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# APPOINTMENT OF ADMINISTRATIVE PATENT JUDGES HELD UNCONSTITUTIONAL

To Our Clients and Friends:

On October 31, 2019, the United States Court of Appeals for the Federal Circuit held that the statutory scheme of appointing Patent Trial and Appeal Board (PTAB) Administrative Patent Judges (APJs) violates the Appointments Clause of the United States Constitution.

The court in *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 18-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019), ruled that APJs are "principal officers" because neither the Secretary of Commerce nor the Director of the PTO (the two executive branch officials who appoint and monitor APJs) "exercises sufficient direction and supervision over APJs to render them inferior officers." *Id.* at *4. APJs are appointed by the Secretary of Commerce, whereas the Constitution requires principal officers to be appointed by the President with the advice and consent of the Senate.

To cure the identified constitutional violation, the *Arthrex* court held that the Director of the PTO must be permitted to remove APJs without cause. This, the court held, allows APJs to be prospectively classified as inferior officers (and hence, appropriately appointed by the Secretary of Commerce). Without reaching the merits of the appeal before it, the *Arthrex* panel vacated and remanded the Board's decision that twelve of Arthrex's patent claims were anticipated.

This decision could have substantial impact on pending proceedings before the PTAB as well as pending appeals from PTAB final written decisions and related district court actions.

## I. The Federal Circuit's Decision

Set forth below is a summary of the governing Supreme Court case law interpreting the Appointments Clause, the Federal Circuit's decision that the APJs are principal officers under the Appointments Clause, and the court's severance analysis and imposed remedy.

**The Appointments Clause.** The Appointments Clause provides in pertinent part that the President

> shall nominate, and by and with the Advice and Consent of the Senate, shall appoint . . . all . . . 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.

The Supreme Court applies a two-part framework to identify "Officers of the United States," who are subject to the Appointments Clause, and to distinguish them from mere "employees," who are not. First, "an individual must occupy a 'continuing' position established by law to qualify as an officer." *Lucia v. SEC*, 138 S. Ct. 2044, 2051 (2018) (quoting *United States v. Germaine*, 99 U.S. 508, 511 (1878)). Second, the individual must "exercis[e] significant authority pursuant to the laws of the United States." *Id.* (quoting *Buckley v. Valeo*, 424 U.S. 1, 126 (1976) (per curiam)).

In *Buckley v. Valeo*, the Supreme Court held that members of the Federal Election Commission qualified as officers of the United States because they exercised "extensive rulemaking and adjudicative powers," including the authority to enforce campaign finance law through civil lawsuits and to disqualify candidates for federal office. 424 U.S. at 110–12, 126. In *Freytag v. Commissioner*, 501 U.S. 868 (1991), the Court held that Special Trial Judges appointed by the Chief Judge of the Tax Court were officers by virtue of their "significant authority" to "take testimony, conduct trials, rule on the admissibility of evidence, and . . . enforce compliance with discovery orders." *Id.* at 881–82.

Most recently, in *Lucia v. SEC*, the Court held that Administrative Law Judges (ALJs) of the Securities and Exchange Commission were officers of the United States, because the ALJs were essentially indistinguishable from—"near carbon-copies of"—the Special Trial Judges addressed in *Freytag*. 138 S. Ct. at 2052. For that reason, the Court found it unnecessary to elaborate on the "significant authority" test applied in *Buckley* and *Freytag*, although several Justices wrote separately to suggest modifications of the standard. *See id.* at 2056 (Thomas, J., joined by Gorsuch, J., concurring); *id.* at 2057 (Breyer, J., concurring in the judgment in part and dissenting in part); *id.* at 2064 (Sotomayor, J., joined by Ginsburg, J., dissenting).

The Supreme Court also has addressed the Appointments Clause's further distinction between principal officers (who must be appointed by the President and confirmed by the Senate) and inferior officers (whose appointment Congress may vest elsewhere). "Generally speaking, the term 'inferior officer' connotes a relationship with some higher ranking officer or officers below the President: Whether one is an 'inferior' officer depends on whether he has a superior," meaning that one's "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).

