

NYIPLA Corporate Committee  
April 14, 2021

## Arthrex Oral Argument

BY

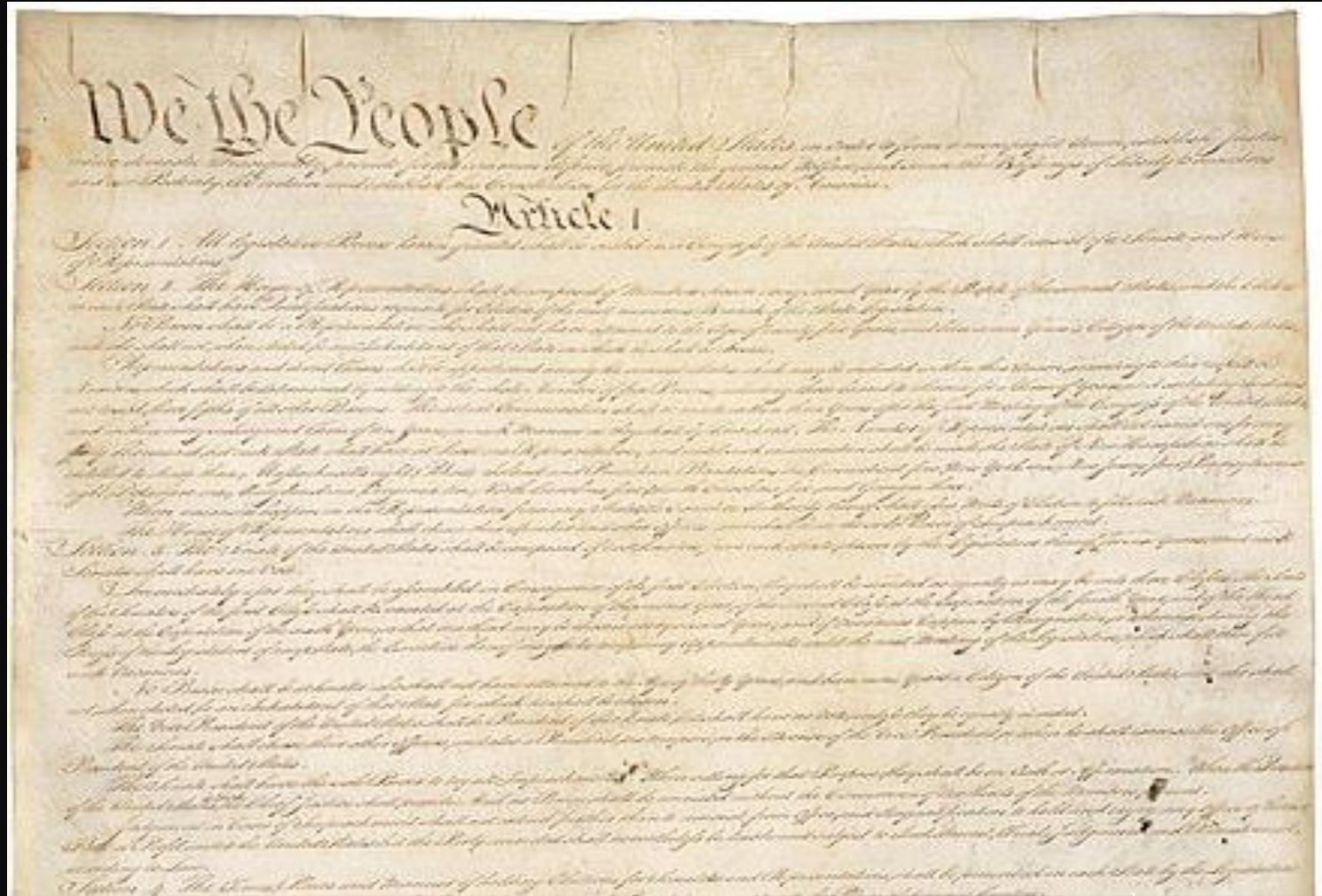
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Fifteen Hundred and Twenty-two

# NYIPLA

The New York Intellectual Property Law Association®



# Disclaimer

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Charles R. Macedo, David P. Goldberg, and Chandler E. Sturm submitted an amicus brief in *Arthrex* on behalf of the NYIPLA at the Federal Circuit, and at the U.S. Supreme Court on behalf of eComp Consultants at the merits stage, and on behalf of Askeladden LLC at the petition stage.

# Agenda

Overview

Amicus Briefs

Oral Argument

Straw Poll

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# The Appointments Clause: U.S. Const., art. 2, sec. 2, cl. 2

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[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.

