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Legal Sidebar

Supreme Court to Consider Whether Patent Judges' Appointments Are Constitutional

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In 2011, Congress enacted a major patent reform bill, the Leahy–Smith America Invents Act (AIA). The AIA, among other things, created adversarial proceedings—inter partes review (IPR) and post-grant review (PGR)—to review the validity of issued patents and cancel those that should not have issued. The U.S. Patent and Trademark Office's (PTO's) Patent Trial and Appeal Board (PTAB), composed of hundreds of administrative patent judges (APJs), oversees such proceedings. The Secretary of Commerce (the Secretary), in consultation with the Director of the PTO (the Director), appoints APJs to the PTAB. A panel of three APJs oversees each IPR or PGR and rules on the validity of the patent under review.

In *United States v. Arthrex, Inc.*, the Supreme Court is poised to address whether APJs exercise enough power with sufficient independence such that the U.S. Constitution's Appointments Clause requires that they be appointed by the President with the advice and consent of the Senate. Depending on how the Supreme Court rules, *Arthrex* could have considerable impact on proceedings before the PTO and other administrative agencies. As the decision could disrupt a major statutory program, and may affect administrative agency adjudications more broadly, *Arthrex* may be of considerable interest to Congress. This Legal Sidebar explains the legal background of the Appointments Clause and PTAB proceedings, and describes the case's facts and procedural history. The Sidebar then discusses the arguments before the Supreme Court before highlighting select considerations for Congress.

Legal Background

Appointments Clause

Under Article II, Section 2, Clause 2 of the U.S. Constitution (the Appointments Clause), the President "shall nominate, and by and with the Advice and Consent of the Senate, shall appoint [specified officers], and all other Officers of the United States." However, the Clause also states that "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." The Appointments Clause thus establishes that the President, the courts, or department heads may appoint *inferior officers*, when Congress grants such authority by statute, but only the President may appoint "Officers of the United States" (who the Supreme Court refers to as *principal officers*) with the Senate's advice and consent. (An "officer" is someone who

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occupies a continuing position created by law and exercises "significant authority." Most people who work for the U.S. government are instead non-officer "employees" for whom "the Appointments Clause cares not a whit about who named them.") If an officer was not appointed in a proper manner, a party challenging the appointment may be entitled to a new decision by a properly appointed adjudicator.

The Supreme Court has stated that "[w]hether one is an 'inferior' officer depends on whether he has a superior." Thus, "inferior officers" are those "whose work is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." Although the Court has not enumerated an exclusive list of factors for determining whether a particular officer is an inferior officer, it has recognized that one "powerful tool for control" is "[t]he power to remove officers." Moreover, the Court has noted that an officer's inability "to render a final decision . . . unless permitted to do so by other Executive officers" suggests the officer is an inferior officer. The Court has also stated that the degree of control exercised over a particular officer is relevant to the inferior-officer determination. The Appointments Clause is an important structural protection in the Constitution, as the Court has explained, because it ensures political accountability for executive branch decisions.

Administrative Patent Judges

A panel of three APJs oversees each IPR or PGR proceeding. As part of conducting the IPR or PGR, the APJs may compel testimony and production of documents; rule on the admissibility of evidence; impose sanctions; hold an oral hearing; and ultimately issue a written decision on the validity of the patent in dispute. If an APJ panel rules that a patent is invalid, a party may appeal that determination directly to the U.S. Court of Appeals for the Federal Circuit (Federal Circuit). If the Federal Circuit affirms the PTAB decision, the patent claims at issue are canceled; that is, they no longer have any legal effect.

APJs are appointed by the Secretary in consultation with the Director. The President appoints both the Secretary and the Director with the advice and consent of the Senate. The Director is a member of the PTAB along with the APJs. However, the Director maintains some authority over the APJs. The Director may, among other things, determine the composition of APJs on each PTAB panel; issue regulations governing the conduct of PTAB proceedings; or designate a PTAB decision as precedential and thus binding on future panels.

Case Background

Arthrex, Inc. owns a patent relating to a knotless suture securing assembly used in medical surgery. Smith & Nephew, Inc. sought IPR of Arthrex's patent. A panel of three APJs heard the IPR and determined Arthrex's patent was invalid and therefore should be canceled. Arthrex appealed, arguing the appointment of the APJs violated the Appointments Clause because they are principal officers, but were not appointed by the President with the advice and consent of the Senate.

On appeal, the Federal Circuit agreed, holding that, in view of the significant "rights and responsibilities" that APJs hold, they are principal officers for Appointments Clause purposes. The court began its Appointments Clause analysis by noting that the parties did not dispute that APJs are officers, and not mere employees. In determining whether APJs are principal or inferior officers, the Federal Circuit interpreted the Supreme Court's cases as emphasizing three distinguishing factors: "(1) whether an appointed official has the power to *review* and reverse the officers' decision; (2) the level of *supervision* an appointed official has over the officers; and (3) the appointed official's power to *remove* the officers."

The court analyzed each factor to determine whether the Secretary and the Director (the two officers appointed by the President) exercised sufficient control over the APJs to render the APJs inferior officers. On the first factor (the review power), the Federal Circuit concluded that there was insufficient review of APJ panel decisions because the Director cannot "single-handedly review, nullify or reverse" a panel decision; cannot decide on his own to rehear a decision; and does not have tools that would otherwise

provide the required level of reviewability. On the second factor (the supervision power), the court determined that the Director may exercise significant administrative oversight by promulgating regulations and policy interpretations governing how APJs conduct IPRs. On the third factor (removal), the court concluded that the Director's ability to remove APJs from service for "such cause as will promote the efficiency of the service" under Title 5 (the same standard applied to other federal employees) amounted to a significant limitation on removal. Noting the lack of other factors favoring a finding that APJs are inferior officers, the court concluded that APJs are principal officers who are not appointed in the required manner. To remedy the violation, the court severed Title 5's for-cause removal protections (meaning those protections would not be applied to APJs); vacated the underlying PTAB decision; and remanded the case for a decision by a panel of properly appointed APJs.

