

2018-2140

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**United States Court of Appeals  
for the Federal Circuit**

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**Arthrex, Inc.,**  
*Appellant*

v.

**Smith & Nephew, Inc. and ArthroCare Corp.,**  
*Appellees*

**United States,**  
*Intervenor*

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**Appeal from the U.S. Patent & Trademark Office,  
Patent Trial and Appeal Board, *Inter Partes* Review No. 2017-00275**

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**APPELLANT ARTHREX, INC.'S COMBINED PETITION FOR  
REHEARING AND/OR REHEARING *EN BANC***

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December 16, 2019

## CERTIFICATE OF INTEREST

Counsel for Appellant certifies the following:

1. The full name of every party represented by me is:  
Arthrex, Inc.
2. The names of the real party in interest represented by me is:  
Arthrex, Inc.
3. There are no parent corporations and any publicly held companies that own 10 percent of the stock of the parties represented by me.
4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this Court (and who have not or will not enter an appearance in this case) are:  
  
Carlson, Gaskey & Olds, P.C., Anthony P. Cho, David J. Gaskey,  
David L. Atallah, Jessica Zilberberg and Timothy J. Murphy
5. The title and number of any case known to me to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

None.

Dated: December 16, 2019

/s/ Anthony P. Cho \_\_\_\_\_  
Anthony P. Cho

## TABLE OF CONTENTS

CERTIFICATE OF INTEREST .....	i
TABLE OF CONTENTS .....	ii
TABLE OF AUTHORITIES .....	iii
STATEMENT OF COUNSEL .....	1
POINTS OF LAW AND FACT OVERLOOKED OR MISAPPREHENDED BY THE PANEL BELOW .....	2
COMBINED PETITION FOR REHEARING AND REHEARING EN BANC .....	3
I. INTRODUCTION AND STATEMENT OF THE CASE .....	3
II. PROCEDURAL BACKGROUND .....	5
III. ANALYSIS .....	6
A. CONGRESS WOULD NOT HAVE ENACTED THE IPR STATUTE WITHOUT TENURE PROTECTION FOR APJS .....	6
B. SEVERING THE TENURE PROTECTIONS DOES NOT FIX THE CONSTITUTIONAL PROBLEM BECAUSE APJ DECISIONS STILL ARE NOT REVIEWABLE BY OTHER EXECUTIVE OFFICERS .....	14
IV. CONCLUSION .....	17
CERTIFICATE OF COMPLIANCE WITH RULE 32(a) .....	19
CERTIFICATE OF SERVICE .....	20

## TABLE OF AUTHORITIES

### Cases

<i>Alaska Airlines, Inc. v. Brock</i> , 480 U.S. 678 (1987) .....	6, 7
<i>Ass'n of Am. R.R. v. DOT</i> , 821 F.3d 19 (D.C. Cir. 2016) .....	15, 16
<i>Bedgear, LLC v. Fredman Bros. Furniture Co.</i> , Nos. 18-2082, 2018-2083, 2018-2084, 2019 U.S. App. LEXIS 33299 (Fed. Cir. Nov. 7, 2019).....	4
<i>Belden, Inc. v. Berk-Tek LLC</i> , 805 F.3d 1064 (Fed. Cir. 2015).....	8
<i>Bowsher v. Synar</i> , 106 S. Ct. 3181 (1986) .....	13
<i>Cuozzo Speed Techs., L.L.C. v. Lee</i> , 136 S. Ct. 2131 (2016) .....	7
<i>DOT v. Ass'n of Am R.R.</i> , 575 U.S. 43 (2015) .....	15
<i>Edmond v. United States</i> , 520 U.S. 651 (1997) .....	15, 16
<i>Free Enter. Fund. v. Pub. Co. Accounting Oversight Bd.</i> , 561 U.S. 477 (2009) .....	11, 12, 16
<i>Freytag v. Commissioner</i> , 501 U.S. 868 (1991) .....	16
<i>Intercollegiate Broad. Sys. v. Copyright Royalty Bd.</i> , 684 F.3d 1332 (D.C. Cir. 2012) .....	16
<i>Lucia v. SEC</i> , 138 S. Ct. 2044 (2018) .....	9, 16

<i>Murphy v. NCAA</i> , 138 S. Ct. 1461 (2018) .....	6
<i>Nat’l Fed’n of Indep. Bus. v. Sebelius</i> , 567 U.S. 519 (2012) .....	13
<i>Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC</i> , 138 S. Ct. 1365 (2018) .....	8
<i>Polaris Innovations Ltd. v. Kingston Tech. Co.</i> , Nos. 2018-1768, 2018-1831, 2019 U.S. App. LEXIS 35050 (Fed. Cir. Nov. 8, 2019) .....	4
<i>Schweiker v. McClure</i> , 456 U.S. 188, 195 (1982) .....	8
<i>Vessel v. Office of Pers. Mgmt.</i> , 29 F.3d 600 (Fed. Cir. 1994) .....	10

**Statutes**

5 U.S.C. §556(b) .....	9
5 U.S.C. §7521(a) .....	9
35 U.S.C. §3(a) .....	12
35 U.S.C. §3(c) .....	7
35 U.S.C. §6(c) .....	11, 17
35 U.S.C. §316(c) .....	11
35 U.S.C. §318(a) .....	11

**Other Authorities**

157 Cong. Rec. S12984, Pt. 9 (daily ed. Sept. 6, 2011) .....	7
--	---

157 Cong. Rec. S1360 (daily ed. Mar. 8, 2011) .....7

H.R. Rep. No. 112-98, Pt. 1 (2011).....7

*Patent Trial and Appeal Board and the Appointments Clause: Implications of  
Recent Court Decisions: Hearing Before the Subcomm. On Courts, Intellectual  
Property, and the Internet of the H. Comm. on the Judiciary, 116th Congress (2019)*  
.....14

## STATEMENT OF COUNSEL

Based on my professional judgment, I believe this appeal requires answers to the following precedent-setting questions of exceptional importance:

- Whether Congress would have enacted the IPR statute, 35 U.S.C. §311 *et seq.*, creating quasi-judicial review of issued patents, without tenure protections for APJs necessary to ensure their independence and impartiality.
- Whether APJs remain principal officers under the Constitution even without tenure protections when they still have the power to issue Final Written Decisions absent meaningful review by an officer nominated by the President and confirmed by the Senate.

Dated: December 16, 2019

/s/ Anthony P. Cho

Anthony P. Cho

Attorney of Record for Appellant Arthrex, Inc.

**POINTS OF LAW AND FACT OVERLOOKED OR MISAPPREHENDED**  
**BY THE PANEL BELOW**

The following points of law and fact were overlooked or misapprehended by the panel below relative to Arthrex's constitutional arguments:

1. Arthrex argued in its Supplemental Brief that Congress would not have enacted the IPR statute without tenure protections for APJs.
2. Arthrex argued in its Opening Brief that APJs are principal officers because they have the power to issue Final Written Decisions absent meaningful review by an officer nominated by the President and confirmed by the Senate.

## **COMBINED PETITION FOR REHEARING AND REHEARING EN BANC**

### **I. INTRODUCTION AND STATEMENT OF THE CASE<sup>1</sup>**

The *Arthrex* panel correctly ruled that Administrative Patent Judges (“APJs”) are principal officers who are not properly appointed under the Appointments Clause. In an effort to cure the constitutional infirmity, the Court adopted the Government’s proposal to sever the tenure protections for APJs that Congress provided. In its prior briefing, *Arthrex* had argued that severance is inappropriate because it undermines the independence and impartiality of the decision-maker that Congress clearly intended. Striking the removal provisions would thus lead to a statute that Congress would have refused to adopt. [*Arthrex’s* Supplemental Brief, Doc. 67, at 19]. Nor does severance address the concern raised by *Arthrex* that APJs have the power to issue a Final Written Decision without meaningful review by a principal officer. [*Arthrex’s* Opening Brief, Doc. 18, at 65-66]. *Edmond* and its progeny stand for the proposition that a person cannot be a mere inferior officer if he can issue final agency decisions that are immune from review by any more senior executive officer.

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<sup>1</sup>*Arthrex* understands that the Government and/or Smith & Nephew intend to petition for rehearing and/or rehearing *en banc*. In the event the Court grants the Government’s or Smith & Nephew’s petition, *Arthrex* requests that the Court grant this petition so that all of the relevant constitutional issues may be considered together.

Tenure protections and the power of APJs to issue final written decisions are provisions Congress inextricably tied to the IPR statute. Though the *Arthrex* panel severed one provision in an effort to address the constitutional concerns, the statute cannot be saved and must be ruled unconstitutional. Accordingly, the Final Written Decision here must be vacated and the case dismissed.

The *Arthrex* opinion raises important questions concerning tenure protections for APJs and how principal officers are defined under the Constitution. Following this decision, on November 19, 2019, the U.S. House Committee on the Judiciary held a hearing on the decision, demonstrating the importance of this case to the IPR process and our nation. Other panels of this Court have also raised issues following *Arthrex*. See *Polaris Innovations Ltd. v. Kingston Tech. Co.*, Nos. 2018-1768, 2018-1831, 2019 U.S. App. LEXIS 35050 at \*1-2 (Fed. Cir. Nov. 8, 2019); *Bedgear, LLC v. Fredman Bros. Furniture Co.*, Nos. 18-2082, 2018-2083, 2018-2084, 2019 U.S. App. LEXIS 33299 at \*1 (Fed. Cir. Nov. 7, 2019). Rather than address these issues *seriatim* across multiple cases, *Arthrex* believes that all the issues pertaining to the appropriate remedy for the Appointments Clause violation are most efficiently addressed in this case. Accordingly, *Arthrex* requests rehearing and/or rehearing *en banc* to address the appropriateness and efficacy of the panel's remedy for the Appointments Clause violation.

