No. 20-74

IN THE
Supreme Court of the United States

UNITED STATES OF AMERICA,
Petitioner,
v.

IMAGE PROCESSING TECHNOLOGIES LLC, ET AL,
Respondents.

On Petition for a Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit

MEMORANDUM FOR RESPONDENT MERCK SHARP & DOHME CORP.

CATHERINE E. STETSON
Counsel of Record
HOGAN LOVELLS US LLP
555 Thirteenth St., N.W.
Washington, DC 20004
(202) 637-5491
cate.stetson@hoganlovells.com

KRISTINA ALEKSEYEVA
HOGAN LOVELLS US LLP
390 Madison Avenue
New York, NY 10017

Counsel for Respondent Merck Sharp & Dohme Corp.

QUESTIONS PRESENTED

1. Whether, for purposes of the Appointments Clause, administrative patent judges of the U.S. Patent and Trademark Office are principal officers who must be appointed by the President with the Senate's advice and consent, or inferior officers whose appointment Congress has permissibly vested in a department head.

2. Whether the court of appeals erred by adjudicating Appointments Clause challenges that had not first been presented to the agency.

RULE 29.6 DISCLOSURE STATEMENT

Respondent Merck Sharp & Dohme Corp. is a subsidiary of Merck & Co., Inc., which owns 10% or more of respondent's stock.

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MEMORANDUM FOR RESPONDENT MERCK SHARP & DOHME CORP.

INTRODUCTION

In *Arthrex, Inc.* v. *Smith & Nephew*, *Inc.*, the Federal Circuit held that the Administrative Patent Judges of the United States Patent and Trademark Office—who number more than 200—are "principal officers" under the Constitution, and therefore must be appointed by the President with the advice and consent of the Senate. 941 F.3d 1320, 1325 (Fed. Cir. 2019), *petitions for cert. pending*, Nos. 19-1434 (filed June 25, 2020), 19-1452 (filed June 29, 2020), and 19-1458 (filed June 30, 2020). That ruling has led the Federal Circuit to vacate more than 100 decisions in administrative patent proceedings. *See* Pet. 24. Both the United States and the private parties

in *Arthrex* have petitioned this Court for certiorari to review the Federal Circuit's decision, and another similar petition has been filed, *see Polaris Innovations Ltd.* v. *Kingston Technology Co.*, 792 F. App'x 820 (Fed. Cir. 2020) (per curiam), *petition for cert. pending*, No. 19-1459 (filed June 30, 2020).

In this case, Merck Sharp & Dohme Corp. successfully challenged numerous patent claims owned by Pfizer Inc. before the Patent Trial and Appeal Board. Pfizer had not raised an Appointments Clause challenge before the Board. The Federal Circuit nevertheless granted Pfizer's motion to vacate the Board's decision after *Arthrex* issued. This case thus presents the same questions that the parties in *Arthrex* and *Polaris* have already urged this Court to consider: whether APJs are inferior officers whose appointment Congress has permissibly vested in a department head; if not, what the proper remedy is; and whether patent owners forfeit Appointments Clause challenges they do not present to the Patent Trial and Appeal Board. *See* Pet. I; *see also* Petition for Writ of Certiorari at I, No. 19-1434, *supra*.

The United States has now petitioned for certiorari in Merck's case, as well as a host of other cases involving those same issues. The United States has asked this Court to hold the cases, and then to grant, vacate, and remand in light of the Court's disposition of *Arthrex* and *Polaris*. Merck agrees: A hold and GVR in this case would be the proper course.[1]

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[1] In the event that this Court resolves the Appointments Clause challenge to the Board in a case other than *Arthrex* or *Polaris*, Merck respectfully requests that this Court hold and

STATEMENT

1. The United States Patent and Trademark Office (USPTO) is an executive agency within the Department of Commerce "responsible for the granting and issuing of patents and the registration of trademarks." 35 U.S.C. § 2(a)(1); *see id.* § 1(a). The Patent Trial and Appeal Board (PTAB) is an administrative tribunal within the USPTO that conducts several types of patent-related proceedings, including *inter partes* reviews. *Id.* § 6(a)-(b). The PTAB's final decisions may be appealed to the Federal Circuit. *Id.* §§ 141(c), 144, 319.