**Principal Officers** – must be appointed by the President with the advice and consent of the Senate

**Inferior Officers** – may be appointed by the President, alone, by the courts, or in heads of departments

# 35 U.S.C. § 6(a)

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PTAB APJs are **appointed by the Secretary of Commerce (a Head of Department)**, in consultation with the Director of the USPTO.

This is appropriate if APJs are “**inferior officers**” under the Appointments Clause.

**In General** // There shall be in the Office a Patent Trial and Appeal Board. The Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Patent Trial and Appeal Board. **The administrative patent judges** shall be persons of competent legal knowledge and scientific ability who are **appointed by the Secretary, in consultation with the Director.**

# Federal Circuit

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**ARTHREX, INC., Appellant**

**v.**

**SMITH & NEPHEW, INC., ARTHROCARE CORP., Appellees,  
UNITED STATES, Intervenor.**

[No. 2018-2140.](#)

**United States Court of Appeals, Federal Circuit.**

Decided: October 31, 2019.

Before MOORE, REYNA, and CHEN, Circuit Judges.

MOORE, Circuit Judge.

# Principal v. Inferior Officer

Review Power	Supervision Power	Removal Power
APJs issue final decisions on behalf of the USPTO <b>without any principal officers having the right to review those decisions</b>	The Director has the ability to (i) promulgate regulations governing the conduct of <i>inter partes</i> review (“IPR”), (ii) designate decisions as precedential; (iii) institute IPR; (iv) designate the panel of judges who decides each IPR; and (v) control APJs’ pay.	APJs may be removed under 5 U.S.C. § 7513(a) <b>“only for such cause as will promote the efficiency of the service.”</b>
Supports conclusion that APJs are <b>principal officers</b>	Supports conclusion that APJs are <b>inferior officers</b>	Supports conclusion that APJs are <b>principal officers</b>

“These factors, considered together, **confirm that APJs are principal officers** under Title 35 as currently constituted. As such, they **must be appointed by the President and confirmed by the Senate**; because they are not, **the current structure of the Board violates the Appointments Clause.**”

# Remedy

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- “[T]he appropriate remedy to the constitutional violation is *partial invalidation of the statutory limitations on the removal of APJs....[S]evering the restriction on removal of APJs renders them inferior rather than principal officers.*”
- “Although the Director still does not have independent authority to review decisions rendered by APJs, his provision of policy and regulation to guide the outcomes of those decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions.”

# Supreme Court of the United States

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- All three parties filed petitions for a writ of certiorari:
  - *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 19-1458 (U.S. filed June 30, 2020)
  - *United States v. Arthrex, Inc.*, No. 19-1434 (U.S. filed June 25, 2020)
  - *Smith & Nephew, Inc. v. Arthrex, Inc.*, No. 19-1452 (U.S. filed June 29, 2020)
- On October 13, 2020, all three petitions were granted, consolidated, and limited to Questions 1 and 2 as set forth in the July 22, 2020 Memorandum for the United States

# Questions Presented

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1. Whether, for purposes of the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, 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.
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.

# Question 1: United States / Smith & Nephew, Inc.

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## UNITED STATES

“Under this Court’s precedents, the dividing line between principal and inferior officers *turns not on the significance of their authority, but on whether they are subject to adequate direction and supervision by presidentially appointed and Senate-confirmed officials*....Under the analytic framework set forth in this Court’s most recent decisions, *administrative patent judges are inferior officers* whose appointment Congress permissibly vested in the Secretary.”

Brief for the United States, at p. 16

## SMITH & NEPHEW, INC.

“*APJs easily fit the Appointments Clause’s category of ‘inferior Officers’ because their work is extensively directed and supervised by the Director of the USPTO.* The Federal Circuit erred in categorizing APJs as principal Officers.”

Opening Brief of Smith & Nephew, Inc.,  
at p. 15

# Question 1: Arthrex, Inc.

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“The court of appeals correctly held that *administrative patent judges are principal officers* who cannot be appointed by department heads.”

Brief for Arthrex, Inc. at p. 13

# Question 2:

## United States / Smith & Nephew, Inc.

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### UNITED STATES

“If this Court concludes that administrative patent judges are principal officers under the existing statutory scheme, ***it should affirm the court of appeals’ remedial holding curing the Appointments Clause violation.***”

Reply and Response Brief for the United States, p. 31

### SMITH & NEPHEW, INC.

“Because APJs are inferior Officers, ***the issues of severance and remedy addressed by the Federal Circuit need not be reached.***”

Opening Brief of Smith & Nephew, Inc., at p. 18

“If the Court were to view the problem as APJs’ method of appointment, it could fix that problem by invalidating the provision requiring that APJs be appointed by the Secretary of Commerce.”