## II. PROCEDURAL BACKGROUND

In its Opening Brief, Arthrex argued that Final Written Decisions issued by PTAB judges are ineffective under the Appointments Clause to extinguish patent rights and that the decision in its case must be vacated. [Opening Br. at 65-66]. In response, the Government proposed a number of alternatives to remedy the constitutional problem, including severing tenure protections for APJs. [Gov't Brief, Doc. 37, at 35]. Following the parties' initial round of briefing, the *Arthrex* panel ordered further briefing on the appropriate proceedings on remand, requiring the parties to *assume* that a portion of the Patent Act could be severed and that this approach would cure the constitutional infirmity:

Should the Court conclude that there was an Appointments Clause violation, based on a conclusion that PTAB Judges are principal officers that are not properly appointed, *but that a portion of the Patent Act may be severed and excised to cure the constitutional infirmity*, should the case then be vacated and remanded for a new hearing before the Board pursuant to *Lucia v. SEC*, 138 S. Ct. 2044 (2018)?

[Doc. 62 at 2 (emphasis added)]. At the Government's request, the Court expanded the scope of briefing to include the Government's alternative proposal to hold that the tenure protections of 35 U.S.C. §3(c) cannot constitutionally be applied to Board members and must be severed to that extent. [Doc. 65 at 2].

Under the Court's assumption that severance was appropriate and would cure the Appointments Clause violation, Arthrex then submitted its supplemental

briefing. [Arthrex’s Supplemental Brief, Doc. 67]. In so doing, Arthrex did not agree that this assumption was correct. In fact, Arthrex argued that Congress would not have enacted the statute if APJ tenure protections were severed. [*Id.* at 19]. The Court held severance to be appropriate without directly addressing this argument. [*Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 18-2140, slip op. at 25-26 (Fed. Cir. Oct. 31, 2019) (“Opinion”)].

### **III. ANALYSIS**

#### **A. CONGRESS WOULD NOT HAVE ENACTED THE IPR STATUTE WITHOUT TENURE PROTECTION FOR APJS**

The standard for severability is well established:

Unless it is evident that the Legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law.

*Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 684 (1987) (citations omitted). As evident above, this standard has two parts. First, what remains of the statute must function in a manner consistent with the intent of Congress. *Id.* at 685. Courts may not rewrite a statute and give it an effect altogether different from that sought by the measure viewed as a whole. *Murphy v. NCAA*, 138 S. Ct. 1461, 1482-83 (2018) (federal prohibition on state licensing of gambling nonseverable because resulting scheme differed sharply from what Congress contemplated). Second, severance is improper if what remains is incapable of functioning independently. *Alaska*

*Airlines*, 480 U.S. at 684. Evidence of Congressional intent may derive from the language and structure of the Act and its legislative history. *Id.* at 687. Here, that evidence counsels against severing APJ tenure protections provided by 35 U.S.C. §3(c).

Congress enacted the IPR statute in 2011, creating broader participation rights for challengers. *Cuozzo Speed Techs., L.L.C. v. Lee*, 136 S. Ct. 2131, 2137 (2016) (citing 35 U.S.C. § 6). As detailed by the legislative history, Congress intended IPRs to be a fair, transparent, and objective adjudicative framework in which patent judges would act as independent and impartial adjudicators. *See, e.g.*, H.R. Rep. No. 112-98, Pt. 1, at 46 (2011) (statute sought to “convert[] inter partes reexamination from an examinational to an adjudicative proceeding”); Patent Reform Act of 2011-Continued, 157 Cong. Rec. S1360, S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl) (“One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding...”); *Id.* at S1380 (statute designed to “move us toward a patent system that is objective, transparent, clear, and fair to all parties”); 157 Cong. Rec. S12984, Pt. 9, (daily ed. Sept. 6, 2011) (statement of Sen. Kyl) (“The overarching purpose and effect of the present bill is to create a patent system that is clearer, fairer, more transparent, and more objective... By allowing post-grant review of patents, especially low quality, business method

patents, the bill creates an inexpensive substitute for district court litigation and allows key issues to be addressed by experts in the field.”).

To this end, IPRs share many of the same features as district court litigation, including motion practice, discovery, depositions, cross-examination of witnesses, the introduction of evidence based on the Federal Rules of Evidence, and an adversarial hearing before the Board. *See Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1378 (2018). As structured and intended by Congress, the PTAB performs a quasi-judicial function.

Given the adjudicative nature of IPRs, Congress would not have intended the IPR process to be run by decision-makers who lack the key attributes of impartiality and independence mandated by the Due Process Clause and the Administrative Procedure Act (“APA”). Patents are property entitled to due process protections. *See Oil States*, 138 S. Ct. at 1379. Such protections include independent and impartial decision-makers. *See Schweiker v. McClure*, 456 U.S. 188, 195 (1982) (“As [the Supreme Court] repeatedly has recognized, due process demands impartiality on the part of those who function in judicial or quasi-judicial capacities”). This Court has likewise described as an “indispensable ingredient [ ]of due process” an opportunity to be heard by a “disinterested decision-maker.” *Belden, Inc. v. Berk-Tek LLC*, 805 F.3d 1064, 1080 (Fed. Cir. 2015)(citations omitted).

Congress has recognized for decades that independence and impartiality are essential for agency adjudicators. The Administrative Procedure Act provides that a hearing must be conducted in an “impartial manner.” 5 U.S.C. §556(b). And Congress expressly provided that administrative law judges may be removed “only for good cause established and determined by the Merit Systems Protection Board.” 5 U.S.C. §7521(a). Those tenure protections play an indispensable role in ensuring impartiality. As Justice Breyer explained in *Lucia*:

The substantial independence that the Administrative Procedure Act’s removal protections provide to administrative law judges is a central part of the Act’s overall scheme. See *Ramspeck v. Federal Trial Examiners Conference*, 345 U.S. 128, 130 (1953); *Wong Yang Sung v. McGrath*, 339 U.S. 33, 46 (1950). Before the Administrative Procedure Act, hearing examiners “were in a dependent status” to their employing agency, with their classification, compensation, and promotion all dependent on how the agency they worked for rated them. *Ramspeck*, 345 U. S., at 130. As a result of that dependence, “[m]any complaints were voiced against the actions of the hearing examiners, it being charged that they were mere tools of the agency concerned and subservient to the agency heads in making their proposed findings of fact and recommendations.” *Id.*, at 131. The Administrative Procedure Act responded to those complaints by giving administrative law judges “independence and tenure within the existing Civil Service system.” *Id.*, at 132; *cf. Wong Yang Sung, supra*, at 41-46 (referring to removal protections as among the Administrative Procedure Act’s “safeguards . . . intended to ameliorate” the perceived “evils” of commingling of adjudicative and prosecutorial functions in agencies).

*Lucia v. SEC*, 138 S. Ct. 2044, 2060 (2018) (Breyer, J., dissenting). This Circuit has also recognized the importance of the decisional independence of ALJs and agreed

that an ALJ may not be placed in a position where he would be removable “at will.”  
*See Vessel v. Office of Pers. Mgmt.*, 29 F.3d 600, 605 (Fed. Cir. 1994).

Congress would have deemed those protections no less important—and probably even more important—here. Though the *Arthrex* panel determined that APJs are subject to a different removal restriction than the one in the APA, the court correctly determined that Congress granted APJs for-cause removal protections. [Opinion at 16-17]. By doing so, Congress not only acknowledged the longstanding importance of such protections but confirmed that they should apply here to ensure decisional independence and impartiality.

Congressional intent to safeguard APJ independence and impartiality is also confirmed by other features of the Act. Rather than limit agency decision-making to the Director of the Patent Office, “[t]he statute is clear that Board decisions must be rendered by at least three Board judges and that only the Board can grant rehearing.” [Opinion at 22 (citing 35 U.S.C. §6(c))]. Hence, no single member, including the Director, can decide a matter on his own, providing some level of independence and impartiality to the decision-maker. Even when the Director participates in the Final Written Decision, he holds no greater power than any individual Board member to decide the matter. Moreover, “[t]here is no provision or procedure providing the Director the power to single handedly review, nullify or reverse a Final Written Decision.” [*Id.* at 10]. Indeed, a Final Written Decision can

issue without the Director's participation, demonstrating the independent decision-making authority of APJs that Congress intended. *See* 35 U.S.C. §§6(c), 316(c), 318(a).

The *Arthrex* panel correctly concluded that “[e]liminating three-APJ panels from all Board proceedings would be a radical statutory change to the process long required by Congress in all types of Board proceedings.” [Opinion at 22]. The three-judge review system provides not only a breadth of backgrounds but also implicit checks and balances. [*Id.* at 22-23] It is a critical feature of the adjudicative IPR process enacted by Congress.

