

ARTHREX, INC. v. SMITH & NEPHEW, INC., Appeal No. 2018-2140 (Fed. Cir. October 31, 2019). Before Moore, Reyna, and Chen. Appealed from Patent Trial and Appeal Board.

Background:

Smith & Nephew (S&N) filed an Inter Partes Review (IPR) petition challenging the validity of Arthrex's patent. The PTAB (Board) issued a decision holding a number of claims in the patent as anticipated. Arthrex appealed to the Federal Circuit, contending that the appointment of the Board's APJs, as currently set forth in Title 35, violates the Appointments Clause of the U.S. Constitution, art. II, § 2, cl. 2.

Issue/Holding:

Was the appointment of the Board's APJs in violation of the Appointments Clause of the U.S. Constitution, rendering its decision invalid? Yes, vacated and remanded.

Discussion:

APJs "are appointed by the Secretary [of Commerce] in consultation with the Director," 35 USC § 6(a). In vacating the Board's decision, the Court had no difficulty finding that APJs are "Officers of the United States" within the meaning of the Appointments Clause, but framed the issue as whether they are inferior officers or principal officers; the latter requiring appointment by the President as opposed to the Secretary of Commerce.

The Court held that APJs are principal officers and thus, because they were not appointed by the President, their appointments were unconstitutional. In making that determination, the Court focused most of its attention on the Director's powers and general oversight of the APJs, including the extent of the Director's power to review Board's decisions, power to set policy and supervision power, and power to remove APJs. The Court found that the Director had no authority to review or reverse PTAB decisions, thus supporting a conclusion that APJs are principal officers, while on the other hand, the Director's authority to convene a precedential opinion panel to rehear a case or designate the Board's decisions as precedential, although supporting a conclusion that APJs are inferior officers, was not enough.

To remedy the violation, the Court followed the approach set forth by Supreme Court precedent that "[g]enerally speaking, when confronting a constitutional flaw in a statute, we try to limit the solution to the problem,' severing any 'problematic portions while leaving the remainder intact.'" To that end, the Court partially invalidated that part of 35 USC § 3(c) that applied to APJs, holding that it is unconstitutional. The factual effect thereof was the elimination of protections provided by Title 5 of the U.S. Code from removal by their superiors; the legal effect was to make APJs inferior officers.

The Court remanded to the Board for a decision on the merits by a different panel of judges, at least in part to prevent the previous panel from "rubber stamping" their earlier decision. The Court also dismissed S&N's argument (and that of the United States, which entered the case as intervenor) that the appeal should have been dismissed because Arthrex did not raise the Appointments Clause issue before the Board. Arthrex countered that the Court should waive the requirement in this case because the Board could not have granted relief on this issue. Going forward, the Court decided that remand was in order only for those cases in which the issue had been raised on appeal.

Post Script:

*Bedgear LLC v. Fredman Bros. Furniture Co. Inc.*, 2018-2082, decided a week later, drawn to the same legal issue as in *Arthrex*, was remanded as per *Arthrex*. However, Judge Dyk, joined by Judge Newman, concurred, arguing that the *Arthrex* panel's modification of the statute should have been applied retroactively, making the Board's previous decisions pass constitutional muster and eliminating the need for remands. Judge Dyk concluded that the order mandating new hearings is not required under the law, "imposes large and unnecessary burdens on the system of inter partes review, requiring potentially hundreds of new proceedings, and involves unconstitutional prospective decision-making."