“If the Court were to adopt Arthrex’s view that APJs are principal Officers solely because the Director cannot directly review their decisions, the appropriate fix for that violation would be to provide for such review.”

“If the Court were to agree with the Federal Circuit that the removal protections afforded APJs create the constitutional problem here, those protections could be severed.”

Response and Reply Brief for Smith & Nephew, Inc., at p. 47-48

# Question 2: Arthrex, Inc.

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“While the court of appeals correctly found a constitutional violation, it *erred by attempting to remedy that defect by severing APJs’ tenure protections.*”

“The court’s remedy was insufficient to cure the problem. APJs are principal officers because no superior officer can review their decisions. Eliminating tenure protections does not fix that defect. APJs are still the Executive Branch’s final word in every case they decide.”

Brief for Arthrex, Inc., at p. 15

“Given the range of policy choices better left to Congress, the Court should hold the current inter partes review regime unconstitutional, dismiss this inter partes review, and defer to Congress to fix the problem, as it has in the past.”

Brief for Arthrex, Inc. at 59

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# Are APJs Inferior Officers or Principal Officers?

## 17 Amici Argued That APJs Are Inferior Officers



## 12 Amici Argued That APJs Are Unconstitutionally Appointed



# Does The Federal Circuit's "Fix" Work?

7 Amici Argued That The Federal Circuit Prospective Fix Works.



Cross-Industry Group

2 Law Professors Argued That The Fix Should Have Been Applied Retrospectively And Prospectively.

Professor John Harrison



Professor Andrew Michaels



16 Amici Argued That A Different Solution Should Apply Or Outright No Fix Was Available By Severance.

39 Aggrieved Inventors 



Fair Inventing Fund

Jason V. Morgan



Administrative, Constitutional & Intellectual Property Law Professors



Joshua J. Malone

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# United States:

## Opening Statement

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- Focused on the Supreme Court's decision in *Edmond v. United States* holding that there is no exclusive criterion for determining inferior versus principal officer status, and the inquiry should examine all the tools of control taken together
- Listed out examples of supervisory power of the Director of the USPTO over PTAB APJs
- Specifically pointed to the fact that the Board can grant rehearing of a panel's final written decision, and the Director, who is authorized to decide which members will sit on any panel, can convene a new panel that consists of himself and two other members of his choosing to decide whether a final written decision will be reheard
- Therefore, while the power of the Director over rehearings is not absolute, all factors taken together, the Director's supervisory powers are sufficient to render APJs inferior officers

# Smith & Nephew: Opening Statement

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- Focuses on the supervision and authority of the Director of the USPTO over PTAB APJs
  - The Director can, and does, give substantive guidance to APJs
  - The Director has unilateral institution and assignment power, and can order review of any Board decision
  - Only the Director takes final actions by confirming or canceling patent claims; APJs cannot render any decision unless the Director permits them to do so
- Therefore, APJs are inferior officers
- Point made throughout argument – Principal officers sit at the right hand of the President and make national policy; APJs are three steps removed from the President and while they carry out policy, they do not make it.

# Arthrex:

## Opening Statement

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- APJs decide cases that are the “executive’s final word resolving billion-dollar disputes affecting the innovation landscape.”
- No superior has the authority to review decisions made by APJs
- The Federal Circuit’s remedy striking APJ tenure protection is no remedy at all – APJs would still be the final word of the executive for the cases they decide
- How to fix the statute is for Congress to decide:
  - Congress may want APJs to be presidentially appointed and Senate-confirmed; or
  - Congress may want to grant the Director express authority to review board panel decisions



# Chief Justice Roberts

## UNITED STATES

- “The one thing that [the Director] can’t do is just change the decision of the APJ.”
- While the Director can issue guidance on hypothetical facts, “the APJ is the one who’s going to decide whether that so-called hypothetical applies in this particular case, and if he comes out with a different result, that’s the executive decision, not the Director’s rule about hypotheticals.”

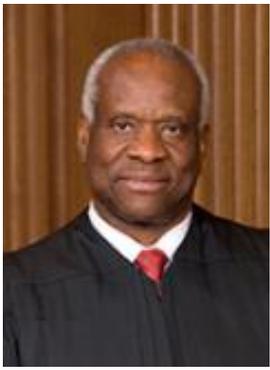
## SMITH & NEPHEW

- Concerned with due process issues if it is really the case that the Director has the power to choose to rehear a decision
- “You’re going to have to call [your client] and say the Director has granted rehearing, and has appointed himself and two others that think the same way he does to the panel, he’s issued new guidance saying in a so-called hypothetical case that looks like ours it should come out the other way...it would make something of a charade out of the adjudication.”