Severing APJs' tenure protections undermines the statutory adjudicative framework for IPRs no less than eliminating three-judge panels would. Without tenure protections, APJs serve at the pleasure of the Director and face the loss of their employment if they displease him. The elimination of such job security threatens to transform decision-making by the plural board into decision-making by the Director. This is particularly true if the Director himself sits on the panel with other members now dependent on him for their livelihood. Because “one who holds his office only during the pleasure of another, cannot be depended upon to maintain an attitude of independence against the latter's will,” Congress has the power to forbid the removal of decision-makers who function as adjudicators except for cause. *See Free Enter. Fund. v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 493

(2009) (quoting *Humphrey's Ex'r v. United States*, 295 U.S. 602, 629 (1935)); *see also Free Enter.*, 561 U.S. at 507, n. 10 (distinguishing tenure protections for administrative law judges from tenure protections for officers with enforcement or policymaking functions).

Without tenure protections for APJs, the Director could effectively single-handedly determine the result of any case despite nominally having only one vote under the statute. The Patent Act reserves to the Director the authority to issue “policy direction and management supervision for the [USPTO].” 35 U.S.C. §3(a)(2)(A). Without APJ tenure protections, the Director could effectively direct the outcome of any individual case based on policy rather than the merits of the case. No APJ could oppose his will without the threat of the loss of his job.

Moreover, the Director himself serves at the pleasure of the President. *See* 35 U.S.C. §3(a)(4). Given this fact, the quasi-judicial Board would be entirely under executive control at a level not intended by Congress. The President himself would have the power to effect the outcome of any particular case, at least indirectly, if not directly.

Congress clearly did not envision a trial only in name. Allowing patents to be cancelled based on policy as opposed to law defeats the object of instilling confidence in the patent system. What if the Director adopts a policy that patents in a certain technology field, such as pharmaceuticals, do not match the policy goals of

the President? Previously sound patents would fall for policy reasons rather than based on the particular facts or law of a case.

Tenure protections for APJs are inextricably tied to a fair trial in this scheme where the Director himself can participate in a decision. The elimination of tenure protection contravenes the independence and impartial decision-making envisioned by Congress and secured by due process and the APA. By establishing a three-judge requirement, providing APJs with tenure protection, and granting them authority to issue Final Written Decisions without the Director's approval or review, Congress unequivocally evidenced an intention to have IPRs decided by an impartial and independent tribunal. Such a tribunal cannot function as Congress intended without tenure protections for APJs. *See Bowers v. Synar*, 106 S. Ct. 3181, 3192 (1986) (courts may not sever removal restrictions to remedy a constitutional violation if “striking the removal provisions would lead to a statute that Congress would probably have refused to adopt”); *see also Nat'l Fed'n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 692 (2012) (Scalia, Kennedy, Thomas & Alito, JJ., dissenting) (severance can be a more extreme exercise of judicial power than striking the whole statute and allowing Congress to address the defect); *Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions: Hearing Before the Subcomm. On Courts, Intellectual Property, and the Internet of the H. Comm. on the Judiciary*, 116th Congress (2019) (Statement of Rep. Jerrold Nadler,

Chair, H. Comm. on the Judiciary)(“I do have concerns with the current ‘remedy’ of removing APJs’ civil service protections.”), *available at* <https://judiciary.house.gov/news/press-releases/chairman-nadler-statement-subcommittee-hearing-patent-trial-and-appeal-board-and>; *Id.* (statement of Rep. Johnson) (“I find it inconsistent with the idea of creating an adjudicatory body to have judges who have no job security.”), *available at* <https://hankjohnson.house.gov/media-center/press-releases/chairman-rep-johnson-s-ip-subcommittee-statement-patent-trial-appeal>.

The Court should grant rehearing or rehearing *en banc* to address the issues raised herein and find the statute unconstitutional and not severable. The Final Written Decision should be vacated and this case dismissed, leaving Congress to repair the constitutional infirmity as it sees fit.

**B. SEVERING THE TENURE PROTECTIONS DOES NOT FIX THE CONSTITUTIONAL PROBLEM BECAUSE APJ DECISIONS STILL ARE NOT REVIEWABLE BY OTHER EXECUTIVE OFFICERS**

Severing tenure protections also does not cure the constitutional defect. In *Edmond*, the Supreme Court held the power to issue a final decision without meaningful review “significant” to a decision-maker’s principal officer status:

What is significant is that the judges of the Court of Criminal Appeals have no power to render a final decision on behalf of the United States unless permitted to do so by other executive officers.

*Edmond v. United States*, 520 U.S. 651, 665 (1997). The coast guard judges in that case were removable at will from their judicial assignment. *Id.* at 664. That the Court nonetheless found it necessary to analyze the scope of review over their decisions proves that at-will removal authority alone is not sufficient to render someone an inferior officer. The power of review over the officer’s decisions is also crucial.

The power to render a final decision on behalf of an agency with no opportunity for review by more senior executive officers is a hallmark of principal officer status. As Justice Alito explained:

As to that “binding” decision, who is the supervisor? Inferior officers can do many things, but nothing final should appear in the Federal Register unless a Presidential appointee has at least signed off on it.

*DOT v. Ass’n of Am R.R.*, 575 U.S. 43, 64 (2015) (Alito, concurring) (citing 75 Fed. Reg. 26839 (2010) (placing the metrics and standards in the Federal Register); *Edmond*, 520 U.S. at 665.

On remand from that case, the D.C. Circuit applied *Edmond’s* analysis, examining the dispositive feature of “whether an officer is ‘directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate.’” *Ass’n of Am. R.R. v. DOT*, 821 F.3d 19, 38 (D.C. Cir. 2016) (citations omitted). The court found the absence of review determinative:

[The statute] doesn't provide any procedure by which the arbitrator's decision is reviewable by the [Surface Transportation Board]. Instead, it empowers the arbitrator to determine the metrics and standards "through binding arbitration." The result? A final agency action, the promulgation of metrics and standards as though developed jointly by Amtrak and the FRA. Without providing for the arbitrator's direction or supervision by principal officers, [the statute] impermissibly vests power to appoint an arbitrator in the STB.

*Id.* at 39 (citing *DOT*, 575 U.S. at 64 (Alito J., concurring) ("As to that 'binding decision', who is the supervisor?")).

Tellingly, in each of the Supreme Court's key Appointments Clause cases, the principal officer had some level of review over the decision-maker's decisions. *See Free Enter.*, 561 U.S. at 486 (Board rules and sanctions subject to Commission approval and oversight); *Freytag v. Commissioner*, 501 U.S. 868, 873 (1991) (though special trial judges had authority to decide cases in limited matters, for others they had only power to prepare proposed findings and opinions); *Lucia*, 138 S. Ct. at 2053-54 (ALJ's decision only becomes final if SEC opts against review); *Edmond*, 520 U.S. at 664-65 (another Executive Branch entity reviewed every decision in which the sentence extended to death, the Judge Advocate General ordered such review, or the court itself granted review upon petition); *but cf. Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1340 (D.C. Cir. 2012) (Copyright Royalty Judges issued final decisions subject to reversal or modification only when challenged in an Article III court).

By contrast, no meaningful Executive Branch review exists here. Nothing in the IPR statute empowers the Director to review and reverse the Final Written Decisions of APJs. Decisions may and, in fact, do issue without his approval. Though 35 U.S.C. § 6(c) permits the PTAB to grant rehearing, the Director cannot, on his own, *sua sponte* review or vacate a final written decision. [Opinion at 22-23]. APJs retain their power to issue Final Written Decisions that are unreviewable by any other executive officer, whether or not they have tenure protections.

APJs thus remain principal officers even without tenure protections. For that reason too, the Appointments Clause violation cannot be fixed by severing the removal restrictions. The Court should hold the statute unconstitutional, vacate the Final Written Decision, and dismiss this IPR. Congress can then remedy the constitutional infirmity as it deems appropriate.

#### IV. CONCLUSION

For the foregoing reasons, Arthrex requests this Court grant its Petition for Rehearing and/or Rehearing *En Banc*.

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**CERTIFICATE OF COMPLIANCE WITH RULE 32(a)**

I, Anthony P. Cho, counsel for Appellant, certify that the foregoing Brief complies with the type-volume limitation set forth in Fed. R. App. P. 35(b)(2).

Specifically, this Brief contains 3,718 words (excluding the parts of the brief exempted by Fed. Cir. R. 35(c)(2)) as determined by the word count feature of the word processing program used to create this brief.

I further certify that the foregoing brief complies with the typeface requirements set forth in Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6). Specifically, this brief has been prepared using a proportionally spaced typeface using Microsoft Word 2016, in 14-point Times New Roman font.

CARLSON, GASKEY & OLDS, P.C.

Dated: December 16, 2019

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**CERTIFICATE OF SERVICE**

I hereby certify that on December 16, 2019, I electronically filed the foregoing document using the Court's CM/ECF system, which sent notification of such filing to all counsel of record as follows:

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Dated: December 16, 2019

/s/ Jessica Zilberberg

# **ADDENDUM**

**United States Court of Appeals  
for the Federal Circuit**

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**ARTHREX, INC.,**  
*Appellant*

v.

**SMITH & NEPHEW, INC., ARTHROCARE CORP.,**  
*Appellees*

**UNITED STATES,**  
*Intervenor*

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2018-2140

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Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-00275.

