Keywords: administrative patent judges (APJs), inter partes review (IPR)

Arthrex, Inc. v. Smith & Nephew, Inc.
United States Court of Appeals for the Federal Circuit
No. 2018-2140
Decided: October 31, 2019

Brief Summary

Facts: Arthrex, Inc. ("Arthrex") owns U.S. Patent No. 9,179,907 ("the '907 patent"), which is directed to a knotless suture securing assembly to secure tissue to a bone. Smith & Nephew, Inc. and Arthocare (collectively "Appellees") filed a petition requesting *inter partes* review of certain claims. The *inter partes* review was heard by a panel of three administrative patent judges ("APJs") that found the claims unpatentable as anticipated. Arthrex appealed from this decision, contending that the appointment of the APJs violates the Appointments Clause of the Constitution.

Issue: Are APJs principal officers or inferior officers?

Rule: Principal officers must be appointed by the President under the Appointments Clause.

Holding and Reasoning: APJs are principal officers who must be nominated by the President with the Senate's advice and consent.

The main factors in determining whether APJs are principal officers or instead inferior officers are:

(1) whether an appointed official has the power to review and reverse the officers' decision;
(2) the level of supervision and oversight an appointed official has over the officers; and
(3) the appointed official's power to remove the officers.

When balancing these factors, the Federal Circuit concluded that the relative lack of effective control and supervision over APJs qualified them as principal officers. Specifically, the Federal Circuit determined that neither the Director nor the Secretary of Commerce "exercise[s] sufficient direction and supervision over APJs to render them inferior officers," and that decision is supported by "[t]he lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs combined with the limited removal power." *See Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2018-2140, slip op. at 9 (Fed. Cir. 2019).

Detailed Summary

I. Facts

Arthrex, Inc. ("Arthrex") owns U.S. Patent No. 9,179,907 ("the '907 patent"), which is directed to a knotless suture securing assembly. Smith & Nephew, Inc. and Arthocare (collectively "Appellees") filed a petition requesting *inter partes* review of certain claims. The *inter partes* review was heard by a three-judge panel of three administrative patent judges ("APJs") that found the claims unpatentable as anticipated. Arthrex appealed from this decision, contending for the first time that the appointment of the Patent Trial and Appeal Board's ("Board") APJs by the Secretary of Commerce, as set forth in Title 35, violates the Appointments Clause[1] of the Constitution. Appellees and the government argued that Arthrex forfeited its Appointments Clause challenge by not raising the issue before the Board.

II. Issues

(1) Did Arthrex waive its Appointments Clause challenge by not raising the issue before the Board?

(2) (a) Whether APJs are officers rather than employees, and if so, (b) whether they are inferior officers or principal officers?

III. Rule

(1) A federal appellate court does not consider an issue that was not presented before a lower court.

(2) (a) Two-part framework – (i) an individual must occupy a continuing position established by law to qualify as an officer, and (ii) the individual must exercise significant authority pursuant to the laws of the United States. (b) Principal officers must be appointed by the President under the Appointments Clause.

IV. Holding and Reasoning

(1) No, this is an exceptional case that warrants consideration despite Arthrex's failure to raise its Appointments Clause challenge before the Board.

(2) APJs are principal officers, who must, under the Appointments Clause, be nominated by the President with the Senate's advice and consent.

Arthrex did not waive its right

The Federal Circuit determined that Arthrex did not waive its opportunity to raise an Appointments Clause violation by not presenting it to the Board first. *See Arthrex*, at 4. The Federal Circuit acknowledged that the general rule is to deny issues on appeal that were not properly litigated below, but also stated that it had discretion in deciding whether to deviate from that general rule in

[1] "…and [the President] shall nominate, and by and with the Advice and Consent of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law: but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments." U.S. Const. art. II, § 2, cl. 2.

"rare cases," such as those implicating important structural interests and separation of powers concerns (e.g., cases challenging constitutional authority). *See id*. Specifically, the Federal Circuit distinguished from other cases, noting that the basis for deeming the challenge waived would be the availability of a remedy at the Board level (e.g., by switching out the APJs with ones who were properly appointed). *See id*. at 5. Since all of the APJs decide patentability in *inter partes* review, the Board could provide no such remedy. *See id*. at 6.