The PTAB comprises the Director, the Deputy Director, the Commissioners for Patents and Trademarks, and more than 200 Administrative Patent Judges (APJs). *Id.* § 6(a). APJs must be "persons of competent legal knowledge and scientific ability who are appointed by the Secretary [of Commerce], in consultation with the Director." *Id.* And they are "subject to the provisions of title 5, relating to Federal employees," *id.* § 3(c), which means they may be removed "only for such cause as will promote the efficiency of the service," 5 U.S.C. § 7513(a).

2. In the proceedings below, Merck, Sanofi, and SK Chemicals challenged claims 1-45 of U.S. Patent No. 9,492,559 (owned by Pfizer) in an *inter partes* review before the PTAB. The PTAB found all of the challenged claims unpatentable as obvious under 35 U.S.C. § 103, and Pfizer appealed. At no point

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GVR this case in light of whatever other vehicle the Court chooses.

during the PTAB proceedings did Pfizer raise an Appointments Clause challenge.

While Pfizer's appeal was pending, the Federal Circuit decided *Arthrex*, which held that APJs were appointed in violation of the Appointments Clause and "sever[ed] the portion of the Patent Act restricting removal of the APJs" to remedy that constitutional violation. 941 F.3d at 1325. The Federal Circuit further held that "[b]ecause the Board's decision in [*Arthrex*] was made by a panel of APJs that were not constitutionally appointed at the time the decision was rendered," a remand to the PTAB was necessary for a new hearing before "a new panel of APJs." *Id*. at 1338, 1340. The Court also announced that its ruling and remedy would extend to all cases "where final written decisions were issued [by the PTAB] and where litigants present an Appointments Clause challenge *on appeal*," regardless of whether such a challenge had been asserted *during the agency proceedings*. *Id*. at 1340 (emphasis added).

After the *Arthrex* decision, Pfizer filed a motion to vacate and remand rather than appealing the merits of the PTAB decision. Merck, Sanofi, and SK Chemicals all opposed. Pet. App. 6a. The USPTO intervened and argued that en banc reconsideration of *Arthrex* was likely and that to shunt this case back to the PTAB would be "inefficient and burdensome." *See* Intervenor-USPTO Director's Opposition to Appellant's Motion to Remand in Light of the *Arthrex* Decision at 3, *Pfizer, Inc.* v. *Merck Sharp & Dohme Corp.*, No. 19-1871 (Fed. Cir. Dec. 27, 2019).

In a summary, unpublished order, the Federal Circuit granted Pfizer's motion, vacated the Board's

decision, and remanded the case to the Board "for proceedings consistent with * * * *Arthrex*." Pet. App. 6a. The Federal Circuit subsequently denied en banc reconsideration of *Arthrex*, *see* Pet. 22, and of Pfizer's appeal, Pet. App. 93a-94a.

3. The United States and private parties petitioned for certiorari in *Arthrex* and the related *Polaris* case (which raises the same basic constitutional question as *Arthrex*, but does not include the same waiver issue as *Arthrex* and this case). The various petitions in those cases raise both the underlying constitutional merits question, as well as questions regarding waiver and remedy. The United States has also sought this Court's review of the judgment below, along with 38 other judgments of the Federal Circuit that "involve identical or closely related questions." Pet. 11 (quoting Sup. Ct. R. 12.4). The Government requests that this case be held pending this Court's disposition of the *Arthrex* petition. *See* Petition for Writ of Certiorari, No. 19-1434, *supra*.

