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Expert Analysis

'Arthrex': Do PTAB Judges Require Presidential Appointment?

By **Robert L. Maier**

Although patent infringement proceedings in the United States often begin as civil actions filed in federal district courts, many of these disputes are ultimately resolved elsewhere. Most commonly, these include administrative trials before the Patent Trial and Appeal Board (PTAB), the tribunal arm of the U.S. Patent and Trademark Office (USPTO).

At the PTAB, cases are heard by specialized administrative law judges (ALJs), referred to as administrative patent judges (APJs). A variety of proceedings are ultimately heard by these APJs, but inter partes review (IPR) is perhaps the most well-known—a proceeding challenging the patentability of claims that can invalidate part, or all, of a patent.

These IPR proceedings have become wildly popular for defendants accused of patent infringement in district courts. A significant number of IPR petitions are filed in response to infringement accusations, and such petitions generally must be filed within one year of the district court action being filed. See 35 U.S.C. §315(b). Some district courts will stay proceedings pending the resolution at the PTAB, depending upon a variety of factors, since those proceedings may be determinative. See Trial Statistics, USPTO (September 2020). Through these validity challenges at the PTAB, APJs can have a considerable impact on patent holders' rights.

> Ultimately, the Supreme Court in 'Arthrex' and related decisions this term may address broader issues in our administrative regime—both at the PTAB, and for other administrative agencies as well.

Constitutional Challenge

Despite the significant role APJs have in deciding the validity of patents (and the consequent impact on related patent infringement proceedings), they are not Article III judges like those judges who hear patent infringement cases in district courts. Rather, under the America Invents Act enacted in 2011, APJs were to be "persons of competent legal knowledge and scientific ability who are appointed by the [Under Secretary of Commerce for Intellectual Property], in consultation with the [Director of the United States Patent and Trademark Office]." See 35 U.S.C. §6. In other words, APJs are to be appointed by presidential appointees.

ROB MAIER *is an intellectual property partner in the New York office of Baker Botts, and the head of its intellectual property group in New York.* RYAN DOWELL, *a Baker Botts associate, assisted in the preparation of this article.*

However, not all ALJs are appointed with the same authority or duties. Some are appointed under the Administrative Procedure Act (APA), and others under more specific statutes. Compare 5 U.S.C. §3105 (the section of the APA concerning the appointment of administrative law judges), with, e.g., 35 U.S.C. §6 (APJ appointments).

Differences in the manner and scope of appointment can result in ALJs being employees or officers, who exercise more significant authority. See U.S. Const. art. II, §2, cl. 2; *Lucia v. S.E.C.*, 138 S. Ct. 2044, 2053 (2018) (ALJs who (1) "hold a continuing office established by law" and (2) "exercise the same 'significant discretion' when carrying out… 'important functions,'" such as those who conduct trials, are officers subject to the Appointments Clause).

The Appointments Clause requires that certain "Officers of the United States" must be nominated by the President and approved by the Senate. See U.S. Const. art. II, §2, cl. 2. Such officers are "principal officers," whereas "inferior officers" may be appointed by other means determined by Congress. Id. The distinction between principal and inferior officers is one with no "exclusive criterion," but is often analyzed through a set of three factors. See *Edmond v. United States*, 520 U.S. 651, 661 (1997).

In *Arthrex v. Smith & Nephew*, Arthrex challenged whether the appointment of APJs by the Secretary of Commerce, as set forth in 35 U.S.C. §6, violates the Appointments Clause and is therefore unconstitutional. See *Arthrex v. Smith & Nephew*, 941 F.3d 1320 (Fed. Cir. 2019). Following prior precedent, the Federal Circuit there determined that APJs are "officers" rather than employees, and subsequently analyzed whether APJs were "principal" or "inferior officers." Id. at 1328.

The Federal Circuit applied the three *Edmond* factors for distinguishing between inferior and principal officers: "(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." Id. at 1328-29, 1334 (applying factors from *Edmond*; noting that other potential factors were absent in this case).

