).⁶ Instead, the court severed the portion of the statute providing removal protections to APJs.⁷ By doing so, the court held that APJs are “inferior officers,” and thus can continue performing their role without violating the Appointments Clause.⁸

As a result of the *Arthrex* decision, the Federal Circuit vacated more than 100 PTAB decisions and remanded

the cases back to the PTAB for further proceedings to be conducted before newly designated APJ panels. These remanded cases were limited to those with PTAB decisions that predated the *Arthrex* decision and where the Appointments Clause challenge was properly preserved by the parties raising it before or in opening briefs.

Included in this list of cases was the Federal Circuit's January 31, 2020, nonprecedential opinion in *Polaris Innovations Ltd. v. Kingston Technology Co., Inc.* In *Polaris*, the Federal Circuit issued a short decision vacating the PTAB's determination and remanding the case back to the PTAB in view of *Arthrex*.⁹ Notably, Judge Hughes, joined by Judge Wallach, included a separate concurring opinion criticizing the decision in *Arthrex*, including arguing that (1) APJs are inferior officers, and (2) the remedy of *Arthrex* is potentially inconsistent with congressional intent.¹⁰

Despite the apparent divide among some members of the Federal Circuit, the *Arthrex* parties' petition for rehearing en banc was denied on March 23, 2020.¹¹ In the concurrence opinion authored by Judge Moore, and joined by Judges O'Malley, Reyna, and Chen, Judge Moore noted that "[b]ecause the APJs were constitutionally appointed as of the implementation of the severance, *inter partes* review decisions going forward were no longer rendered by unconstitutional panels."¹² Thus, *Arthrex*'s impact was deemed limited to those PTAB decisions that issued pre-*Arthrex*.

This denial for rehearing en banc and the *Arthrex*-related remand of more than 100 PTAB final written decisions prompted the chief APJ to issue a general order on May 1, 2020, holding all cases remanded in light of *Arthrex* "in administrative abeyance until the Supreme Court acts on a petition for certiorari or the time for filing such petitions expires."¹³ The chief APJ noted that such action was "[t]o avoid burdening the [US Patent and Trademark] Office and the parties until all appellate rights have been exhausted."¹⁴

Supreme Court Petitions for Writ of Certiorari

Arthrex, Smith & Nephew, and the US government each filed separate petitions for writ of certiorari asking the Supreme Court to review the Federal Circuit's holdings in *Arthrex*. On June 25, 2020, the government filed its petition, which asked the Supreme Court to consider (1) whether APJs at the PTAB are principal officers or inferior officers, and (2) whether the court erred by reaching the Appointments Clause issue because the issue was forfeited by not being raised before the PTAB.¹⁵ The government's petition also requested that the Court review the

Federal Circuit's decision in *Polaris* since it also addresses the Appointments Clause issue.¹⁶

Smith & Nephew followed a few days later with its petition on June 29, which also asked the Supreme Court to review the *Arthrex* decision and consider whether APJs are principal officers or inferior officers under the Appointments Clause.¹⁷ *Arthrex* then filed its petition on June 30, which agreed with the Federal Circuit's decision in *Arthrex* that APJs are principal officers, not inferior officers, but took issue with the court's proposed severance remedy.¹⁸ In its petition, *Arthrex* asked the Supreme Court to consider whether the severance remedy is (1) consistent with congressional intent and (2) sufficient to render APJs inferior officers.

On June 30, *Polaris* also filed its petition asking the Supreme Court to review the Federal Circuit's holding in *Polaris* and consider (1) whether severance of the tenure protections of the APJs was unavailable to the *Arthrex* court to remedy the violation of the Appointments Clause because Congress would have maintained such protection for APJs, and (2) whether the *Arthrex* decision's removal of APJ tenure protections is insufficient to cure the Appointments Clause violation.¹⁹

The United States filed a memorandum on July 22 requesting that if the Court grants its petition, it also grant the petitions filed by all of the private parties, including *Polaris*; consolidate the cases; and direct the parties to address a common set of questions:

1. Whether, for purposes of the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, APJs of the US Patent and Trademark Office are principal officers who must be appointed by the president with the Senate's advice and consent, or inferior officers whose appointment Congress has permissibly vested in a department head.
2. Whether, if APJs are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 USC § 7513(a) to those judges.
3. Whether the court of appeals in *Arthrex* erred by adjudicating an Appointments Clause challenge that had not been presented to the agency.²⁰

On October 13, 2020, the Supreme Court granted certiorari for the petitions filed by the US government, Smith & Nephew, and *Arthrex*; consolidated the three cases; and limited the questions it would address to the first two questions from the government's July 22 memorandum, set forth above. Despite *Polaris*'s petition being listed as linked with these other three petitions on the Court's Web site, and its overlapping

issues with the *Arthrex*-related petitions, the Supreme Court declined to consolidate it with the other three petitions. Instead, the Polaris petition remains pending before the Court.

Conclusion

Due to the practical and legal significance of the Federal Circuit's *Arthrex* decision, culminating in the administrative abeyance of all cases remanded under *Arthrex*, the grant of certiorari should not be surprising

to most patent practitioners. If the Supreme Court ultimately finds that APJs are constitutionally appointed or finds the Federal Circuit's remedy is sufficient to resolve any constitutional concerns, then the impact of the ruling should be rather narrow and affect only those cases currently held in administrative abeyance. However, should the Court hold that APJs are not constitutionally appointed and no remedy exists, short of congressional intervention, the impact of this decision could potentially be widespread—and open a floodgate of challenges to the constitutionality of any decisions issued by the PTAB.

1. 941 F.3d 1320 (Fed. Cir. 2019), *cert. granted sub nom. United States v. Arthrex, Inc., et al.*, No. 19-1434, 2020 WL 6037206 (U.S. Oct. 13, 2020), and *cert. granted sub nom. Smith & Nephew, Inc., et al. v. Arthrex, Inc., et al.*, No. 19-1452, 2020 WL 6037207 (U.S. Oct. 13, 2020), and *cert. granted sub nom. Arthrex, Inc. v. Smith & Nephew, Inc., et al.*, No. 19-1458, 2020 WL 6037208 (U.S. Oct. 13, 2020).
2. *Arthrex*, 941 F.3d at 1328.
3. *Id.* at 1329–35.
4. *Id.*
5. *Id.* at 1335.
6. *Id.* at 1338–40.
7. *Id.*
8. *Id.*
9. 729 F. App'x 820 (Fed. Cir. 2020).

10. *Id.*
11. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 953 F.3d 760, 761 (Fed. Cir. 2020).
12. *Id.* at 764.
13. General Order in Cases Remanded Under *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019).
14. *Id.*
15. Cert. Pet. No. 19-1434 (June 25, 2020).
16. *Id.*
17. Cert. Pet. No. 19-1452 (June 29, 2020).
18. Cert. Pet. No. 19-1458 (June 30, 2020).
19. Cert. Pet. No. 19-1459 (June 30, 2020).
20. Memorandum of United States, Pet. Nos. 19-1452, 1458, 1459 (July 22, 2020).