ARGUMENT

This case presents the same questions as *Arthrex* and *Polaris*: whether APJs are inferior officers whose appointment Congress has permissibly vested in a department head; if not, what the proper remedy is; and whether patent owners forfeit Appointments Clause challenges they do not present to the PTAB. *Compare* Pet. I, *with* Petition for Writ of Certiorari at I, No. 19-1434, *supra*. Merck agrees with the United States that the Court should hold this petition pending the disposition of *Arthrex* and *Polaris*. If the Court grants certiorari in *Arthrex* and vacates or reverses the Federal Circuit's judgment there, it should grant this petition, vacate the Federal Circuit's decision below, and remand for further consideration.

I. THIS PETITION RAISES THE SAME QUESTIONS AS *ARTHREX*.

1. This case presents the same questions raised by the various petitions in *Arthrex* and *Polaris*. *See* Petitions for Writs of Certiorari, Nos. 19-1434, 19-1452, 19-1458 & 19-1459, *supra*. If the Court grants these petitions and ultimately reverses or modifies the Federal Circuit's judgment, it will undercut the ruling below, which vacated and remanded the PTAB's decision solely on the basis of *Arthrex*. Pet. App. 6a. The Court should therefore hold this petition pending resolution of the *Arthrex* cases.

2. The underlying *Arthrex* decision meets the traditional criteria for certiorari: It modifies the structure of a key federal agency, deems a federal statute unconstitutional as written, and imposes substantial "burdens on the system of *inter partes* review, requiring potentially hundreds of new proceedings" before

newly constituted panels of APJs. *Bedgear, LLC* v. *Fredman Bros. Furniture Co.*, 783 F. App'x 1029, 1030 (Fed. Cir. 2019) (Dyk, J., concurring in the judgment); *see also* Petition for Writ of Certiorari at 14-15, No. 19-1434, *supra*.

Any decision invalidating an Act of Congress on constitutional grounds warrants review. *See Regan* v. *Time, Inc.*, 468 U.S. 641, 652 (1984) ("[A] federal court should act cautiously" when declaring a federal statute unconstitutional as doing so "frustrates the intent of the elected representatives of the people."); *Fairbank* v. *United States*, 181 U.S. 283, 285 (1901) ("The constitutionality of an act of Congress is a matter always requiring the most careful consideration."). And review is particularly appropriate where that decision strikes down a statutory framework that governs more than 200 agency adjudicators—ones who administer intellectual-property rights worth billions of dollars to boot. *Accord* Petition for Writ of Certiorari at 15, No. 19-1434, *supra*.

The Federal Circuit's waiver ruling—a categorical exception to ordinary rules of administrative exhaustion—is also problematic. If allowed to stand, it will force the prevailing parties in more than 100 cases to undergo duplicative proceedings unlikely to yield any meaningful public benefits. All the while, many patent claims that the PTAB has found unpatentable will remain in force, creating uncertainty in numerous industries.

Unsurprisingly, *all* sides in the underlying *Arthrex* and *Polaris* litigations agree on the need for this Court's review. *See* Petitions for Writs of Certiorari, Nos. 19-1434, 19-1452, 19-1458 & 19-1459, *supra*, and all briefs and memoranda in response (all urging

the Court to consolidate the cases and direct the parties to address a common set of questions that encompass all of the issues the parties have raised).

