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Open Issues After Fed. Circ. PTAB Judge Appointments Ruling

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(March 23, 2020, 6:57 PM EDT) -- Monday, the U.S. Court of Appeals for the Federal Circuit voted 8-4 not to rehear en banc its explosive decision in Arthrex Inc. v. Smith & Nephew Inc.[1] U.S. Circuit Judges Timothy Dyk, Pauline Newman, Evan Wallach and Todd Hughes dissented from the denial of en banc review, and several judges wrote separate opinions explaining the reasons for their votes.

Arthrex held the appointment structure for the Patent Trial and Appeal Board's administrative patent judges unconstitutional under the appointments clause, reasoning that APJs are "principal officers" who must be appointed by the president with the advice and consent of the Senate.

To remedy the constitutional violation, the Arthrex court severed and invalidated the removal restrictions applicable to APJs, making them removable at will by the secretary of commerce. That remedy, the court held, rendered APJs "inferior officers" who may validly be appointed by the secretary of commerce.

All three parties in Arthrex had petitioned for rehearing on various issues raised by the decision. Now that the full Federal Circuit has declined further review, the case is likely headed for the U.S. Supreme Court.

Concurrences and Dissent

The order denying rehearing en banc produced two concurrences and three dissents.

Judge Moore's Concurrence

Judge Kimberly Moore (the author of the Arthrex opinion), joined by Judges Kathleen O'Malley, Jimmie Reyna and Raymond Chen, penned a concurrence directed principally to two points: (1) the Arthrex decision was a correct application of the Supreme Court's appointments clause precedents and (2) the panel's remedy for the constitutional violation — invalidating the removal restrictions applicable to APJs — was consistent with congressional intent and minimized the disruption to the inter partes review scheme.[2]

On the latter point, Judge Moore noted that, once Arthrex was decided, all board decisions going forward were not subject to challenge because they were "no longer rendered by unconstitutional panels."[3] Moreover, because the Federal Circuit has required appellants to raise appointments clause arguments in their opening brief to be entitled to relief, "the universe of cases which could be vacated and remanded" is relatively small.[4] Finally, "the remands are narrow in scope and will not necessitate anything like a full-blown process."[5]

In short, Judge Moore asserted, Arthrex's remedy "resulted in minimal disruption to the inter partes review system and no uncertainty presently remains as to the constitutionality of APJ appointments."[6] Rehearing en banc, in contrast, "would have unraveled an effective cure and created additional disruption by increasing the potential number of cases that would require reconsideration on remand."[7]

Judge O'Malley's Concurrence

Judge O'Malley, joined by Judges Moore Kimberly and Reyna, wrote a separate concurring opinion to respond to the argument in Judge Dyk's dissenting opinion that Arthrex's severance of APJs' removal protections retroactively rendered all prior APJ decisions constitutional.[8]

In Judge O'Malley's view, while judicial decisions on constitutionally required "remedies" are indeed retroactive to all cases still on direct review at the time of the decision, the same does not go for judicial severance. "[J]udicial severance is not a 'remedy,'" Judge O'Malley explained, "it is a forward-looking judicial fix" that necessarily operates only prospectively.[9]

Judge Dyk's Dissent

Judge Dyk, joined by Judges Newman and Evan Wallach, and joined, in part, by Judge Todd Hughes, dissented from the denial of en banc review, expressing disagreement with the Arthrex decision in three respects.[10]

First, Judge Dyk argued, Arthrex's remedy is not consistent with congressional intent. In Judge Dyk's view, Congress has long insulated administrative judges from removal in order ensure independence and impartiality in decision-making, so it is unlikely that Congress would have enacted an inter partes review regime in which PTAB judges are subject to at-will removal.[11]

Judge Dyk suggested that the effect of the Arthrex decision should be temporarily stayed to allow either Congress or the agency to implement a legislative or administrative fix to the appointments clause problem.[12] For example, Judge Dyk offered, the agency could establish a "rehearing panel consisting of the Director, the Deputy Director, and the Commissioner of Patents" to review final decisions of APJs.[13] (Judge Moore's concurring opinion questioned whether such a fix would itself comply with the appointments clause.[14])

Second, echoing an argument he raised in an earlier concurring opinion,[15] Judge Dyk contended that, if Arthrex's remedy were proper, it would not require a remand for a new hearing because the severance of APJs' removal restrictions operated retroactively, thereby rendering all previous board decisions constitutional.[16] As noted above, Judge O'Malley took issue with this conclusion in her separate concurrence.

Third, Judge Dyk "question[ed]" — but did not outright disagree with — Arthrex's holding that APJs are principal, as opposed to inferior, officers.[17] In Judge Dyk's view, APJs' ability to render a final decision on behalf of the Executive Branch is not dispositive of their constitutional status.