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Decided: October 31, 2019

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Before MOORE, REYNA, and CHEN, *Circuit Judges*.

MOORE, *Circuit Judge*.

Arthrex, Inc. appeals from the final written decision of the Patent Trial and Appeal Board holding claims 1, 4, 8, 10–12, 16, 18, and 25–28 of U.S. Patent No. 9,179,907 unpatentable as anticipated. Arthrex appeals this decision and contends that the appointment of the Board’s Administrative Patent Judges (“APJs”) by the Secretary of Commerce, as currently set forth in Title 35, violates the Appointments Clause, U.S. Const., art. II, § 2, cl. 2. We agree and conclude that the statute as currently constructed makes the APJs principal officers. To remedy the violation, we follow the approach set forth by the Supreme Court in *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477 (2010) and followed by the D.C. Circuit in *Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, 684 F.3d 1332 (2012). As the Supreme Court instructs, “[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.’” *Free Enterprise Fund*, 561 U.S. at 508 (quoting *Ayotte v. Planned Parenthood of Northern New Eng.*, 546 U.S. 320, 328–29 (2006)). We conclude that severing the portion of the Patent Act restricting removal of the APJs is sufficient to render the APJs inferior officers and remedy the constitutional appointment problem. As the final written decision on

appeal issued while there was an Appointments Clause violation, we vacate and remand. Following *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018), the appropriate course of action is for this case to be remanded to a new panel of APJs to which Arthrex is entitled.

#### BACKGROUND

Arthrex owns the '907 patent, which is directed to a knotless suture securing assembly. Smith & Nephew, Inc. and Arthrocare Corp. (collectively “Petitioners” or “Appellees”) filed a petition requesting *inter partes* review of claims 1, 4, 8, 10–12, 16, 18, and 25–28 of the '907 patent.

*Inter partes* review is a “hybrid proceeding’ with ‘adjudicatory characteristics’ similar to court proceedings.” *Saint Regis Mohawk Tribe v. Mylan Pharms.*, 896 F.3d 1322, 1326 (Fed. Cir. 2018). After a petitioner files a petition requesting that the Board consider the patentability of issued patent claims, the Director of the United States Patent and Trademark Office (“USPTO”) determines whether to institute an *inter partes* review proceeding. 35 U.S.C. § 314.<sup>1</sup> A three-judge panel of Board members then conducts the instituted *inter partes* review. *Id.* § 316(c).<sup>2</sup> If an

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<sup>1</sup> The Director delegated that authority to the Board, so now “[t]he Board institutes the trial on behalf of the Director.” 37 C.F.R. § 42.4(a).

<sup>2</sup> The Board consists of “[t]he Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges.” 35 U.S.C. § 6(a). The Director of the USPTO is “appointed by the President, by and with the advice and consent of the Senate.” *Id.* § 3(a). The Deputy Director and the Commissioners are appointed by the Secretary of Commerce; the former being nominated by the Director. *Id.* §§ 3(b)(1)–(2). The Administrative Patent Judges “are appointed by the

instituted review is not dismissed before the conclusion of the proceedings, the Board issues a final written decision determining the patentability of challenged claims. *Id.* § 318(a). Once the time for appeal of the decision expires or any appeal has been terminated, the Director issues and publishes a certificate canceling any claim of the patent finally determined to be unpatentable. *Id.* § 318(b).

The *inter partes* review of the '907 patent was heard by a three-judge panel consisting of three APJs. The Board instituted review and after briefing and trial, the Board issued a final written decision finding the claims unpatentable as anticipated. J.A. 12, 14, 42.

#### ANALYSIS

##### A. Waiver

Appellees and the government argue that Arthrex forfeited its Appointments Clause challenge by not raising the issue before the Board. Although “[i]t is the general rule . . . that a federal appellate court does not consider an issue not passed upon below,” we have discretion to decide when to deviate from that general rule. *Singleton v. Wulff*, 428 U.S. 106, 120–21 (1976). The Supreme Court has included Appointments Clause objections to officers as a challenge which could be considered on appeal even if not raised below. *Freytag v. Commissioner of Internal Revenue*, 501 U.S. 868, 878–79 (1991); *Glidden Co. v. Zdanok*, 370 U.S. 530, 535–36 (1962).

In *Freytag*, the Supreme Court exercised its discretion to decide an Appointments Clause challenge despite petitioners’ failure to raise a timely objection at trial. 501 U.S. at 878–79. In fact, the Court reached the issue despite the fact that it had not been raised until the appellate stage.

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Secretary [of Commerce], in consultation with the Director.” *Id.* § 6(a).

The Court explained that the structural and political roots of the separation of powers concept are embedded in the Appointments Clause. It concluded that the case was one of the “rare cases in which we should exercise our discretion to hear petitioners’ challenge to the constitutional authority.” *Id.* at 879. We believe that this case, like *Freytag*, is one of those exceptional cases that warrants consideration despite Arthrex’s failure to raise its Appointments Clause challenge before the Board. Like *Freytag*, this case implicates the important structural interests and separation of powers concerns protected by the Appointments Clause. Separation of powers is “a fundamental constitutional safeguard” and an “exceptionally important” consideration in the context of *inter partes* review proceedings. *Cascades Projection LLC v. Epson America, Inc.*, 864 F.3d 1309, 1322 (Fed. Cir. 2017) (Reyna, J., dissenting from denial of petition for hearing en banc). The issue presented today has a wide-ranging effect on property rights and the nation’s economy. Timely resolution is critical to providing certainty to rights holders and competitors alike who rely upon the *inter partes* review scheme to resolve concerns over patent rights.

Appellees and the government argue that like *In re DBC* we should decline to address the Appointments Clause challenge as waived. *DBC* recognized that the court retains discretion to reach issues raised for the first time on appeal, but declined to do so in that case. 545 F.3d 1373, 1380 (Fed. Cir. 2008). The court predicated its decision on the fact that if the issue had been raised before the Board, it could have corrected the Constitutional infirmity because there were Secretary appointed APJs and that Congress had taken “remedial action” re delegating the power of appointment to the Secretary of Commerce in an attempt to “eliminat[e] the issue of unconstitutional appointments going forward.” *Id.* at 1380. As the court noted, “the Secretary, acting under the new statute, has reappointed the administrative patent judges involved in *DBC*’s appeal.”

*Id.* at 1381. Not only had Congress taken remedial action to address the constitutionality issue, the Secretary had already been implementing those remedies limiting the impact. *Id.* No such remedial action has been taken in this case and the Board could not have corrected the problem. Because the Secretary continues to have the power to appoint APJs and those APJs continue to decide patentability in *inter partes* review, we conclude that it is appropriate for this court to exercise its discretion to decide the Appointments Clause challenge here. This is an issue of exceptional importance, and we conclude it is an appropriate use of our discretion to decide the issue over a challenge of waiver.

### B. Appointments Clause

Arthrex argues that the APJs who presided over this *inter partes* review were not constitutionally appointed. It argues the APJs were principal officers who must be, but were not, appointed by the President with the advice and consent of the Senate.

The Appointments Clause of Article II provides:

[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.

U.S. Const. art. II, § 2, cl. 2. APJs are appointed by the Secretary of Commerce, in consultation with the Director of the USPTO. 35 U.S.C. § 6(a). The issue, therefore, is whether APJs are “Officers of the United States” and if so,

whether they are inferior officers or principal officers; the latter requiring appointment by the President as opposed to the Secretary of Commerce. We hold that in light of the rights and responsibilities in Title 35, APJs are principal officers.

An “Officer of the United States,” as opposed to a mere employee, is someone who “exercis[es] significant authority pursuant to the laws of the United States.” *Buckley v. Valeo*, 424 U.S. 1, 125–26 (1976). The Appointments Clause ensures that the individuals in these positions of significant authority are accountable to elected Executive officials. *See Lucia*, 138 S. Ct. at 2056 (Thomas, J., concurring) (citing *The Federalist* No. 76, p. 455 (C. Rossiter ed. 1961) (A. Hamilton)). It further ensures that the President, and those directly responsible to him, does not delegate his ultimate responsibility and obligation to supervise the actions of the Executive Branch. *See Free Enterprise Fund*, 561 U.S. at 496. The Appointments Clause provides structural protection against the President diffusing his accountability and from Congress dispensing power too freely to the same result. “The structural interests protected by the Appointments Clause are not those of any one branch of Government but of the entire Republic.” *Freytag*, 501 U.S. at 880. Because “people do not vote for the ‘Officers of the United States,’” the public relies on the Appointments Clause to connect their interests to the officers exercising significant executive authority. *Free Enterprise Fund*, 561 U.S. at 497–98. Arthrex argues that the APJs exercise the type of significant authority that renders them Officers of the United States. Neither Appellees nor the government dispute that APJs are officers as opposed to employees. We agree that APJs are Officers of the United States. *See John F. Duffy, Are Administrative Patent Judges Constitutional?*, 2007 *Patently—O Patent L.J.* 21, 25 (2007) (concluding that administrative patent judges are officers as opposed to mere employees).