Thus, the Court held in *Edmond v. United States* that judges of the Coast Guard Court of Criminal Appeals are inferior officers "by reason of the supervision over their work exercised by the General Counsel of the Department of Transportation in his capacity as Judge Advocate General and the Court of Appeals for the Armed Forces." 520 U.S. at 666. Although these superiors did not exercise "complete" control over the judges' work, the Court found two factors particularly significant: the superiors had the power to "remove a Court of Criminal Appeals judge from his judicial assignment without cause," and the judges had "no power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers." *Id.* at 664–65.

The Court more recently applied the same approach to members of the Public Company Accounting Oversight Board in *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477 (2010). "Given that the [Securities and Exchange] Commission is properly viewed, under the

Constitution, as possessing the power to remove Board members at will, and given the Commission's other oversight authority," the Court in *Free Enterprise Fund* had "no hesitation in concluding that under *Edmond* the Board members are inferior officers." *Id.* at 510.

In the past, the Supreme Court emphasized that it had "not set forth an exclusive criterion" or a "definitive test" to distinguish principal from inferior officers. *Edmond*, 520 U.S. at 661. Besides control and supervision by a superior, other factors indicating inferior status may include an individual's "limited duties," "narrow" jurisdiction, and "limited" tenure. *Id.* (citing *Morrison v. Olson*, 487 U.S. 654, 671–72 (1988)). In *Free Enterprise Fund*, however, the Court's analysis rested exclusively on the control-and-supervision question that *Edmond* identified as "[g]enerally" controlling. 561 U.S. at 510. Some have read the Court's cases since *Edmond* as implicitly repudiating the previous multifactor approach. *See, e.g.*, *NLRB v. SW Gen., Inc.*, 137 S. Ct. 929, 947 n.2 (2017) (Thomas, J., concurring); *Aurelius Inv., LLC v. Puerto Rico*, 915 F.3d 838, 860 n.15 (1st Cir.), *cert. granted*, 139 S. Ct. 2738 (2019); *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1337 (D.C. Cir. 2012), *cert. denied*, 133 S. Ct. 2735 (2013). For now, control and supervision appear to be the predominant criteria that distinguish inferior officers under the Appointments Clause.

In particular, the precedents in this area have often focused on the ability to remove subordinates from office: "[t]he power to remove officers, we have recognized, is a powerful tool for control." *Edmond*, 520 U.S. at 664. Even beyond the question of principal or inferior officer status, the availability of removal has broad implications rooted in the separation of powers. For example, the Supreme Court in *Free Enterprise Fund* interpreted Article II's vesting clause to prohibit the statutory institution of "multilevel protection from removal," which would restrict the President's "ability to remove a principal officer, who is in turn restricted in his ability to remove an inferior officer, even though that inferior officer determines the policy and enforces the laws of the United States." 561 U.S. at 484. Here, as in the Appointments Clause cases, removal is ultimately important as a means to ensure accountability: "The President cannot 'take Care that the Laws be faithfully executed' if he cannot oversee the faithfulness of the officers who execute them." *Id.*

**APJs as Principal Officers.** The *Arthrex* panel had little trouble concluding that APJs are officers of the United States, like the Special Trial Judges in *Freytag* and the ALJs in *Lucia*, because they exercise significant authority to conduct *inter partes* review and issue final written decisions on patentability. Indeed, no party disputed that conclusion. *Arthrex*, 2019 WL 5616010, at *3. The more difficult question was whether APJs are "principal" or "inferior" officers.

Congress vested appointment of APJs in the Secretary of Commerce—the Head of a Department under the Appointments Clause—in consultation with the Director of the PTO. 35 U.S.C. § 6(a). As a result, the APJs' appointment is constitutional only if APJs are inferior officers (because, if they are principal officers, presidential nomination and Senate confirmation would be required).

But the panel held that, "in light of the rights and responsibilities in Title 35, APJs are principal officers." *Arthrex*, 2019 WL 5616010, at *3. Applying the Supreme Court's precedents in *Edmond* and *Free Enterprise Fund*, the panel noted that "[t]he only two presidentially-appointed officers that provide direction to the PTO are the Secretary of Commerce and the Director," and concluded that "[n]either of

those officers individually nor combined exercises sufficient direction and supervision over APJs to render them inferior officers." *Id.* at *4.