## ARTHREX

- “Why isn’t it okay that the executive allow the adjudicators a significant degree of leeway because they’re just that? They’re adjudicators, they’re coming up with particular factual determinations, and you don’t want the politically accountable people to have the authority to overturn those in situation where billions of dollars are at stake, but, at the same time, in terms of basic patent rules and approaches and guidance, you do want them to have that responsibility.”
- Meaningful review of each of hundreds of decisions of APJs is impractical

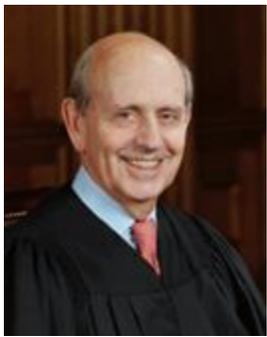
While APJs render final decisions, Director still issues guidance and supervises APJs. Likely to find APJs inferior officers.



# Justice Thomas

UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>• Questioned if the Director's power over rehearings is not plenary, but "substantial," how should the Court discern what is "substantial"?</li></ul>	<ul style="list-style-type: none"><li>• What is the test for whether someone is an inferior officer?</li><li>• How much supervision is required – Partial? Absolute?</li></ul>	<ul style="list-style-type: none"><li>• In response to the statement that the Director has no accountability because he has no legal authority to review decisions, questioned whether there would be better decisions from the Director if there was accountability?</li><li>• How much review is actually needed?</li><li>• Questioned how it would be different if the power of review were granted to the Director and then its delegated.</li></ul>

Likely to find APJs inferior officers.



# Justice Breyer

UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>• Focused on the distinction between mere employees and officers</li></ul>	<ul style="list-style-type: none"><li>• Are there any examples of officers that have authority in certain areas that is unreviewable?</li></ul>	<ul style="list-style-type: none"><li>• Following up on Justice Thomas, questions why this is an unusual matter of delegation.</li><li>• Pointed to the three basic things the US and Smith &amp; Nephew look at: What's the position in respect to the President of the individual? What's the nature of that job? And what is the nature of the delegation of non-reviewable authority?</li></ul>

Likely to find APJs inferior officers, or not even officers.

# Justice Alito



UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>Presented a hypothetical regarding whether it would be constitutional for a statute to provide a deputy solicitor final and unreviewable authority to decide to take an appeal in any cases involving the interpretation on of one particular provision of one statute, with the Solicitor General having the power to decide which deputy reviews each case and can issue guidelines on the meaning of the provision, but once a deputy makes a decision, nobody can countermand that?</li></ul>	<ul style="list-style-type: none"><li>Concerned with whether there is a “magic divider” where the Director no longer has sufficient control of APJs</li></ul>	<ul style="list-style-type: none"><li>Questioned the relief expected if the Court agreed the current scheme violates the Appointments Clause</li><li>Expressed Professor Harrison’s point that “the law is a combination of what the Constitution requires and any statutory additions to what the Constitution requires.”</li><li>The Court could say “this is what the Constitution requires” and “if the Constitution requires some alteration of the current statutory scheme, so be it.”</li></ul>

PTAB APJs are likely principal officers, but a most modest form of relief should be adopted and applied retroactively.



# Justice Sotomayor

UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>• Focused on the fact that Arthrex's position comes down to you're not an inferior officer if you can make final decisions that are unreviewable by the director, which is more straightforward than the U.S. and Smith &amp; Nephew's case</li><li>• Concerned with the "baseline" test of what makes APJs inferior officers.</li></ul>	<ul style="list-style-type: none"><li>• Following up on Justice Gorsuch's question of the United States, is concerned with how the right or the need to have someone in direct control of the President is at odds with any adjudicatory system</li></ul>	<ul style="list-style-type: none"><li>• Focused on the history where many inferior officers took final decisions in a wide variety of areas, and that early statutes gave non-principal officers the power to make final adjudicatory decision</li><li>• Principal officers were intended to be policymakers, and individuals who merely adjudicated claims based on set policies were not principal officers.</li><li>• "It is clear that APJs are not policymakers. All of the policies are vested in the Director, precedential power is put in the Director."</li><li>• "If the APJ makes the mistake under policy set by the Director, that is going to be reviewed by the Courts."</li></ul>

Likely to find APJs inferior officers.