Under 35 U.S.C. § 6(a), APJs “hold a continuing office established by law . . . to a position created by statute.” *Lucia*, 138 S. Ct. at 2053. The APJs exercise significant discretion when carrying out their function of deciding *inter partes* reviews. They oversee discovery, 37 C.F.R. § 42.51, apply the Federal Rules of Evidence, 37 C.F.R. § 42.62(a), and hear oral arguments, 37 C.F.R. § 42.70. And at the close of review proceedings, the APJs issue final written decisions containing fact findings and legal conclusions, and ultimately deciding the patentability of the claims at issue. *See* 35 U.S.C. § 318(a). The government itself has recognized that there is a “functional resemblance between *inter partes* review and litigation,” and that the Board uses “trial-type procedures in *inter partes* review.” *Br. of United States at 26, 31, Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365 (2018). The Board’s patentability decisions are final, subject only to rehearing by the Board or appeal to this court. *See* 35 U.S.C. §§ 6(c), 141(c), 319. Like the special trial judges (“STJs”) of the Tax Court in *Freytag*, who “take testimony, conduct trials, rule on the admissibility of evidence, and have the power to enforce compliance with discovery orders,” 501 U.S. at 881–82, and the SEC Administrative Law Judges in *Lucia*, who have “equivalent duties and powers as STJs in conducting adversarial inquiries,” 138 S. Ct. at 2053, the APJs exercise significant authority rendering them Officers of the United States.

The remaining question is whether they are principal or inferior officers. The Supreme Court explained that “[w]hether one is an ‘inferior’ officer depends on whether he has a superior,” and “‘inferior officers’ are officers 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.” *Edmond v. United States*, 520 U.S. 651, 662–63 (1997). There is no “exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes.” *Id.* at 661. However,

the Court in *Edmond* emphasized three factors: (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. *See id.* at 664–65; *see also Intercollegiate*, 684 F.3d at 1338. These factors are strong indicators of the level of control and supervision appointed officials have over the officers and their decision-making on behalf of the Executive Branch. The extent of direction or control in that relationship is the central consideration, as opposed to just the relative rank of the officers, because the ultimate concern is “preserv[ing] political accountability.” *Edmond*, 520 U.S. at 663. The only two presidentially-appointed officers that provide direction to the USPTO are the Secretary of Commerce and the Director. Neither of those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers.

#### 1. Review Power

The Supreme Court deemed it “significant” whether an appointed official has the power to review an officer's decision such that the officer cannot independently “render a final decision on behalf of the United States.” *Edmond*, 520 U.S. at 665. No presidentially-appointed officer has independent statutory authority to review a final written decision by the APJs before the decision issues on behalf of the United States. There are more than 200 APJs and a minimum of three must decide each *inter partes* review. 35 U.S.C. § 6(c). The Director is the only member of the Board who is nominated by the President and confirmed by the Senate. The Director is however only one member of the Board and every *inter partes* review must be decided by at least three Board judges. At the conclusion of the agency proceeding, the Board issues a final written decision. 35 U.S.C. § 318(a).

There is no provision or procedure providing the Director the power to single-handedly review, nullify or reverse a final written decision issued by a panel of APJs. If parties are dissatisfied with the Board decision, they may request rehearing by the Board or may appeal to this court. 35 U.S.C. §§ 6(c), 141(c), 319. “Only the Patent Trial and Appeal Board may grant rehearings,” upon a party’s request. *Id.* § 6(c). Again, the decision to rehear would be made by a panel of at least three members of the Board. And the rehearing itself would be conducted by a panel of at least three members of the Board.

The government argues that the Director has multiple tools that give him the authority to review decisions issued by APJs. The government argues that the Director possesses the power to intervene and become a party in an appeal following a final written decision with which he disagrees. *See* 35 U.S.C. § 143. But that authority offers no actual reviewability of a decision issued by a panel of APJs. At most, the Director can intervene in a party’s appeal and ask this court to vacate the decision, but he has no authority to vacate the decision himself. And the statute only gives the parties to the *inter partes* review the power to appeal the decision, not the Director. *See id.* § 319. If no party appeals the APJs’ decision, the Director’s hands are tied. “[T]he Director *shall* issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable. . . .” *Id.* § 318(b) (emphasis added). The Director cannot, on his own, *sua sponte* review or vacate a final written decision.

The government argues that the Director has additional review authority through his institution of the recently created Precedential Opinion Panel. That standing panel, composed of at least three Board members, can rehear and reverse any Board decision and can issue decisions that are binding on all future panels of the Board. *See* Patent Trial and Appeal Board Standard Operating Procedure 2 at 8. The Director’s authority is limited to

“conven[ing] a Precedential Opinion Panel to review a decision in a case and determine whether to order sua sponte rehearing” and to act as one of the three default members of the panel. *Id.* at 4–5. When the Director sits on a panel as a member of the Board, he is serving as a member of the Board, not supervising the Board.

Additionally, the government points out that the Director “may designate any decision by any panel, including the Precedential Opinion Panel, as precedential . . .” *Id.* at 8. These powers do not, however, provide the type of reviewability over APJs’ decisions comparable to the review power principal officers in other cases have had. *See, e.g., Edmond*, 520 U.S. at 664–65; *Masias v. Secretary of Health and Human Servs.*, 634 F.3d 1283, 1294–95 (Fed. Cir. 2011) (special masters under the Vaccine Act were inferior officers in part because their decisions were “subject to review by the Court of Federal Claims” (an Article I court)). To be clear, the Director does not have the sole authority to review or vacate any decision by a panel of APJs. He can only *convene* a panel of Board members to *decide whether* to rehear a case for the purpose of deciding whether it should be precedential. No other Board member is appointed by the President. The government certainly does not suggest that the Director controls or influences the votes of the other two members of his special rehearing panel. Thus, even if the Director placed himself on the panel to decide whether to rehear the case, the decision to rehear a case and the decision on rehearing would still be decided by a panel, two-thirds of which is not appointed by the President. There is no guarantee that the Director would even be in the majority of that decision. Thus, there is no review by other Executive Branch officers who meet the accountability requirements of the Appointments Clause. Moreover, the Standard Operating Procedure makes clear that the Director would convene such a panel only in cases of “exceptional importance”: to potentially set precedent for the Board. In other words, this form of

review—constrained to a limited purpose—is still conducted by a panel of APJs who do not meet the requirements of the Appointments Clause and represents the exception.

Finally, the government alleges that the Director has review authority over Board decisions because he can decide not to institute an *inter partes* review in the first instance. We do not agree that the Director’s power to institute (ex ante) is any form of review (ex post). For the past several years, the Board has issued over 500 *inter partes* review final written decisions each year. The relevant question is to what extent those decisions are subject to the Director’s review.

The situation here is critically different from the one in *Edmond*. In *Edmond*, the Supreme Court considered whether military judges on the Coast Guard Court of Criminal Appeals were principal as opposed to inferior officers. 520 U.S. at 655. There, the Court of Appeals for the Armed Forces, an Executive Branch entity, had the power to reverse decisions by the military judges and “review[ed] every decision of the Court of Criminal Appeals in which: (a) the sentence extends to death; (b) the Judge Advocate General orders such review; or (c) the court itself grants review upon petition of the accused.” *Id.* at 664–65. And while the Judge Advocate General (a properly appointed Executive officer) could not reverse decisions of the military judges, he could order any of those decisions be reviewed by the Court of Appeals for the Armed Forces (a presidentially-appointed Executive Branch, Article I court). *Id.* The Court deemed it “significant [] that the judges of the Court of Criminal Appeals ha[d] no power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers.” *Id.* at 665 (emphasis added). That is simply not the case here. Panels of APJs issue final decisions on behalf of the USPTO, at times revoking patent rights, without any principal officers having the right to review those decisions. Thus, APJs

have substantial power to issue final decisions on behalf of the United States without any review by a presidentially-appointed officer. We find that there is insufficient review within the agency over APJ panel decisions. This supports a conclusion that APJs are principal officers.

## 2. Supervision Power

The extent to which an officer's work is supervised or overseen by another Executive officer also factors into determining inferior versus principal officer status. *See Edmond*, 520 U.S. at 664. The Director exercises a broad policy-direction and supervisory authority over the APJs. The Director is "responsible for providing policy direction and management supervision" for the USPTO. 35 U.S.C. § 3(a)(2)(A). Arthrex argues the Director's oversight authority amounts to little more than high-level, arms-length control. We disagree.

The Director has the authority to promulgate regulations governing the conduct of *inter partes* review. *Id.* § 316. He also has the power to issue policy directives and management supervision of the Office. *Id.* § 3(a). He may provide instructions that include exemplary applications of patent laws to fact patterns, which the Board can refer to when presented with factually similar cases. Moreover, no decision of the Board can be designated or de-designated as precedential without the Director's approval. Patent Trial and Appeal Board Standard Operating Procedure 2 at 1. And all precedential decisions of the Board are binding on future panels. *Id.* at 11. In addition to these policy controls that guide APJ-panel decision making, the Director has administrative authority that can affect the procedure of individual cases. For example, the Director has the independent authority to decide whether to institute an *inter partes* review based on a filed petition and any corresponding preliminary response. 35 U.S.C. § 314(a). And the Director is authorized to designate the panel of judges who decides each *inter partes* review. *See* 35 U.S.C. § 6(c).

Not only does the Director exercise administrative supervisory authority over the APJs based on his issuance of procedures, he also has authority over the APJs' pay. 35 U.S.C. § 3(b)(6).