II. THIS COURT SHOULD REVERSE THE FEDERAL CIRCUIT'S JUDGMENT IN *ARTHREX*, AND THEN GRANT, VACATE, AND REMAND THIS CASE.

1. As explained in detail in the petitions filed in *Arthrex*, APJs are inferior officers under this Court's precedent. "Generally speaking, the term 'inferior officer' connotes a relationship with some higher ranking officer or officers below the President," because "[w]hether one is an 'inferior' officer depends on whether he has a superior." *Edmond* v. *United States*, 520 U.S. 651, 662 (1997). Whether an officer "has a superior" does not turn on titles or formalities. *Id.* at 662-663. Instead, the key question is whether the officer'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." *Id.* at 663. And to answer that question, courts must look at the cumulative effect of the supervisory mechanisms available to the various superior officers. Thus, in *Edmond*, judges of the Coast Guard Court of Criminal Appeals were deemed inferior officers because the Coast Guard Judge Advocate General—a Senate-confirmed department head—could "prescribe uniform rules of procedure" for that court, "formulate policies and procedure[s]" for reviewing cases, and "remove a Court of Criminal Appeals judge from his judicial assignment without cause." *Id.* at 664 (internal quotation marks omitted).

APJs are "directed and supervised" to at least the same degree. *Id.* at 663. The Director of the USPTO—who is appointed by the President and confirmed by the Senate—has unfettered discretion to decide whether to institute proceedings, whether (and to what extent) individual APJs actually serve on decisional panels, whether APJs' decisions are binding on other panels, and whether particular cases should be reheard.

In ruling that APJs were principal officers, the Federal Circuit not only ignored that precedent, it also failed to give proper weight to understandings of the political branches as to the status of APJs. *Cf. NLRB* v. *Noel Canning*, 573 U.S. 513, 524 (2014) ("[l]ong settled and established practice" of the co-equal branches is entitled to "great weight" in the separation-of-powers context (alteration in original; internal quotation marks omitted)). In 2008, the Patent Act was specifically amended to address Appointments Clause concerns raised in the context of *inter partes* reexaminations, authorizing the appointment of APJs by a Head of Department. *See In re DBC*, 545 F.3d 1373, 1380 (Fed. Cir. 2008) (Congress "redelegated the power of appointment to the Secretary" to "eliminat[e] the issue of unconstitutional appointments going forward."). That amendment leaves no doubt that Congress and the President understand APJs to be inferior officers. And the Federal Circuit erred when it gave *no* weight to the views of the political branches.

2. Separately, the court of appeals erred in holding that a party's failure to raise its Appointments Clause challenge before the USPTO should be excused merely because the issue implicates the separation of powers and may have significant economic

consequences. This Court has long recognized that "[s]imple fairness to those who are engaged in the tasks of administration, and to litigants, requires as a general rule that courts should not topple over administrative decisions unless the administrative body not only has erred but has erred against objection made at the time appropriate under its practice." *United States* v. *L. A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37 (1952).

That principle should have been dispositive in *Arthrex*. If Arthrex (or any other patent owner) had raised its Appointments Clause challenge before the agency, it would not have been futile: The Director could have avoided any potential constitutional violation by declining to institute an *inter partes* review, or even vacating a prior institution decision, before the agency and the parties invested time and resources into determining patentability. That course would have accorded Arthrex complete relief. Indeed, the Federal Circuit had previously declined to address the very Appointments Clause challenge that is presented here when that challenge was raised for the first time on appeal. *See Trading Techs. Int'l, Inc.* v. *IBG LLC*, 771 F. App'x 493 (Fed. Cir. 2019) (per curiam) (mem.), *cert. denied*, 140 S. Ct. 955 (2020) (No. 19-522). Nothing warrants a different conclusion here.

CONCLUSION

The petition for a writ of certiorari should be held pending this Court's disposition of the petitions for a writ of certiorari in *Arthrex* and *Polaris*. If the Court disagrees with the Federal Circuit on the merits, the remedy, or forfeiture, then this petition should be granted, the judgment vacated, and the case remanded for further consideration.

Respectfully submitted,

CATHERINE E. STETSON
Counsel of Record
HOGAN LOVELLS US LLP
555 Thirteenth St., N.W.
Washington, DC 20004
(202) 637-5491
cate.stetson@hoganlovells.com

KRISTINA ALEKSEYEVA
HOGAN LOVELLS US LLP
390 Madison Avenue
New York, NY 10017

Counsel for Respondent Merck Sharp & Dohme Corp.

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