Argument Preview - United States v. Arthrex, Inc.

ARGUMENT PREVIEW

By David Taylor on February 27, 2021

On Monday, the Supreme Court will hear oral arguments in a much-anticipated patent case, *United States v. Arthrex, Inc.* The first issue for consideration by the Court is whether, for purposes of the Appointments Clause, administrative patent judges of the Patent Trial and Appeal Board are principal or inferior officers. The second issue is, if administrative patent judges are indeed principal officers, whether the Federal Circuit properly cured any Appointments Clause defect through the remedy it provided. This is our argument preview.

In 2019, a panel of the Federal Circuit ruled that the appointment scheme for APJs is unconstitutional under the Appointments Clause. The court found the APJs to be principal officers due to their ability to render final decisions on behalf of the executive branch that are not reviewable by the Director of U.S. Patent and Trademark Office, combined with statutory restrictions on the ability of the Director to remove them from their jobs. As a remedy, the court eliminated the removal restrictions as applied to APJs, which the court concluded rendered them inferior officers. Later, the Federal Circuit denied *en banc* review.

The government, Arthrex, and Smith & Nephew each decided to take the dispute to the Supreme Court, filing separate petitions for writ of certiorari. Last fall, the Supreme Court granted the petitions in all three related cases: (1) *United States v. Arthrex, Inc.* (19-1434), (2) *Smith & Nephew, Inc. v. Arthrex, Inc.* (19-1452), and (3) *Arthrex, Inc. v. Smith & Nephew, Inc.* (19-1458). The Court consolidated the cases for briefing and oral argument.

In its opening merits brief, the United States begins by setting out its primary argument: "Under the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, USPTO administrative patent judges are inferior officers whose appointment Congress permissibly vested in the Secretary of Commerce." In this regard, the United States makes three arguments.

First, the United States contends "[t]he Court has never identified any particular form of control as indispensable." Citing *Edmond v. United States*, the United States maintains that "[c]omplete control of every action that an inferior officer takes has never been required, as long as such officers' work remains 'supervised at some level.'"

Second, the United States argues, the "Secretary of Commerce and the USPTO Director each has significant authority to determine which individuals will perform the functions assigned to administrative patent judges." In this regard, the United States points to several examples of this authority. According to the United States, "[t]he Secretary, in consultation with the Director, appoints those judges;" "may remove those officials from federal service altogether, for any reason that 'promote[s] the efficiency of the service;'" and "while the Director cannot remove an administrative patent judge from federal service, he has unfettered power to decide which adjudicators will sit on any Board panel."

Third, the United States asserts the Federal Circuit's "principal error lay in its failure to appreciate the *cumulative* effect of the various mechanisms by which the Secretary and Director can supervise and direct administrative patent judges' work." According to the United States, "although the court distilled three specific supervisory mechanisms from *Edmond*, neither *Edmond* nor any other decision of this Court purports to identify any means of supervision as indispensable to inferior-officer status." In particular, the United States argues, "[b]y using that checklist approach, the court of appeals ascribed undue weight to the perceived absence of specific control mechanisms."

Smith & Nephew, in its opening merits brief, also contends that, "[b]ecause APJs are inferior Officers, the statute vesting their appointment in the Secretary of Commerce—a Department head—is constitutional." In this regard, Smith & Nephew argues, "APJs are inferior Officers because, from soup to nuts, their work is supervised by principal Officers." According to Smith & Nephew, "[t]he Director has all of the same 'powerful tool[s] for control' over his subordinates as the Judge Advocate General in *Edmond* . . .—and more." Therefore, Smith & Nephew asserts, "[u]nder a straightforward application of *Edmond*, APJs are inferior Officers." Moreover, Smith & Nephew argues that "Congress vested the appointment of APJs in the Secretary of Commerce (rather than the Director) precisely to *avoid* Appointments Clause concerns." Smith & Nephew concludes that, "[b]ecause APJs are inferior Officers, the issues of severance and remedy addressed by the Federal Circuit need not be reached."

Arthrex, in its response on the merits, argues two main points.

First, Arthrex maintains that the Federal Circuit "correctly held that administrative patent judges are principal officers who cannot be appointed by department heads." According to Arthrex, the Supreme Court's "precedents make clear that, for administrative judges, review of decisions is an essential element of that supervision and control." Arthrex contends "[o]versight that does not include any power to correct or modify their decisions allows them to speak for the agency and take positions free from agency control." In particular, Arthrex asserts the "AIA is a clear break from tradition" by not vesting "final decision-making authority in the agency head." Furthermore, Arthrex argues, "[e]ven if removal power could theoretically make up for the absence of review, the restrictions on removal here only exacerbate the problem." And according to Arthrex, "the Director's authority over panel assignments is no substitute for removal from office." Arthrex concludes this point by contending "[t]he government cannot overcome those deficiencies by contriving schemes through which the Director could supposedly engineer preferred outcomes using other oversight powers."