The Director's administrative oversight authority is similar to the supervisory authority that was present in both *Edmond* and *Intercollegiate*. In *Edmond*, the Judge Advocate General "exercise[d] administrative oversight" and had the responsibility of "prescrib[ing] uniform rules of procedure" for the military judges. 520 U.S. at 664. Likewise, in *Intercollegiate*, the Librarian of Congress was responsible for approving the Copyright Royalty Judges' ("CRJs") "procedural regulations . . . and [] overseeing various logistical aspects of their duties." 684 F.3d at 1338. And the Register of Copyrights, who was subject to the control of the Librarian, had "the authority to interpret the copyright laws and provide written opinions to the CRJs." *Id.* The Director possesses similar authority to promulgate regulations governing *inter partes* review procedure and to issue policy interpretations which the APJs must follow. Accordingly, we conclude that the Director's supervisory powers weigh in favor of a conclusion that APJs are inferior officers.

### 3. Removal Power

The Supreme Court viewed removal power over an officer as "a powerful tool for control" when it was unlimited. *Edmond*, 520 U.S. at 664. Under the current Title 35 framework, both the Secretary of Commerce and the Director lack unfettered removal authority.

Appellees and the government argue that the Director can remove an APJ based on the authority to designate which members of the Board will sit on any given panel. *See* 35 U.S.C. § 6(c). The government argues that the Director could exclude any APJ from a case who he expects would approach the case in a way inconsistent with his views. The government suggests that the Director could

potentially remove all judicial function of an APJ by refusing to assign the APJ to any panel. The government also claims that the Director could remove an APJ from an *inter partes* review mid-case if he does not want that particular APJ to continue on the case. Br. of United States at 3, 41. Section 6(c) gives the Director the power to designate the panel who hears an *inter partes* review, but we note that the statute does not expressly authorize de-designation. The government argues that because Title 35 authorizes the Director to *designate* members of a panel in an *inter partes* review proceeding, he also has the authority to change the panel composition at any time because “removal authority follows appointment authority.” Oral Arg. 35:52–54; *see also* Br. of United States at 3, 41. It is correct that when a statute is silent on removal, the power of removal is presumptively incident to the power of appointment. *See In re Hennen*, 38 U.S. 230 (1839); *Myers v. United States*, 272 U.S. 52 (1926). The government argues by analogy to these cases that the power to de-designate follows the power to designate. We do not today decide whether the Director in fact has such authority.<sup>3</sup>

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<sup>3</sup> It is not clear the Director has de-designation authority. To be sure, *someone* must have the power to remove an officer from government service, so when a statute is silent about removal, we presume that the person who appoints the officer to office has the power to remove him. But it is not clear that Congress intended panels once designated to be able to be de-designated. Such a conclusion could run afoul of Congress’ goal of speedy resolution through “quick and cost effective alternatives to litigation.” H.R. Rep. No. 112–98, pt. 1, at 48 (2011). Additionally, it is not clear whether this type of mid-case de-designation of an APJ could create a Due Process problem. However, we need not decide whether the Director

The government analogizes the Director's designation power to the Judge Advocate General's power in *Edmond*, which allowed him to remove a military judge "from his judicial assignment without cause." 520 U.S. at 664. The Director's authority to assign certain APJs to *certain panels* is not the same as the authority to remove an APJ *from judicial service* without cause. Removing an APJ from an *inter partes* review is a form of control, but it is not nearly as powerful as the power to remove from office without cause. "[T]he power to remove officers at will and without cause is a powerful tool for control of an inferior." *Free Enterprise Fund.*, 561 U.S. at 501.

The only actual removal authority the Director or Secretary have over APJs is subject to limitations by Title 5. Title 35 does not provide statutory authority for removal of the APJs. Instead, 35 U.S.C. § 3(c) provides, "[o]fficers and employees of the Office shall be subject to the provisions of title 5, relating to Federal employees." No one disputes that Title 5 creates limitations on the Secretary's or Director's authority to remove an APJ from his or her employment at the USPTO. Specifically, APJs may be removed "only for such cause as will promote the efficiency of the service." 5 U.S.C. § 7513(a).<sup>4</sup> This limitation requires "a

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has such authority or whether such authority would run afoul of the Constitution because even if we accept, for purposes of this appeal, that he does possess that authority, it would not change the outcome.

<sup>4</sup> The parties dispute which provision of Title 5 governs removal of APJs. Arthrex argues that 5 U.S.C. § 7521(a) limits removal of the APJs to removal "only for good cause established and determined by the Merit Systems Protection Board on the record after opportunity for hearing before the Board." Whereas the government argues that § 7521 does not apply to APJs because they are

nexus between the misconduct and the work of the agency, *i.e.*, that the employee's misconduct is likely to have an adverse impact on the agency's performance of its functions." *Brown v. Department of the Navy*, 229 F.3d 1356, 1358 (Fed. Cir. 2000).<sup>5</sup> Moreover, § 7513 provides procedural limitations on the Director's removal authority over APJs. *See, e.g.*, 5 U.S.C. § 7513(b) (entitling the APJ to 30 days advanced written notice stating specific reasons for the proposed removal, an opportunity to answer with documentary evidence, entitlement to representation by an attorney, and a written decision with specific reasons); *Id.* § 7513(d) (right of appeal to the Merit Systems and Protections Board).

The government argues that the Secretary's authority to remove APJs from employment for "such cause as will promote efficiency of the service"—the same standard applied to any other federal employee—underscores that APJs are subject to significant supervision and control. It argues that Title 5's removal restrictions are less cumbersome than the restrictions on the Court of Federal Claims' removal authority over the special masters who were

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appointed not under 5 U.S.C. § 3105, but under 35 U.S.C. § 6. The government argues therefore that removal of APJs is governed by the section of Title 5 related to federal employees generally, which limits removal "only for such cause as will promote the efficiency of the service." 5 U.S.C. § 7513(a). We agree with the government that the applicable provision to removal of APJs in Title 5 is § 7513. Section 7513 contains a lower threshold to support removal than does § 7521.

<sup>5</sup> Under § 7513(b), the Director does not have unfettered authority to remove an APJ from service. We do not, however, express an opinion as to circumstances which could justify a removal for such cause as would promote the efficiency of service.

deemed inferior officers in *Masias*. In *Masias*, we held that special masters authorized by the Vaccine Act were inferior officers. 634 F.3d. at 1295. The special masters were appointed and supervised by judges of the Court of Federal Claims, who are presidentially-appointed. *Id.* at 1294. The special masters could be removed only “for incompetency, misconduct, or neglect of duty or for physical or mental disability or for other good cause shown.” *Id.* (quoting 42 U.S.C. § 300aa–12(c)(2)). Though there were significant limits on removal in *Masias*, our court recognized that “decisions issued by the special masters are subject to review by the Court of Federal Claims.” *Id.* at 1294. We held that the review power over the special masters’ decisions paralleled the review by the Court of Appeals for the Armed forces in *Edmond*, and although the review was not *de novo*, it favored a finding that the special masters were not principal officers. *Id.* at 1295. That significant power of review does not exist with respect to final written decisions issued by the APJs.

The APJs are in many ways similar to the CRJs in *Intercollegiate* for purposes of determining whether an officer is principal or inferior. The CRJs issued ratemaking decisions that set the terms of exchange for musical works. *Intercollegiate*, 684 F.3d at 1338. The APJs issue written decisions determining patentability of patent claims. Both are intellectual property decisions upon which “billions of dollars and the fates of entire industries can ride.” *Id.* In *Intercollegiate*, the Librarian approved procedural regulations, issued ethical rules, and oversaw logistical aspects of the CRJs’ duties. *Id.* Additionally, the Register of Copyrights provided written opinions interpreting copyright law and could correct any legal errors in the CRJs’ decisions. *Id.* at 1338–39. Similarly, the Director has the authority to promulgate regulations governing *inter partes* review and provides written policy directives. He does not, however, have the ability to modify a decision issued by APJs, even to correct legal misstatements. The Director’s

inability to review or correct issued decisions by the APJs likens those decisions to “the CRJs’ rate determinations [which] are not reversible or correctable by any other officer or entity within the executive branch.” *Id.* at 1340. Moreover, the limitations on removal in Title 5 are similar to the limitations on removal in *Intercollegiate*. There, the Librarian could only remove CRJs “for misconduct or neglect of duty.” *Id.* at 1340. Here, APJs can only be removed from service for “such cause as will promote the efficiency of the service,” meaning for “misconduct [that] is likely to have an adverse impact on the agency’s performance of its functions.” 5 U.S.C. § 7513; *Brown*, 229 F.3d at 1358. The D.C. Circuit in *Intercollegiate* determined that given the CRJs’ nonremovability and the finality of their decisions, “the Librarian’s and Register’s supervision functions still fall short of the kind that would render [them] inferior officers.” 684 F.3d at 1339. Likewise, APJs issue decisions that are final on behalf of the Executive Branch and are not removable without cause. We conclude that the supervision and control over APJs by appointed Executive Branch officials in significant ways mirrors that of the CRJs in *Intercollegiate*.