As the panel read the governing precedents, "[t]he 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.'" *Arthrex*, 2019 WL 5616010, at *4 (second alteration in original) (quoting *Edmond*, 520 U.S. at 663). In particular, the panel understood *Edmond* as "emphasiz[ing] three factors" that are "strong indicators of the level of control and supervision appointed officials have over the officers and their decision-making":

> (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.

*Arthrex*, 2019 WL 5616010, at *4. The panel borrowed this three-part formulation from the D.C. Circuit's decision in *Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, which applied the test to hold that Copyright Royalty Judges are principal officers under *Edmond*. 684 F.3d at 1338–40.

In *Arthrex*, the panel determined that the first and third control-and-supervision factors supported the conclusion that APJs are principal officers, while the second did not.

As to the first factor, "[n]o 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." *Arthrex*, 2019 WL 5616010, at *4. Although the Director may influence or control various aspects of the process of *inter partes* review, that official conspicuously lacks "sole authority to review or vacate any decision by a panel of APJs." *Id.* at *5. That distinction made *Arthrex* "critically different from the [situation] in *Edmond*," where superior officers possessed authority to reverse and order review of decisions by the military judges at issue, who had "*no* power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers." *Id.* at *5 (internal quotation omitted). The *Arthrex* panel accordingly counted the first factor in support of the conclusion that APJs are principal officers.

On the other hand, the second factor weighed in favor of finding the APJs to be inferior officers, because, in the panel's view, the PTO Director "exercises a broad policy-direction and supervisory authority over the APJs." *Arthrex*, 2019 WL 5616010, at *5. That authority includes powers to issue policy directives guiding APJs' decisionmaking, designate PTAB decisions as precedential and hence binding on future APJ panels, institute *inter partes* review, designate the panel of judges to decide each review, and adjust APJs' pay. *Id.* at *5–6. The *Arthrex* panel deemed this oversight comparable to the supervisory authority exercised over the military judges in *Edmond* and the Copyright Royalty Judges in *Intercollegiate*.

However, the third factor reinforced the *Arthrex* panel's conclusion that APJs are principal officers. The governing statute provided that APJs "may be removed 'only for such cause as will promote the efficiency of the service,'" meaning that none of their superiors possessed "unfettered removal authority"

over them. *Arthrex*, 2019 WL 5616010, at *7 (quoting 5 U.S.C. § 7513(a)). The government, which had intervened in the case, argued that the governing statute implicitly granted the Director the power to "de-designate" APJs assigned to particular panels, as a corollary to the statutory power to designate *inter partes* panel membership in the first instance. But the *Arthrex* panel expressed reluctance to read the statute as granting that power, which it feared "could create a Due Process problem." *Id.* at *6 & n.3. In any event, the panel held that the existence of such authority "would not change the outcome," because "[t]he 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"—a much more "powerful" form of control, present in *Edmond* and lacking here. *Id.*

On balance, the *Arthrex* panel concluded that the relative lack of effective control and supervision over APJs qualified them as principal officers. The panel acknowledged the possible relevance of other factors beyond the three-part test distilled from *Edmond*, but found such factors "completely absent here": "the APJs do not have limited tenure, limited duties, or limited jurisdiction." *Arthrex*, 2019 WL 5616010, at *8. In sum, like the Copyright Royalty Judges in *Intercollegiate*, "the control and supervision of the APJs is not sufficient to render them inferior officers." *Id.* "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." *Id.*

**Severance and Remedy.** Having concluded that the PTAB's statutory structure violated the Appointments Clause, the *Arthrex* panel turned to the question of severability. The panel concluded that the "narrowest viable approach to remedying the violation" was to rule the statutory provision of for-cause removal to be unconstitutional as applied to APJs. *Arthrex*, 2019 WL 5616010, at *9. Specifically, the panel held unconstitutional the application to APJs of 35 U.S.C. § 3(c), which subjects PTO officers and employees to the provisions of title 5 of the United States Code, including the for-cause removal provision in 5 U.S.C. § 7513(a). For-cause removal generally prevents the President or principal officer from removing a subordinate officer for mere differences of opinion on policy, and thus limits the President or principal officer's ability to control the subordinate. The government had suggested several other possible ways to cure the constitutional violation, but the panel rejected them as untenable under the statutory language and the Supreme Court's severability precedents.