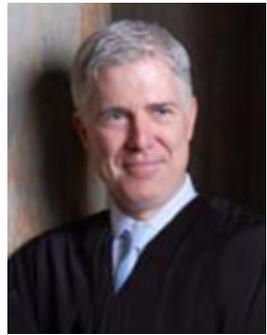


# Justice Kagan

UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>• Commented that the position of the United States puts a lot of weight on the Director's ability to be part of a board that rehears a decision, when the usual mechanism for rehearing does not involve a panel the Director chooses</li><li>• Even if the Director is on the panel, he doesn't have authority over the other two panel members</li></ul>	<ul style="list-style-type: none"><li>• Questioned how this "unusual" structure with no automatic review in the agency head come to be</li><li>• "Is this just an unaccountability strange bird?"</li><li>• Questioned whether Congress has ever reached a determination on this Appointments Clause question</li></ul>	<ul style="list-style-type: none"><li>• Questioned whether a "clear error" versus "egregious error" standard would be acceptable for determining Director review</li><li>• Considering all the other evidence of control the Director has, questioned "wouldn't you think that the Director can probably get the precise result he wants in a higher percentage of cases than the [Court of Appeals for the Armed Forces] in <i>Edmond</i>?"</li></ul>

Likely to find APJs inferior officers.

# Justice Gorsuch



UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>Referenced the Court’s decision in <i>Seila Law</i> – “executive officials must always remain subject to the ongoing supervision and control of the President” and questioned how that aligns with the United States’ argument that the President cannot reverse a decision of the APJs</li></ul>	<ul style="list-style-type: none"><li>“Is it fair to say that, yes, this is a rare bird in that in this area...this is an unusual animal in the sense that there isn’t final review in the agency head?”</li></ul>	<ul style="list-style-type: none"><li>Why isn’t severing the provision in Section 6(c) that says only the PTAB may grant rehearing sufficient? Or would you also have to sever the first part of Section 6(c) that says shall be heard by three members?</li><li>Simply setting aside IPRs and waiting for Congress to fix the problem could take a long time</li></ul>

PTAB APJs are likely principal officers, but a blue-line remedy would address the issue.

# Justice Kavanaugh



UNITED STATES	SMITH & NEPHEW	ARTHREX
<ul style="list-style-type: none"><li>• “This structure is a real break from tradition” as there is lack of agency review</li><li>• Multimillion dollar decisions are not being made by someone who is accountable in the usual way required by the Appointments Clause</li></ul>	<ul style="list-style-type: none"><li>• Commented that this significant departure from general historical practice – being that there is no automatic review in an agency head – would allow Congress to give extraordinary power to inferior officers</li></ul>	<ul style="list-style-type: none"><li>• Options are either keeping agency review if you want to keep APJs as inferior officers, or if you want to avoid agency review, APJs would have to be presidentially appointed and Senate-confirmed.</li><li>• How would it be different if the power of review were granted to the Director and then its delegated?</li><li>• If the Court agrees that APJs are principal officers, taking down the whole system is frowned upon.</li><li>• “Isn’t the nature of the constitutional problem here the lack of Director review, which would mean us saying 6(c) is the constitutional problem?”</li></ul>

PTAB APJs are likely principal officers.

# Justice Barrett



## UNITED STATES

- APJs get the protection of the MSPB, which means that the director is not the official in the Executive Branch that has the last word on the APJs removal

## SMITH & NEPHEW

- Focused on the preferred fix should the Court determine APJs are principal officers, since “it’s not one specific provision in this statutory scheme that’s being challenged as unconstitutional. It’s the way that they work together.”
- Could make APJs subject to presidential appointment, strike the provision giving only the PTAB power to grant rehearing's, or make them at-will removable employees

## ARTHREX

- Focused on various ways to sever 35 USC Section 6
- In many respects, APJs are inferior officers – but if Congress gave APJs only case-specific review authority, that is inconsistent with the inferior officer role, isn’t it odd to say that they are principal officers because they exercise one piece of authority that goes beyond what an inferior officer can do?

Likely to find APJs principal officers.

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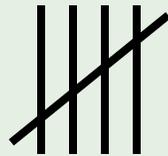
**Straw Poll**

# Straw Poll

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## LIKELY INFERIOR

- Chief Justice Roberts
- Justice Thomas
- Justice Breyer (not even an officer)
- Justice Kagan
- Justice Sotomayor



## LIKELY PRINCIPAL, BUT NEW REMEDY

- Justice Alito
- Justice Gorsuch
- Justice Kavanaugh
- Justice Barrett (perhaps leave remedy to Congress)



# Questions?

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