#### 4. Other Limitations

We do not mean to suggest that the three factors discussed are the only factors to be considered. However, other factors which have favored the conclusion that an officer is an inferior officer are completely absent here. For example, in *Morrison v. Olson*, 487 U.S. 654 (1988), the Court concluded that the Independent Counsel was an inferior officer because he was subject to removal by the Attorney General, performed limited duties, had limited jurisdiction, and had a limited tenure. *Edmond*, 520 U.S. at 661. Unlike the Independent Counsel, the APJs do not have limited tenure, limited duties, or limited jurisdiction.

Interestingly, prior to the 1975 amendment to Title 35, “Examiners-in-Chief”—the former title of the current

APJs—were subject to nomination by the President and confirmation by the Senate. 35 U.S.C. § 3 (1952). In 1975, Congress eliminated their Presidential appointment and instead gave the Secretary of Commerce, upon nomination by the Commissioner, the power to appoint. 35 U.S.C. § 3 (1975). There can be no reasonable dispute that APJs who decide reexaminations, *inter partes* reviews, and post-grant reviews wield significantly more authority than their Examiner-in-Chief predecessors. But the protections ensuring accountability to the President for these decisions on behalf of the Executive Branch clearly lessened in 1975.

Having considered the issues presented, we conclude that APJs are principal officers. The lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs combined with the limited removal power lead us to conclude, like our sister circuit in *Intercollegiate*, which dealt with the similarly situated CRJs, that these are principal officers. While the Director does exercise oversight authority that guides the APJs procedurally and substantively, and even if he has the authority to de-designate an APJ from *inter partes* reviews, we conclude that the control and supervision of the APJs is not sufficient to render them inferior officers. The lack of control over APJ decisions does not allow the President to ensure the laws are faithfully executed because “he cannot oversee the faithfulness of the officers who execute them.” *Free Enterprise Fund*, 561 U.S. at 484. 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.

### C. Severability

Having determined that the current structure of the Board under Title 35 as constituted is unconstitutional, we must consider whether there is a remedial approach we can

take to address the constitutionality issue. “In exercising our power to review the constitutionality of a statute, we are compelled to act cautiously and refrain from invalidating more of the statute than is necessary.” *Helman v. Department of Veterans Affairs*, 856 F.3d 920, 930 (Fed. Cir. 2017) (citing *Regan v. Time, Inc.*, 468 U.S. 641, 652 (1984)). Where appropriate, we “try to limit the solution to the problem, [by] severing any problematic portions while leaving the remainder intact.” *Free Enterprise Fund*, 561 U.S. at 508. Severing the statute is appropriate if the remainder of the statute is “(1) constitutionally valid, (2) capable of functioning independently, and (3) consistent with Congress’ basic objectives in enacting the statute.” *United States v. Booker*, 543 U.S. 220, 258–59 (2005).

The government suggests possible remedies to achieve this goal. As to 35 U.S.C. § 3(c)’s requirement that “Officers and employees of the Office shall be subject to the provisions of title 5,” the government argues that we could construe Title 5’s “efficiency of the service” standard to permit removal in whatever circumstances the Constitution requires. Construing the words “only for such cause as will promote the efficiency of the service” as permitting at-will, without-cause removal is not a plausible construction. *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833, 841 (1986) (“[a]lthough this Court will often strain to construe legislation so as to save it against constitutional attack, it must not and will not carry this to the point of perverting the purpose of a statute . . . or judicially rewriting it.” (citations omitted)); *Jennings v. Rodriguez*, 138 S. Ct. 830, 842 (2018) (“The canon of constitutional avoidance ‘comes into play only when, after the application of ordinary textual analysis, the statute is found to be susceptible of more than one construction. In the absence of more than one *plausible* construction, the canon simply has no application.” (internal citations omitted)). Moreover, that statutory section pertains to nearly all federal employees. We will not construe 5 U.S.C. § 7513 one way for APJs

and a different way for everyone else to which it applies. The government next argues that we could construe the statute as providing the Director the authority to unilaterally revise a Board decision before it becomes final. We see no language in the statute that could plausibly be so construed. The statute is clear that Board decisions must be rendered by at least three Board judges and that only the Board can grant rehearing. 35 U.S.C. § 6(c) (“Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director. Only the Patent Trial and Appeal Board may grant rehearings.”). Indeed, the government recommends in the alternative that we simply sever the “three-member clause.”

Allowing the Director to appoint a single Board member to hear or rehear any *inter partes* review (appeal, derivation proceeding, and post grant review), especially when that Board member could be the Director himself, would cure the Constitutional infirmity. While the Board members would still not be subject to at-will removal, their decision would not be the “final decision on behalf of the United States unless permitted to do so by other Executive officers.” *Edmond*, 520 U.S. at 665. This combined with the other forms of supervision and controlled exercised over APJs would be sufficient to render them inferior officers. We conclude, however, that severing three judge review from the statute would be a significant diminution in the procedural protections afforded to patent owners and we do not believe that Congress would have created such a system. Eliminating three-APJ panels from all Board proceedings would be a radical statutory change to the process long required by Congress in all types of Board proceedings. The current three-judge review system provides a broader collection of technical expertise and experience on each panel addressing *inter partes* reviews, which implicate wide cross-sections of technologies. The breadth of

backgrounds and the implicit checks and balances within each three-judge panel contribute to the public confidence by providing more consistent and higher quality final written decisions.<sup>6</sup> We are uncomfortable with such a sweeping change to the statute at our hands and uncertain that Congress would have been willing to adopt such a change. And, importantly, we see a far less disruptive alternative to the scheme Congress laid out.

The government also suggested partially severing 35 U.S.C. § 3(c), the provision that applies Title 5 to officers and employees of the USPTO. Br. of United States at 35 (“Alternatively, this Court could hold that 35 U.S.C. § 3(c)’s provision that USPTO officers and employees are subject to Title 5 cannot constitutionally be applied to Board members with respect to that Title’s removal restrictions, and thus must be severed to that extent.”). We think this the

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<sup>6</sup> In 2015, the USPTO requested comments on a proposed pilot program under which institution decisions for *inter partes* reviews would be decided by a single APJ as opposed to three-APJ panels. Multiple commenters expressed concern that such a change would reduce consistency, predictability, and accuracy in the institution decisions. *See, e.g.*, Comments of the American Bar Association Section of Intellectual Property at 3 (Nov. 12, 2015) (“a single judge panel . . . will increase the likelihood of incorrect decisions”); Comments of Various Automotive Companies at 3 (Nov. 17, 2015) (“Using just one APJ to decide a particular matter would greatly dilute . . . deliberativeness.”); Comments of Askeladden LLC at 2 (Nov. 18, 2015) (“the inherent safeguard of a three-judge arbiter gives the public confidence”); Comments of Public Knowledge and Electronic Frontier Foundation at 2 (Nov. 18, 2015) (“by changing the institution decision body from a three-judge panel to a single judge, the USPTO risks a decline in quality of institution decisions”).

narrowest viable approach to remedying the violation of the Appointments Clause. We follow the Supreme Court's approach in *Free Enterprise Fund*, similarly followed by the D.C. Circuit in *Intercollegiate*. See 561 U.S. 477; 684 F.3d 1332. In *Free Enterprise Fund*, the Supreme Court held that a "for-cause" restriction on the removal power of the SEC's Commissioners violated the Constitution. *Id.* at 492. The Court invalidated and severed the problematic "for-cause" restriction from the statute rather than holding the larger structure of the Public Company Accounting Oversight Board unconstitutional. *Id.* at 508.

The D.C. Circuit followed this approach in *Intercollegiate*, by invalidating and severing the restriction on the Librarian's removal power over CRJs. 684 F.3d at 1340. The court held unconstitutional all language in the relevant removal statute other than, "[t]he Librarian of Congress may sanction or remove a Copyright Royalty Judge." *Id.* The Court determined that giving the Librarian of Congress unfettered removal power was sufficient such "that the CRJs' decisions will be constrained to a significant degree by a principal officer (the Librarian)." *Id.* at 1341. And the constraint of that power was enough to render the CRJs inferior officers. *Id.*

Severing Title 5's removal restrictions might arguably be achieved either by severing the words "Officers and" or by concluding that those removal restrictions are unconstitutional as applied to APJs. The government recommends a partial invalidation, namely that we sever the application of Title 5's removal restrictions to APJs. See *United States v. Nat'l Treasury Emps. Union*, 513 U.S. 454 (1995); *United States v. Grace*, 461 U.S. 171 (1983). All parties and the government agree that this would be an appropriate cure for an Appointments Clause infirmity. This as-applied severance is the narrowest possible modification to the scheme Congress created and cures the constitutional violation in the same manner as *Free Enterprise Fund* and

*Intercollegiate*. Title 5's removal protections cannot be constitutionally applied to APJs, so we sever that application of the statute.

Severability turns on whether “the statute will function in a manner consistent with the intent of Congress.” *Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 685 (1987) (emphasis omitted). In *Free Enterprise Fund*, the Court severed the removal provision because it concluded that “nothing in the statute’s text or historical context” suggested that Congress “would have preferred no Board at all to a Board whose members are removable at will.” 561 U.S. at 509. Indeed, we answer affirmatively the question: “Would the legislature have preferred what is left of its statute to no statute at all?” *Ayotte*, 546 U.S. at 330. It is our view that Congress intended for the *inter partes* review system to function to review issued patents and that it would have preferred a Board whose members are removable at will rather than no Board at all.