The panel characterized its severability holding as "follow[ing] the Supreme Court's approach in *Free Enterprise Fund*" and the D.C. Circuit's approach in *Intercollegiate*, both of which cured constitutional violations by "sever[ing] the problematic 'for-cause' restriction from the statue rather than holding the larger structure . . . unconstitutional." *Arthrex*, 2019 WL 5616010, at *9. As the D.C. Circuit had held in *Intercollegiate*, the *Arthrex* panel determined that giving the APJs' superiors at-will removal power "was enough to render the [APJs] inferior officers," and so legitimize, prospectively, their appointment by the Secretary (a Department Head) under the Appointments Clause on a prospective basis. *Id.*

"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," the panel "vacate[d] and remand[ed] the Board's decision without reaching the merits." *Arthrex*, 2019 WL 5616010, at *11. The panel also held that on remand "a new panel of APJs must be designated and a new hearing granted." *Id.* at *12. In so doing, the panel cited the remedial holding of *Lucia*, which directed a new hearing before a different ALJ in

part because "Appointments Clause remedies are designed . . . to create '[]incentive[s]' to raise Appointments Clause challenges." *Lucia*, 138 S. Ct. at 2055 (alterations in original) (quoting *Ryder v. United States*, 515 U.S. 177, 183 (1995)). Under *Lucia*, the panel reasoned, "the remedy is not to vacate and remand for the same Board judges to rubber-stamp their earlier unconstitutionally rendered decision." *Arthrex*, 2019 WL 5616010, at *12.

However, the panel clarified that the underlying decision to institute the *inter partes* review "is not suspect" on remand, because the identified constitutional violation did not undermine the Director's institution authority under 35 U.S.C. § 314. *Arthrex*, 2019 WL 5616010, at *12. The panel also stated that it saw "no error in the new panel proceeding on the existing written record," but left "to the Board's sound discretion whether it should allow additional briefing or reopen the record in any individual case." *Id.* In this, the panel once more followed the example of the D.C. Circuit, which permitted the remand in *Intercollegiate* to proceed on the existing record. *See Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 796 F.3d 111, 116–21 (D.C. Cir. 2015).

**II. Further Potential Appellate Proceedings in *Arthrex***

**Rehearing.** Because the government is an intervenor in *Arthrex*, the Federal Rules of Appellate Procedure give the parties 45 days to file petitions for panel rehearing or rehearing en banc. *See* Fed. R. App. P. 35(c), 40(a)(1); *see also* Federal Circuit Rule 40(e). The government cannot file such a petition without the Solicitor General's approval. *See* 28 C.F.R. § 0.20(b). But the Department of Justice has already suggested that a petition for rehearing en banc may be forthcoming. In a number of pending cases, the government's lawyers have asked the Federal Circuit to refrain from issuing a final decision until the court resolves "any petitions for rehearing that the parties in *Arthrex* may choose to file." *See, e.g.*, Citation of Supplemental Authority for Intervenor United States, *Image Processing Techs. v. Samsung Elecs. Co.*, No. 19-1408 (Fed. Cir. Nov. 1, 2019), ECF No. 52.

**Certiorari.** The parties also may seek a writ of certiorari from the Supreme Court. If there is no petition for rehearing en banc, the parties will have 90 days from the date of judgment to petition for certiorari. Sup. Ct. R. 13.1. But if a petition for rehearing is filed, the 90-day clock will run from the date of the Federal Circuit's denial of rehearing or, if rehearing is granted, the subsequent entry of judgment. Sup. Ct. R. 13.3. Upon application by the aggrieved party, the Circuit Justice responsible for the Federal Circuit—Chief Justice Roberts—can extend the time to file a petition for up to 60 additional days. Sup. Ct. R. 13.5.

While the grant rate for certiorari petitions is below 1%, the Supreme Court in recent years has shown an increased appetite for cases presenting Appointments Clause challenges. *See Aurelius Inv., LLC v. Puerto Rico*, 139 S. Ct. 2736 (2019); *Lucia v. SEC*, 138 S. Ct. 2044 (2018); *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477 (2010).