Second, Arthrex asserts that, while the Federal Circuit "correctly found a constitutional violation, it erred by attempting to remedy that defect by severing APJs' tenure protections." In this regard, Arthrex argues five points. First, Arthrex contends"[t]he court's remedy was insufficient to cure the problem" because "APJs are still the Executive Branch's final word in every case they decide." Second, according to Arthrex, the "court's remedy, moreover, does nothing to ensure public accountability." In particular, Arthrex argues, "APJs still decide cases without the transparent review by superior officers that Congress traditionally requires to ensure accountability, and now they "decide cases subject to the unforeseen threatened removal." Thus, the Federal Circuit "produced a regime that is neither impartial nor accountable." Third, Arthrex argues "[s]everance is especially inappropriate because there are many ways Congress could fix the problem." Fourth, Arthrex asserts "[n]either *Seila Law LLC v. Consumer Financial Protection Bureau*[,] nor *Free Enterprise Fund v. Public Company Accounting Oversight Board*[,] can justify a severance remedy that is insufficient to cure the violation." Finally, Arthrex concludes "[t]he canon of constitutional avoidance also counsels against the court of appeals' remedy."

In its reply brief, the United States maintains its position that APJs "are inferior officers, because from start to finish their work is 'directed and supervised at some level' by the Secretary of Commerce and the USPTO Director, both of whom are presidentially appointed, Senate-confirmed Executive Branch officials." The United States characterizes Arthrex's attempts to show otherwise as "unpersuasive." Additionally, the United States argues Arthrex is "propos[ing] a new categorical rule, under which an administrative judge cannot be an inferior officer unless a Senate-confirmed officer can exercise plenary review over her decisions." According to the United States, "[u]nder this Court's precedents, however, there is no exclusive criterion for inferior-officer status, including for administrative judges." And the United States maintains its position of supporting the remedial scheme offered by the Federal Circuit if the Court finds APJs to be principal officers. In particular, the United States urges "the Court to affirm the court of appeals' remedial holding, severing the judges' modest tenure protections to render them inferior officers."

Smith & Nephew, in its reply brief, begins by asserting "[n]o one—not the three parties, nor any of the 31 *amici curiae*—defends the Appointments Clause analysis applied by the Federal Circuit." In particular, Smith & Nephew emphasizes the strong nature of Arthrex's argument that there is an "exclusive criterion" for determining whether APJs are principal or inferior officers. According to Smith & Nephew, "[t]his Court, however, has squarely held to the contrary," citing *Edmond*. Smith & Nephew contends even "Arthrex does not dispute . . . Congress has always treated APJs and their predecessors as *inferior* Officers, empowering them to decide patentability—with judicial review before their decisions become final—for nearly 100 years." With respect to the remedial issue, Smith & Nephew urges the Court to "reject Arthrex's attempt to 'ride a discrete constitutional flaw . . . to take down the whole' IPR system." According to Smith & Nephew, "[t]his Court has a 'decisive preference for surgical severance rather than wholesale destruction,'" and therefore, "the Court should 'limit the solution to the problem.'"

Arthrex filed its own reply brief. In it, Arthrex addresses the arguments set forth by the United States and Smith & Nephew:

Neither the government nor Smith & Nephew cites a single case where this Court has upheld, much less imposed, a regime remotely similar to the one the Federal Circuit imposed below. The standard federal model for agency adjudication has long granted tenure protections to ensure the impartiality of administrative judges, while granting transparent review power to accountable agency heads. The court below created a regime that has neither impartiality nor accountability. . . . Smith & Nephew invokes Congress's need for "flexibility in defining and filling federal offices." . . . The Appointments Clause does grant Congress flexibility—but only within constitutional bounds. And that flexibility is precisely why the court of appeals erred by imposing its own preferred remedy rather than letting Congress decide. The court's remedy is unrecognizable in the annals of American administrative law. The Appointments Clause does not permit it. Congress never would have enacted it. The court's severance remedy should be reversed.

Interested parties have submitted over 35 amicus briefs to the Court to present their perspectives and arguments on the issues in this case. Particularly significant are the briefs from Apple Inc. and US Inventor Inc. In Apple's amicus brief in support of neither party, Apple begins by arguing that "Congress designed the IPR system to be a reliable and cost-effective means for the public to test the validity of issued patents." According to Apple, "[a]vailable data strongly suggests that the IPR system Congress devised works largely as intended." Accordingly, Apple urges that, "[i]f the Court concludes that the Federal Circuit's solution of severing APJ removal protections from the statute solves any Appointments Clause problem, it should not hesitate to apply the severability doctrine." Apple argues, however, "[i]f a legislative fix were necessary, then this Court should stay its judgment," which "would afford Congress an opportunity to cure the alleged constitutional defect without impairing the interim administration of the IPR system." In US Inventor's amicus brief in support of Arthrex, it argues the Federal Circuit's "remedy for the Appointments Clause violation would not have been preferred by Congress, and overlooks a constitutionally sound and non-disruptive way to downgrade APJs to inferior or non-officer status." US Inventor proposes that "the correct remedy is to sever the statute so that patentability determinations continue as Congress intended, only with APJs downgraded to making advisory patentability decisions–i.e., decisions that are not binding or preclusive in other proceedings, such as infringement actions" since "this would make APJs either inferior or non-officers."

Malcolm L. Stewart, United States Deputy Solicitor General, will argue for the United States.

Mark Perry will argue for Smith & Nephew.

Jeffrey Lamken will argue for Arthrex.

The Supreme Court's decision could have a significant impact on the future of the PTAB, particularly should it adopt a remedy that invalidates the work of the administrative patent judges and effectively requires congressional action to cure any Appointments Clause problem.

We will continue to follow the case. After Monday's argument, we will post an argument recap. As always, you can find all of the relevant documents and all of our coverage of the case on our "Supreme Court Cases" page.