The narrowest remedy here is similar to the one adopted in *Intercollegiate*, the facts of which parallel this case. Thus, we conclude that the appropriate remedy to the constitutional violation is partial invalidation of the statutory limitations on the removal of APJs. Title 35 U.S.C. § 3(c) declares the applicability of Title 5 rights to “Officers and employees of the Office.” *See also* Supp. Br. of United States at 9–10 (noting that Title 5 definitions might cover APJs). Title 5 U.S.C. § 7513(a) permits agency action against those officers and employees “only for such cause as will promote the efficiency of the service.” Accordingly, we hold unconstitutional the statutory removal provisions as applied to APJs, and sever that application. Like the D.C. Circuit in *Intercollegiate*, we believe severing 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.

The decision to partially invalidate statutory removal protections limits the effect of the severance to APJs and to their removal protections. We are mindful that the alternative of severing the “Officers and” provision from § 3(c) may not have been limited to APJs (there might have been other officers whose Title 5 rights would have been affected) and it might have removed all Title 5 protections, not just removal protections. Severing the application to APJs of removal protections is the narrowest remedy. The choice to sever and excise a portion of a statute as unconstitutional in order to preserve the statute as a whole is limited, and does not permit judicial rewriting of statutes. *Booker*, 543 U.S. at 258 (to address the constitutional infirmity, we consider “*which* portions of the . . . statute we must sever and excise as inconsistent with the Court’s constitutional requirement”); *Ayotte*, 546 U.S. at 329 (“[W]e restrain ourselves from ‘rewrit[ing] . . . law to conform it to constitutional requirements’ even as we strive to salvage it”). “Unless it is evident that the Legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law.” *Buckley*, 424 U.S. at 108–09 (quoting *Champlin Refining Co. v. Corporation Comm’n of Oklahoma*, 286 U.S. 210, 234 (1932)). We are not, under the guise of severability, permitted to add exceptions for APJs to the language § 3(c) officer protections. *Railroad Retirement Bd. v. Alton R. Co.*, 295 U.S. 330, 362 (1935) (when severing a statute, we must avoid “rewrit[ing] a statute”). We hold that the application of Title 5’s removal protections to APJs is unconstitutional and must be severed. And we are convinced that Congress would preserve the statutory scheme it created for reviewing patent grants and that it intended for APJs to be inferior officers. Our severance of the limits on removal of APJs achieves this. We believe that this, the

narrowest revision to the scheme intended by Congress for reconsideration of patent rights, is the proper course of action and the action Congress would have undertaken.

Because the Board's decision in this case was made by a panel of APJs that were not constitutionally appointed at the time the decision was rendered, we vacate and remand the Board's decision without reaching the merits. The government argues that while this court has the discretion to vacate and remand in the event there is an Appointments Clause challenge, we should decline to do so because the challenge was not first brought before the Board. The government argues that Arthrex's challenge was not timely and as such we should decline to award the relief *Lucia* deems appropriate. Arthrex argues it would have been futile to raise the Appointments Clause challenge before the Board because the Board lacked the authority to grant it relief. Arthrex argues it raised the challenge at the first stage where it could have obtained relief and therefore its argument is timely. We agree with Arthrex that the Board was not capable of providing any meaningful relief to this type of Constitutional challenge and it would therefore have been futile for Arthrex to have made the challenge there. "An administrative agency may not invalidate the statute from which it derives its existence and that it is charged with implementing." *Jones Bros., Inc. v. Sec'y of Labor*, 898 F.3d 669, 673 (6th Cir. 2018) (citing *Mathews v. Diaz*, 426 U.S. 67, 76 (1976); *Weinberger v. Salfi*, 422 U.S. 749, 765 (1975); *Johnson v. Robison*, 415 U.S. 361, 368 (1974); *PUC v. United States*, 355 U.S. 534, 539-40 (1958)). The PTAB itself has declined to examine this issue in other cases. See *Samsung Elecs. Am., Inc. v. Uniloc*, 2017 LLC, No. IPR2018-01653, 2019 WL 343814, at \*2 (PTAB Jan. 25, 2019) (declining to consider constitutional challenge to appointments because "administrative agencies do not have jurisdiction to decide the constitutionality of congressional enactments" and "[t]his is especially true when, as here, the constitutional claim asks the agency to act contrary to

its statutory charter”) (internal citations and quotation marks omitted); *see also Intel Corp. v VLSI Tech. LLC*, No. IPR2018-011107, 2019 PAT. APP. LEXIS 4893, at \*26-27 (P.T.A.B. Feb. 12, 2019); *Unified Patents Inc. v. MOAEC Techs., LLC*, No. IPR2018-01758, 2019 WL 1752807, at \*9 (P.T.A.B. Apr. 17, 2019). The only possibility of correction which the government claims the agency could have made is the Director shutting down the IPR regime by refusing to institute. Petitioners argue that if the Appointments Clause challenge had been raised at the Board, it “could have prompted the PTAB to defer institution decisions on all IPRs” and “[t]he Executive Branch could have then championed legislation to address the alleged constitutional infirmity.” Arthrex sought to have its case decided by a constitutionally appointed board. The PTO could not provide this relief.

We agree with Arthrex that its Appointments Clause challenge was properly and timely raised before the first body capable of providing it with the relief sought—a determination that the Board judges are not constitutionally appointed. Our decision in *DBC* is not to the contrary. In *DBC*, the Appointments Clause challenge was to the particular APJs who were appointed by the Director, rather than the Secretary. We observed that if the issue had been raised before the agency, the agency could have “corrected the constitutional infirmity.” *DBC*, 545 F.3d at 1379. At that time, there were APJs who had been appointed by the Secretary who could have decided the case and thus the agency could have cured the constitutional defect. In *DBC*, we observed that in *LA Tucker* and *Woodford*, had the issue been raised at the agency, the agency could have corrected the problem. *See id.* at 1378 (citing *Woodford v. Ngo*, 548 U.S. 81 (2006); *United States v. LA Tucker Truck Lines*, 344 U.S. 33 (1952)). *Ryder v. United States*, cited by the government, likewise involved a challenge made to a particular judge, and the problem could have been cured by reassigning the case to a different judge at the trial level.

515 U.S. 177 (1995). In contrast, here the Director is the only Presidentially-appointed, Senate confirmed member of the Board. The Board was not capable of correcting the constitutional infirmity. We conclude that this Constitutional challenge is one in which the Board had no authority to provide any meaningful relief and that it was thus futile for Arthrex to have raise the challenge before the Board.

The *Lucia* court explained that Appointments Clause remedies are designed to advance structural purposes of the Appointments Clause and to incentivize Appointments Clause challenges. *Lucia*, 138 S. Ct. at 2055 n.5. We conclude that both of these justifications support our decision today to vacate and remand. See *Collins v. Mnuchin*, 938 F.3d 553, 593 (5th Cir. 2019) (recognizing, “the Court has invalidated actions taken by individuals who were not properly appointed under the Constitution.”). The Supreme Court held in *Freytag* that Appointments Clause challenges raise important structural interests and separation of powers concerns. We conclude that challenges under these circumstances should be incentivized at the appellate level and accordingly the remedy provided is appropriate. We have decided only that this case, where the final decision was rendered by a panel of APJs who were not constitutionally appointed and where the parties presented an Appointments Clause challenge on appeal, must be vacated and remanded. Appointments Clause challenges are “nonjurisdictional structural constitutional objections” that can be waived when not presented. *Freytag*, 501 U.S. at 878–79. Thus, we see the impact of this case as limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal.

Finally, on remand we hold that a new panel of APJs must be designated and a new hearing granted. See Appellant’s Supp. Br. at 12 (“This Court should thus order a remand to a new PTAB panel for a new oral argument.”) The Supreme Court has explained that when a judge has heard

the case and issued a decision on the merits, “[h]e cannot be expected to consider the matter as though he had not adjudicated it before. To cure the constitutional error, another ALJ . . . must hold the new hearing.” *Lucia*, 138 S. Ct. at 2055. *Lucia* suggests that the remedy is not to vacate and remand for the same Board judges to rubber-stamp their earlier unconstitutionally rendered decision. Like *Lucia*, we hold that a new panel of APJs must be designated to hear the *inter partes* review anew on remand. To be clear, on remand the decision to institute is not suspect; we see no constitutional infirmity in the institution decision as the statute clearly bestows such authority on the Director pursuant to 35 U.S.C. § 314. Finally, we see no error in the new panel proceeding on the existing written record but leave to the Board’s sound discretion whether it should allow additional briefing or reopen the record in any individual case.

#### **VACATED AND REMANDED**

#### **COSTS**

The parties shall bear their own costs.

**United States Court of Appeals  
for the Federal Circuit**

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**ARTHREX, INC.,**

*Appellant*

v.

**SMITH & NEPHEW, INC., ARTHROCARE CORP.,**

*Appellees*

**UNITED STATES,**

*Intervenor*

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2018-2140

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Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2017-00275.

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**JUDGMENT**

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THIS CAUSE having been considered, it is

ORDERED AND ADJUDGED:

**VACATED AND REMANDED**

ENTERED BY ORDER OF THE COURT

October 31, 2019

/s/ Peter R. Marksteiner

Peter R. Marksteiner  
Clerk of Court