Arthrex, Smith & Nephew, and the United States (the government) all petitioned for Supreme Court review. The Court granted the petitions, deciding to review both the Federal Circuit's merits holding on the appointments issue and its choice of remedy.

Arguments Before the Supreme Court

Before the Supreme Court, the government argues that APJs are inferior, not principal, officers. The government contends that the Secretary and the Director exercise sufficient cumulative supervision and direction over APJs to meet the Constitution's requirements. For example, the government notes that the Director may prescribe each APJ's judicial assignment; designate the membership of particular APJ panels; create policies and regulations that APJs must follow in executing their duties; and institute, de-institute, or convene a panel to determine whether to rehear a particular proceeding. The government contends that the Federal Circuit erred by analyzing each of the three listed factors in isolation rather than considering the full scope of the Director's ability to control APJs. That is, in the government's view, it is the combination of the Director's powers, rather than any one power, that gives the Director sufficient control. The government further contends that the Supreme Court has not held that review by a principal officer is a prerequisite for concluding that a person is an inferior officer.

As to remedy, the government argues that if the Court holds that APJs are principal officers, it should affirm the Federal Circuit's remedy that severed statutory removal protections. Alternatively, if the Court holds that such protections are not an issue, but the lack of direct reviewability by a principal officer causes the constitutional violation, the government urges striking the statutory provision stating that only the PTAB may grant rehearings (thus giving the Director that power).

Echoing the government, Smith & Nephew argues that the Supreme Court has recognized "administrative adjudicators" as inferior officers in the past, even without complete direction or control by a principal officer. In view of those cases, Smith & Nephew contends that the Director's level of control over APJs is sufficient to make him politically accountable for the APJs' decisions. In addition to arguing that the Federal Circuit erred by failing to account for the "cumulative effect" of the Director's powers, Smith & Nephew contends that APJs are inferior officers even if reviewability and removability are "paramount." For example, Smith & Nephew argues that the Director may remove APJs from judicial assignments at will (even if APJs may not be removed from federal service entirely without cause), and that the Supreme Court has held other adjudicators to be inferior officers even where their decisions are not reviewed by their superiors. Smith & Nephew also cautions that a conclusion that APJs are principal officers may affect other administrative adjudications. Finally, Smith & Nephew contends that APJs and their predecessors in the PTO have historically been viewed as inferior officers. On remedy, Smith & Nephew argues that Arthrex has forfeited its proposed remedy (dismissal of the IPR and holding the IPR/PGR system unconstitutional). If the Court concludes that there is an Appointments Clause violation, Smith & Nephew urges severing the offending statutory provision rather than striking down the entire IPR regime.

Arthrex responds that for administrative adjudicators, reviewability by a principal officer is key to supervision. In other words, "[s]upervision that leaves those officers free to speak for the agency and render the agency's final word is necessarily incomplete." Without such review, officers can deliver the "final word" of the executive branch, which Arthrex contends is "a hallmark of principal officer status." Because no principal officer directly reviews APJ decisions, Arthrex continues, APJs are not inferior officers. Arthrex further argues that this lack of principal-officer reviewability departs from prior administrative adjudications, and the removal protections only exacerbate the Appointments Clause issues. The supervisory powers highlighted by the government and Smith & Nephew are insufficient, Arthrex contends, and raise other constitutional problems (for example, due process issues if the Director modifies a panel's composition to reach a particular result). Even the Director's policymaking authority only operates prospectively, Arthrex notes, and thus provides no recourse against a decision the PTAB already made. On remedy, Arthrex contends that severing the APJs' removal protections does not cure the reviewability issues and that Congress would not have enacted the AIA without those protections for APJs. Instead, Arthrex urges the Court to hold the current IPR system to be unconstitutional entirely, and allow Congress to craft a suitable remedy that results in a properly appointed PTAB.

Implications for Congress

Arthrex could significantly affect administrative adjudication at the PTO and, depending on the breadth of the Supreme Court decision, possibly proceedings before other administrative bodies. The following table outlines four possible outcomes and identifies considerations for possible congressional responses.

Table 1. Possible Outcomes in *United States v. Arthrex* and Potential Congressional Responses

Supreme Court Holding	Supreme Court Remedy	Possible Congressional Response
APJs are inferior officers	Current structure of PTAB upheld as constitutional	None needed if Congress is satisfied with current PTAB structure
APJs are principal officers due to lack of Director review	Sever provision restricting Director's ability to rehear PTAB decisions unilaterally	None needed if Congress does not object to unilateral Director review of PTAB decisions
APJs are principal officers due to lack of Director removal power	Sever removal protections for APJs	None needed if Congress does not object to the Director having increased power to remove APJs
APJs are principal officers and severability cannot cure constitutional problem	Strike down the IPR/PGR system as unconstitutional	Congressional action would be required to restore the IPR/PGR system, albeit with a different structure

Source: CRS.

Instead of a targeted remedy, any Appointments Clause violation could also be cured by having the President appoint APJs with the advice and consent of the Senate. Although that method of appointment is required for *principal* officers, it may be used for *inferior* officers as well. Thus, presidential appointment with the advice and consent of the Senate would address any potential Appointments Clause issues, and if so enacted, would maintain the current relationship between the Director and the PTAB.

The Court heard argument in *Arthrex* on March 1, 2021. A decision is expected before the end of June.

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