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Federal Circuit Rules PTAB APJs Violate Appointments Clause

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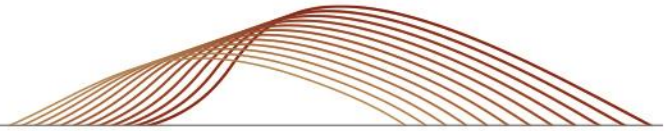
The Federal Circuit held yesterday in *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140 (Fed. Cir. Oct. 31, 2019), that the appointment of the Administrative Patent Judges ("APJs") of the Patent Trial and Appeal Board ("PTAB") violates the Appointments Clause of Article 2 of the Constitution. In a decision bound to have an immediate and widespread impact, the Federal Circuit ruled that the remedy is to sever a portion of the Patent Act restricting removal of the APJs, making them removable at will and thereby rendering them inferior, rather than principal, officers. Of importance to pending cases, the Federal Circuit vacated the PTAB's final decision issued by an existing panel, and remanded for reconsideration by a new panel of APJs.

Decision

The opinion in *Arthrex*, authored by Judge Moore and joined by Judges Reyna and Chen, first considered whether the Appointments Clause challenge had been waived because it was not presented to the PTAB. The panel concluded that the Appointments Clause challenge was such an exceptionally important issue, with "a wide-ranging effect on property rights and the nation's economy," and decided to exercise its discretion to consider the issue regardless of any waiver.

The focus of the court's Appointments Clause inquiry was "whether APJs are 'Officers of the United States' and if so, whether they are inferior officers or principal officers." Slip op. 6-7. As the panel explained, principal officers "requir[e] appointment by the President as opposed to the Secretary of Commerce," who presently appoints APJs. *Id*. There was no dispute that APJs are officers, so the main question was whether they are inferior officers or principal officers.

The panel concluded that, in view of their statutory role and duties, APJs are principal officers. The panel first considered whether any properly appointed official has the power to review APJ decisions. The panel found such review lacking, explaining that the Director of the Patent and Trademark Office, who is the only member of the Board nominated by the President and confirmed by the Senate, does not have sufficient power or authority to review APJ decisions. This factor supported the conclusion that APJs are principal officers. On the other hand, the panel found that the Director had sufficient supervisory power (e.g., in terms of promulgating regulations, designating decisions as precedential, composing panels of APJs to decide proceedings, and deciding on APJ pay) to suggest that APJs are inferior officers. Finally, the panel considered restrictions on the removability of APJs, and concluded that their existence again suggested the APJs are principal officers. Weighing these (and other) factors together, the Federal Circuit concluded that APJs are principal officers. The court, therefore, held that



the manner of their appointment violated the Appointments Clause because APJs are not nominated by the President and confirmed by the Senate.

The panel then turned to the question of remedy. The Federal Circuit reasoned that the narrowest viable approach to remedying the violation was to sever the statutory restrictions on APJ removability. By removing that protection, the panel explained, APJs would become inferior officers, and their appointment would no longer violate the Appointments Clause. Because the final decision at issue in *Arthrex* had been issued by APJs at a time when they were not-properly-appointed principal officers, however, the panel held that vacatur of that decision was required. Furthermore, the panel in *Arthrex* held that—similar to the remedy the Supreme Court previously prescribed for an Appointments Clause violation in *Lucia v. SEC*, 138 S. Ct. 2044 (2018)—a newly constituted panel of different APJs must be designated on remand to hear the case anew.

Implications

The *Arthrex* panel anticipated that the decision would have significant implications to PTAB practice. The panel therefore directly provided some guidance on the impact—and the scope—of its ruling:

> We have decided only that this case, where the final decision was rendered by a panel of APJs who were not constitutionally appointed and where the parties presented an Appointments Clause challenge on appeal, must be vacated and remanded. Appointments Clause challenges are "nonjurisdictional structural constitutional objections" that can be waived when not presented. … Thus, 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. 29. Thus, *Arthrex* is likely to have the most significant impact on cases where the PTAB had already issued a final decision, but appellate review has not yet concluded. The *Arthrex* panel also indicated that cases in which only an institution decision has issued are "not suspect" since the "statute clearly bestows [sufficient] authority on the Director" to have issued such decisions. Slip op. 30. This factor, too, could limit the decision's impact. It also remains to be seen whether the Patent and Trademark Office decides to seek en banc or certiorari review of the Federal Circuit's decision. Nevertheless, practitioners and parties to PTAB proceedings should be prepared for Appointments Clause challenges premised on the *Arthrex* ruling to arise in pending cases, as the Patent and Trademark Office itself decides how to address the Federal Circuit's decision.

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