Instead, it is "appropriate to also examine whether the role of the officers in question includes articulation of agency policy."[18] Because "PTAB judges have no such role," Judge Dyk suggested, they may more properly be characterized as inferior officers.[19]

Judge Hughes' Dissent

Judge Hughes, joined by Judge Wallach, dissented separately in an opinion that largely tracks Judge Hughes' earlier concurrence in Polaris Innovations Ltd. v. Kingston Technology Co. Ltd.[20] In Judge Hughes' view, Arthrex was wrongly decided on the merits because, "viewed in light of the Director's significant control over the activities of the [PTAB] and [APJs], APJs are inferior officers already properly appointed by the Secretary of Commerce."[21]

In reaching this conclusion, Judge Hughes noted the director's ability to:

issue binding policy guidance, institute and reconsider institution of an inter partes review, select APJs to preside over an instituted inter partes review, single-handedly designate or de-designate any final written decision as precedential, and convene a panel of three or more members of his choosing to consider rehearing any Board decision.[22]

Given these significant powers, Judge Hughes argued, the director's inability to reverse individual APJs decisions did not render the APJs principal officers.[23]

Judge Hughes also argued that, even if Arthrex was right on the merits, it was wrong on the issue of remedy. Like Judge Dyk, Judge Hughes argued that Arthrex's severance of APJs' removal protections was not consistent with congressional intent given Congress' long history of providing employment protections to administrative judges.[24]

Judge Wallach's Dissent

Judge Wallach also wrote separately to note his disagreement with Arthrex on the merits.[25] Like Judge Hughes, Judge Wallach argued that the director's ability to select panel members and to designate or de-designate opinions as precedential gave the director "significant authority over the APJs" and thereby rendered them inferior officers.[26]

Next Steps

It appears likely that either Smith & Nephew (the appellee in Arthrex) or the government — and possibly both — will petition for certiorari in the Supreme Court. The deadline for doing so is 150 days following today's decision (extended from the usual 90 days in light of the COVID-19 pandemic).[27]

Petitions for certiorari are also likely in Polaris, which raises the same appointments clause issue and, according to the government, is a better vehicle for further review because the patent owner in Polaris

made its constitutional arguments to the PTAB rather than raising them for the first time in the Federal Circuit.[28] Assuming petitions are filed, the Supreme Court could decide whether to hear one or both cases by the end of the year, which would likely mean a decision by June 2021.

Supreme Court review, while not guaranteed, is quite likely. Certiorari is generally granted in cases in which a court of appeals holds a federal statute unconstitutional.[29]

If the Supreme Court grants certiorari, it will almost certainly decide the merits of the constitutional issue — i.e., whether APJs are principal officers under the regime originally established by Congress. Other open issues that could be reviewed by the court include the following:

- Issues related to preservation and forfeiture — e.g., what is necessary to preserve an appointments clause challenge. Is it sufficient to raise the issue to the court of appeals (as the Federal Circuit has held), or must litigants make the argument to the PTAB (as the government has argued)?

- Issues related to remedy — e.g., whether Arthrex's severance of APJs' removal restrictions is consistent with congressional intent. If so, did the severance operate retrospectively (as Judge Dyk has argued) or only prospectively (as Judge O'Malley argued)? If not, what remedy would be consistent with congressional intent?

In short, while the constitutionality of APJs is now settled as far as the Federal Circuit is concerned, the Supreme Court may yet have the last word.

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[1] Arthrex Inc. v. Smith & Nephew Inc., 941 F.3d 1320 (Fed. Cir. 2019), en banc review denied, No. 2018-2140 (Fed. Cir. Mar. 23, 2020).

[2] Arthrex, No. 2018-2140, slip op. (Moore, J., concurring in the denial of the petitions for rehearing en banc).

[3] Id. at 5.

[4] Id. at 6 n.4.

[5] Id. at 7.

[6] Id.

[7] Id.

[8] Arthrex, No. 2018-2140, slip op. (O'Malley, J., concurring in the denial of the petitions for rehearing en banc).

[9] Id. at 3.

[10] Arthrex, No. 2018-2140, slip op. (Dyk, J., dissenting from the denial of rehearing en banc).

[11] Id. at 2–6.

[12] Id. at 9–14.

[13] Id. at 13–14.

[14] Arthrex, No. 2018-2140, slip op. 8–9 (Moore, J., concurring in the denial of the petitions for rehearing en banc).

[15] See Bedgear, LLC v. Fredman Brothers Furniture Co., 783 F. App'x 1029 (Fed. Cir. 2019) (Dyk, J., concurring).

[16] Arthrex, No. 2018-2140, slip op. at 14–23 (Dyk, J., dissenting from the denial of rehearing en banc).

[17] Id. at 24–25.

[18] Id. at 25.

[19] Id.

[20] Arthrex, No. 2018-2140, slip op. (Hughes, J., dissenting from the denial of the petitions for rehearing en banc); see Polaris Innovations Ltd. v. Kingston Tech. Co., 792 F. App'x 820 (Fed. Cir. 2020) (Hughes, J., concurring).

[21] Arthrex, No. 2018-2140, slip op. at 1 (Hughes, J., dissenting from the denial of the petitions for rehearing en banc).

[22] Id. at 3.

[23] Id. at 8–12.

[24] Id. at 13–14.

[25] Arthex, No. 2018-2140, slip op. (Wallach, J., dissenting from denial of a petition for rehearing en banc).

[26] Id. at 1–2.

[27] See Order at 1 (U.S. Mar. 19,

2010), https://www.supremecourt.gov/orders/courtorders/031920zr_d1o3.pdf.

[28] Petition for Rehearing En Banc at 11–14, Arthrex, No. 18-2140 (Fed. Cir. Dec. 16, 2019).

[29] See, e.g., Stephen M. Shapiro et al., Supreme Court Practice § 4.12, at 264 (10th ed. 2013) ("Where the decision below holds a federal statute unconstitutional . . . , certiorari is usually granted because of the obvious importance of the case.").