**Challenges to Panel Decision.** If the government seeks rehearing or certiorari review, it is likely to focus on at least two aspects of the panel's decision. (The private parties may also raise these or other arguments.)

First, the government seems likely to challenge the panel's conclusion that APJs are "principal" officers, rather than "inferior" officers. The distinction is significant because, as noted, if APJs are inferior officers, then their existing appointments by the Head of a Department would have been constitutional. Second, the government may argue that even if APJs are principal officers who were not appointed consistent with the Appointments Clause, the objecting party is not entitled to a new *inter partes* review hearing because it did not raise the issue before the Board.

The government, through the Solicitor General, also may question the panel's conclusion that severing the removal restrictions for APJs transformed them from principal officers to inferior officers for purposes of compliance with the Appointments Clause. The Supreme Court has not expressly held that the judicial remedy of severance can transform a principal officer into an inferior officer, and the severability remedy remains controversial. *See, e.g.*, *Murphy v. NCAA*, 138 S. Ct. 1461, 1485, 1487 (2018) (Thomas, J., concurring) (expressing "my growing discomfort with our modern severability precedents" because they are "in tension with longstanding limits on the judicial power"). To be sure, the government itself recommended this severability remedy to the panel in *Arthrex*. However, it is unclear to what extent the Solicitor General will agree with that remedy if the case is reheard by the Federal Circuit or argued to the Supreme Court. In the *Lucia* case, for example, the Solicitor General expressly disagreed with positions taken by lawyers from the Securities and Exchange Commission on the constitutionality of the ALJ appointments. *See* 138 S. Ct. at 2050.

**III. Impact on Pending Cases**

As discussed in more detail below, the *Arthrex* decision could have substantial impacts on pending proceedings before the PTAB as well as pending appeals from PTAB final written decisions.

**Preservation and Waiver.** The *Arthrex* panel held that a party need not have presented an Appointments Clause challenge to the Board in order for the court to consider it, because "'[a]n administrative agency may not invalidate the statute from which it derives its existence and that it is charged with implementing.'" 2019 WL 5616010, at *2, *11 (citation omitted). Nevertheless, given the large number of cases that are potentially affected by the *Arthrex* decision, the Federal Circuit has tried—and may further try—to limit the impact of its holding. In a precedential, per curiam order, for example, a panel of the Federal Circuit has ruled that an Appointments Clause challenge under *Arthrex* is forfeited if it is not raised in a party's opening brief. *See Customedia Techs., LLC v. Dish Network Corp.*, No. 19-1001, 2019 WL 5677704, at *1 (Fed. Cir. Nov. 1, 2019). The government has also already raised concerns about the Federal Circuit's post-*Arthrex* remand of another case, in which the government was not a party and so could not contest the issue. *See Uniloc 2017 LLC v. Facebook, Inc.*, No. 18-2251, 2019 WL 5681316 (Fed. Cir. Oct. 31, 2019) (unpublished). Additionally, it remains to be seen whether the Federal Circuit might treat *inter partes* review petitioners differently than patent owners, given that the former voluntarily availed themselves of the PTAB forum. *Cf. CFTC v. Schor*, 478 U.S. 833, 850 (1986) (holding that party had "effectively agreed" to an adjudication before an administrative agency, rather than a court, when he "chose to avail himself of the" administrative process).

However, to the extent the court tries to draw a bright-line rule, barring parties from raising Appointments Clause challenges that were not raised in their opening briefs before the court of appeals,

the court may be in some tension with the Supreme Court's decisions in *Freytag v. Commissioner*, 501 U.S. 868, 878–79 (1991), and *Glidden Co. v. Zdanok*, 370 U.S. 530, 535–36 (1962) (plurality opinion). In both cases, the Supreme Court indicated that structural constitutional challenges to officers could be considered on appeal even if the issue was not raised below. *See Freytag*, 501 U.S. at 878 (declining to find waiver despite petitioners' "failing to raise a timely objection to the assignment of their cases to a special trial judge" and "consenting to the assignment").