APJs are Officers

The Federal Circuit concluded that the APJs are officers (e.g., rather than employees) of the United States. The Federal Circuit compared the APJs to the SEC administrative law judges (ALJs) in *Lucia v. SEC*, 138 S. Ct. 2044 (2018), and the Tax Court special trial judges (STJs) in *Freytag v. Commissioner*, 501 U.S. 868 (1991), and pointed out that the APJs exercise significant authority to conduct *inter partes* review, issue final written decisions on patentability, oversee discovery, and conduct trials. *See id*. at 7. Thus, like the judges in *Lucia* and *Freytag*, the Federal Circuit found that the APJs exercise significant authority to conduct *inter partes* review and issue final written decisions on patentability. *See id*. Moreover, neither party disputed this conclusion. *See id.*

APJs as Principal Officers

Next, the Federal Circuit held that in light of rights and responsibilities, APJs are principal officers. In reaching its decision, the Federal Circuit considered three factors based on Supreme Court's precedent in *Edmond v. United States*, 520 U.S. 651 (1997), including: "(1) whether an appointed official has the power to *review* and reverse the officers' decision; (2) the level of *supervision* and oversight an appointed official has over the officers; and (3) the appointed official's power to *remove* the officers." *See id.* at 664–65. (Emphasis added). As the Federal Circuit read the governing precedents, it held that "in light of the rights and responsibilities in Title 35, APJs are principal officers." *See Arthrex* at 7. Applying the Supreme Court's precedents in *Edmond*, the Federal Circuit noted that "[t]he only two presidentially-appointed officers that provide direction to the PTO are the Secretary of Commerce and the Director," and concluded that "[n]either of those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers." *See id*. at 9.

During its review, the Federal Circuit determined that the first and the third factors supported the conclusion that APJs are principal officers while the second did not.

(1) Review – The Federal Circuit explained that there is no procedure in place for any presidentially-appointed officer, including the Director, to "single-handedly review, nullify or reverse a final written decision issued by a panel of APJs." *See id.* at 10. Only the Federal Circuit has the ability to review APJ decisions. *See id.* Although the Director may influence or control various aspects of the process of *inter partes* review, the Director lacks "sole authority to review or vacate any decision by a panel of APJs." *See id.* at 11. This distinction made *Arthrex* "critically different from the [situation] in *Edmond*," where superior officers possessed authority to reverse and order review of decisions by the military judges at issue, who had "*no* power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers." *See id.* at 12. At most, the Director can intervene in a party's appeal and ask this court to vacate the decision, but he has no authority to vacate the decision himself. *See id.*

(2) Supervision – The Federal Circuit noted that "[t]he Director exercises a broad policy-direction and supervisory authority over the APJs." *See id*. at 13. Examples of supervision include the ability to issue regulations and policy directives concerning *inter partes* review, designate the judges who decide each IPR, and adjust the APJs' pay. *See id*. at 14.

(3) Removal – The Federal Circuit outlined the removal process for APJs, who are subject to the removal restrictions set forth in 5 U.S.C. § 7513(a), providing that APJs may removed "only for such cause as will promote the efficiency of the service" and upon written notice of the specific reasons for removal. *See id*. Thus, both the Secretary of Commerce and the Director lack unfettered removal authority. *See id*. The Federal Circuit also noted that "[t]he Director's authority to assign certain APJs to *certain panels*," such as to de-designate, "is not the same as the authority to remove an APJ *from judicial service* without cause"—a much more "powerful" form of control. *See id*. at 16.

When balancing these factors, the Federal Circuit concluded that the relative lack of effective control and supervision over APJs qualified them as principal officers. Specifically, the Federal Circuit determined that neither the Director nor the Secretary of Commerce "exercise[s] sufficient direction and supervision over APJs to render them inferior officers," and that decision is supported by "[t]he lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs combined with the limited removal power." *See id*. at 9.

V. Remedy

Having determined that the current structure of the Board under Title 35 as constituted is unconstitutional, the Federal Circuit considered whether there is a remedial approach that can be taken to address the constitutionality issue. The Federal Circuit noted that severing a statute is appropriate if the remainder of the statute is "(1) constitutionally valid, (2) capable of functioning independently, and (3) consistent with Congress' basic objectives in enacting the statute." *United States v. Booker*, 543 U.S. 220, 258–59 (2005). The Federal Circuit found that the problematic portions of the statute could be severed while leaving the remainder intact, while noting that in exercising this power, the Federal Circuit was compelled to act cautiously and refrain from invalidating more of the statute than is necessary. The Federal Circuit concluded that the appropriate remedy to the constitutional violation is partial invalidation of the statutory limitations on the removal of APJs. The severing of the portion of the Patent Act restricting removal of the APJs is sufficient to render the APJs inferior officers and, thus, remedy the constitutional appointment problem. The technical merits of the hearing were remanded for rehearing by a new panel of APJs.