The Federal Circuit found that factors 1 and 3 weighed towards characterizing APJs as principal officers, and concluded that the statute as written resulted in APJs who should be considered principal officers. Id. at 1335. As principal officers, APJs must be appointed by the President and confirmed by the Senate to comply with the Appointments Clause—and because APJs were not appointed in this manner, appointments as set out in the statue were found to be unconstitutional.

The Federal Circuit sought to remedy the constitutionality issue by severing 35 U.S.C. §3(c)—the section governing removal of USPTO officers, which incorporates U.S.C. Title 5 and requires for-cause removal—as applied to APJs. See, e.g., id. at 1335; 5 U.S.C. §7513(a). By severing only a portion of the statute, the "severance is the narrowest possible modification to the scheme Congress created and cures the constitutional violation in the same manner as [in precedential cases]." *Arthrex*, 941 at 1335 (citing *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477 (2010) and *Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 684 F.3d 1332 (D.C. Cir. 2012)). The Federal Circuit's solution essentially attempts to convert APJs by changing the removal factor to support inferior officer status. Id. at 1335-38.

Following this decision, the U.S. government, which had intervened in the Federal Circuit, appealed to the Supreme Court. The Supreme Court in October then granted certiorari on two questions:

> (1) Whether, for purposes of the Constitution's appointments clause, administrative patent judges of the U.S. 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; and
> (2) whether, if administrative patent judges 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 U.S.C. §7513(a) to those judges.

See *Arthrex v. Smith & Nephew*, 941 F.3d 1320 (Fed. Cir. 2019), cert. granted, (No. 19-1434) (consolidated with related cases).

At this point, it is clear that ALJs are considered "officers" for purposes of the Appointments Clause. See, e.g., *Arthrex*, 941 at 1328 (noting that Appellees and the government agreed that APJs are officers). Thus, the remaining questions focus on what *type* of officer—principal or inferior—and, if APJs are properly considered principal officers, whether the Federal Circuit's remedy is sufficient.

By choosing to address both questions, it may be that the Supreme Court intends to focus on the second question, and only requires the first question to reach that analysis. If this is the case, then the question posed may be simplified: The court is addressing whether principal officers can be converted to inferior officers simply by allowing for removal without cause by an appointed official.

Impact of 'Arthrex' on ALJs More Broadly?

Many other ALJs are similarly subject to removal only for cause. For example, the default for ALJs appointed pursuant to the Administrative Procedure Act states:

> An action may be taken against an administrative law judge appointed under section 3105 of this title by the agency in which the administrative law judge is employed only for good cause established and determined by the Merit Systems Protection Board on the record after opportunity for hearing before the Board.

See, e.g., 5 U.S.C. §§3105, 7521(a).

The Supreme Court's decision in *Arthrex* may impact other ALJs who qualify as officers, especially those who conduct trials that might otherwise be adjudicated in Article III courts. As seen following the Supreme Court's decision in *Lucia v. SEC* (July 2018), the determination that similarly-situated ALJs are inferior officers, rather than employees, spread beyond the SEC to other agencies.

The Solicitor General distributed advice that ALJs with similar authority should be regarded as inferior officers and should be appointed as such. See Memorandum from the Solicitor General, U.S. Dep't of Justice, to Agency Gen. Counsels, Guidance on Administrative Law Judges. In fact, in that memo, the Department of Justice predicted challenges to the appointment of ALJs similar to the challenge now under review in *Arthrex*.

Indeed, on Nov. 10, the Supreme Court granted cert. in *Carr v. Saul*, No. 19-1442, and *Davis v. Saul*, No. 20-105—two cases involving the Social Security Act, but which raise the question of whether Social Security claimants needed to raise their Appointments Clause challenge, in light of the *Lucia* decision, in the administrative agency to avoid forfeiture. The question presented in each: "Whether a claimant seeking disability benefits under the Social Security Act forfeits an appointments-clause challenge to the appointment of an administrative law judge by failing to present that challenge during administrative proceedings." While not on all fours with *Arthrex*, the issues are certainly related.

Ultimately, the Supreme Court in *Arthrex* and related decisions this term may address broader issues in our administrative regime—both at the PTAB, and for other administrative agencies as well. And, with respect to the PTAB, the door has been left open for the court to preserve almost a decade's worth of PTAB proceedings and decisions.