**PTAB Proceedings.** The panel did not "see [any] constitutional infirmity" in the Director's decision to institute *inter partes* review. *Arthrex*, 2019 WL 5616010, at *12. That is because, according the panel, the institution decision is within the Director's—not the APJs'—authority. *Id.* (citing 35 U.S.C. § 314). Accordingly, the *Arthrex* decision may have a limited impact on cases that have not yet been instituted. That said, once a case is instituted, parties may wish to raise an Appointments Clause objection before the Board. It is not yet clear whether the "remedy" adopted by the panel will, after rehearing en banc or certiorari review, ultimately be found to cure the constitutional infirmity. Moreover, the government may continue to argue that a Board-level objection is required to preserve an Appointments Clause challenge. Thus, parties to PTAB proceedings should, in appropriate cases, consider raising their challenges before the Board.

For cases that are further along, however, whether before or after a final written decision, parties may have an opportunity to seek a new panel of APJs, present issues to the new panel that they had lost before the original panel (*e.g.*, discovery motions), and request another oral argument before the new panel. The panel in *Arthrex* noted that "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." 2019 WL 5616010, at *12. If APJs subject to Appointments Clause challenge have participated in the proceedings, then parties may be entitled to fresh consideration from adjudicators who, from the beginning, were not operating under a constitutional infirmity.

**Federal Circuit Proceedings.** Generally speaking, "arguments not raised in the opening brief are waived." *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1319 (Fed. Cir. 2006). Thus, in cases pending before the Federal Circuit, the best practice is to raise an Appointments Clause challenge in the opening brief or in a motion filed prior to the opening brief. *See Uniloc*, 2019 WL 5681316, at *1 ("In light of [*Arthrex* and] . . . the fact that Uniloc has raised an Appointments Clause challenge in its opening brief in this case, . . . [the PTAB decision] is vacated . . . .").

A party, however, that did not raise an Appointments Clause challenge in its opening brief may have other opportunities to attack the Board's decision on Appointments Clause grounds. To be sure, the Federal Circuit, in *Customedia Technologies*, held that an Appointments Clause challenge is forfeited if it is not included in the opening brief. 2019 WL 5677704, at *1. But the parties in that case did not brief—and the court, therefore, did not address—the Supreme Court's decisions in *Freytag* and *Glidden*, which suggest that structural errors, such as Appointments Clause issues, can be raised at any time in appropriate cases. With direct briefing on *Freytag* and *Glidden*, then, parties may be able to open an opportunity to press the Appointments Clause issue in reply briefs, notices of supplemental authority, petitions for rehearing, and the like.

**District Court Proceedings.** *Inter partes* reviews often occur in parallel with district court litigation concerning the same patent. And district courts frequently entertain requests to stay the district court proceedings pending *inter partes* review. *See, e.g.*, *British Telecomms. PLC v. IAC/InterActiveCorp*, No. 18-cv-366, 2019 WL 4740156, at *2 (D. Del. Sept. 27, 2019); *InVue Sec. Prods. Inc. v. Vanguard Prods. Grp., Inc.*, No. 18-cv-2548, 2019 WL 3958272, at *1 (M.D. Fla. Aug. 22, 2019). Although the test varies by jurisdiction, district courts typically consider three factors in determining whether to grant such a stay: "(1) 'whether the stay will simplify issues in question in the litigation,' (2) 'whether the stay will unduly prejudice the nonmoving party or present a clear tactical disadvantage to the nonmoving party,' and (3) 'whether the proceedings before the court have reached an advanced stage, including whether discovery is complete and a trial date has been set.'" *Peloton Interactive, Inc. v. Flywheel Sports, Inc.*, No. 18-cv-390, 2019 WL 3826051, at *1 (E.D. Tex. Aug. 14, 2019) (internal quotation omitted).

District courts that had been, before *Arthrex*, inclined to lift a stay and re-open a case after the PTAB issued its final written decision may now be hesitant to do so before all the *Arthrex* appeals are exhausted. Unless the party proposing to lift a stay can show a new form of prejudice arising from a delay caused by *Arthrex*, the district court may determine that the likelihood of vacatur and remand justifies extending the stay through appeal.

In district court proceedings following the issuance of a final written decision by the PTAB, estoppel generally applies to any invalidity issue that the petitioner "raised or reasonably could have raised during that inter partes review." 35 U.S.C. § 315(e)(2). Parties in this situation, however, should take note of *Audatex North America, Inc. v. Mitchell International, Inc.*, which is scheduled for argument at the Federal Circuit on December 4. In that case, the appellant argues that a decision of the PTAB in a covered business method review is not binding on a district court because APJs are principal officers under the Appointments Clause, rendering a decision by a panel of APJs unconstitutional. Because the Federal Circuit already has held in *Arthrex* that APJs are principal officers (prior to the remedy provided in *Arthrex*), the Federal Circuit in *Audatex* will need to address whether a decision of the PTAB that was made by unconstitutionally appointed APJs is binding on a district court. This decision could have further implications for parties involved in district court litigation following an *inter partes* review or covered business method review proceeding, including whether estoppel will apply in the district court under 35 U.S.C. § 315(e)(2).

**Additional Litigation.** Interested parties should expect and be prepared for rapid developments in this area. The *Arthrex* decision leaves a host of unanswered questions in its wake. And it contains a number of subsidiary holdings that can be challenged from both sides.

Litigants are already seeking to broaden the scope of the *Arthrex* decision. For example, in *Polaris Innovations Ltd. v. Kingston Technology Company*, No. 18-1768 (Fed. Cir. argued Nov. 4, 2019), Polaris argued that the *Arthrex* panel did not go far enough in resolving the constitutional infirmity of the APJs. According to Polaris, because the Director of the PTO cannot review the APJs' decisions, and because the court cannot itself authorize such a review, the "only remedy" is to declare the entire system constitutionally flawed and "let Congress fix it." These and other challenges may push the *Arthrex* decision even farther, and could potentially cast doubt on the Director's authority to institute *inter partes* review at all (a power unquestioned by the panel).

Among other areas, parties should expect litigation regarding questions such as:

- Where to draw the line between principal and inferior officers;
- Limits on courts' power to sever statutory removal protections;
- Whether severance can "convert" a principal officer into an inferior officer;
- Whether institution decisions are less "suspect" than final written decisions;
- Effects on post grant review and covered business method proceedings in addition to *inter partes* review;
- Whether an entirely new hearing is required as opposed to reconsideration of the paper record;
- Whether other rulings by unconstitutionally appointed APJs (*e.g.*, evidentiary rulings) must be vacated;
- The role, if any of the *de facto* officer doctrine and ratification by constitutional actors;
- Whether decisions by unconstitutional APJs are subject to collateral attacks;
- Whether, and under what circumstances, decisions by unconstitutionally appointed APJs have estoppel effects in district court;
- Effects on pending PTAB proceedings;
- Effects on proceedings that are concluded but have not yet yielded a final written decision;
- Preservation, forfeiture, and waiver;
- Whether Federal Circuit panels have discretion to reach Appointments Clause issues not raised in an appellant's opening brief;
- The availability of remands to the PTAB following a determination of unconstitutionality;
- The availability of *inter partes* review and stays in the event the Supreme Court grants review; and
- Potential challenges to the appointment of ALJs in other agencies.

Finally, it is also possible that Congress or the President could take action to address these issues outside of litigation, although the other branches may wait until the Supreme Court weighs in before acting. In the aftermath of *Lucia*, for example, the President responded to the Supreme Court's decision by issuing an Executive Order, E.O. 13843, exempting ALJs from competitive service selection procedures.

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*Arthrex* is a major decision that will likely produce serious repercussions across a wide range of cases. Further review is a significant possibility, either from the en banc Federal Circuit or the Supreme Court, and it may be some time before the courts work out the full ramifications of the panel decision. It also remains to be seen whether the Federal Circuit will accede to requests, by the government or other parties, to stay other PTAB proceedings in the meantime. For example, the Federal Circuit notably declined to pause PTAB proceedings pending the Supreme Court's decisions in *SAS Institute, Inc. v. Iancu*, 138 S. Ct. 1348 (2018), and *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018).

Interested parties are advised to monitor the case and consult experienced patent appellate counsel to navigate this developing situation.

*Gibson Dunn has significant experience in this area, including winning the landmark Supreme Court decision in Lucia. Any of the following partners would be pleased to discuss Arthrex and its implications with you:*

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