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En Banc Federal Circuit Declines To Address The Constitutionality Of Administrative Patent Judges And The Constitutional Remedy Of Severance, Potentially Setting Up Supreme Court Review

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On March 23, 2020, the Federal Circuit denied the petitions for rehearing *en banc* filed in *Arthrex v. Smith & Nephew*, a decision which found the appointment of Administrative Patent Judges ("APJs") unconstitutional under the Appointments Clause of the U.S. Constitution, and which severed their employment protections to cure the violation. This denial of *en banc* review follows a similar denial on January 31, 2020, for *en banc* review of *Polaris v. Kingston*[1] another case dealing with the same constitutional questions concerning APJs and the remedy of severance.

In rejecting petitions by both parties for rehearing *en banc*, the Federal Circuit left binding on the Patent Trial and Appeal Board ("PTAB") the panel's ruling in *Arthrex*[2] that APJs were unconstitutionally appointed, thereby rendering prior decisions by APJs unconstitutional.[3] To cure the constitutional violation, the panel effectively severed the statutory protection afforded APJs under 5 U.S.C. § 7513 ("Title 5") that they can only be removed for cause. The *Arthrex* panel concluded that, at the time of severance, APJs became constitutionally appointed and, thus, subsequent decisions would be constitutional under the Appointments Clause.

In two separate denials and three dissents, the Circuit Judges offered varying interpretations of Supreme Court precedent addressing Appointments Clause questions, raising the possibility that the Supreme Court might weigh in to clarify its precedents or answer important but unsettled questions of federal law.

In her denial, joined by Judges Kathleen O'Malley, Jimmie Reyna, and Raymond Chen, Judge Kimberly Moore wrote that the *Arthrex* panel followed Supreme Court precedent in reaching its conclusion that APJs are principal officers who must be Presidentially appointed, as opposed to

inferior officers whose work is subject, to some extent, to the direction and supervision of a Presidentially-appointed officer. Judge Moore found that the curative severance proposed by the U.S. Patent and Trademark Office ("USPTO") and adopted by the panel "was consistent with Congress' intent in enacting the *inter partes* review system" for the "basic purpose" of providing for the reexamination of an earlier agency decision.[4] Further, Judge Moore agreed that "[t]he *Arthrex* panel's severance was the 'narrowest possible modification to the scheme Congress created' and the approach minimized the disruption to the continuing operation of the *inter partes* review system."[5]

In dissent, Judge Timothy Dyk, joined by Judges Pauline Newman and Evan Wallach in full and Judge Todd Hughes in part, proposed a temporary stay to allow Congress the opportunity to implement a legislative fix, arguing that the panel's remedy is "draconian" and rewrites the statute contrary to Congressional intent.[6] Judge Dyk wrote at length on history of the protection from removal afforded to APJs by Congress, emphasizing his view that the *Arthrex* panel's remedy attributed far too little weight to those "longstanding and continuous protection[s]."[7] Notably, Judge Dyk asserted that under the panel's remedy, pre-existing PTAB decisions need not be rendered invalid, arguing that the Supreme Court's decision in *Harper v. Virginia Dep't of Taxation*,[8] gives retroactive effect to the *Arthrex* panel's severance remedy, thus extinguishing the need for remand and rehearing of pending PTAB reviews.

However, in a separate denial, Judge O'Malley wrote only to distinguish *Arthrex* from *Harper* cited by Judge Dyk in his dissent. Specifically, Judge O'Malley identified judicial severance as "a forward-looking judicial fix" rather than a remedy, while the remedy created by *Arthrex* is "a new hearing before a properly appointed panel of judges."[9]

Lastly, separate dissents by Judge Hughes and Judge Wallach disagree with the *Arthrex* panel's conclusion that APJs are principal officers, arguing that APJs are inferior officers which do not require Presidential appointment. These two dissenters concluded that the USPTO Director's authority and control over the activities of the PTAB and APJs is "significant" to such an extent that APJs are inferior officers.

The diverging views of the Federal Circuit make clear that constitutional questions arising out of the Appointments Clause could be ripe for review by the Supreme Court. If the Supreme Court grants *certiorari*, *Arthrex* will be one of the more important cases that the Supreme Court will decide in its next term. Indeed, the constitutional questions raised by *Arthrex* could have a significant impact on the constitutional structure of many other agencies and quasi-judicial bodies throughout the administrative state. As it currently stands, however, the panel decision in *Arthrex* remains binding precedent on the PTAB and later Federal Circuit panels.

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1 792 F. App'x 820 (Fed. Cir. 2020).

2 941 F.3d 1320 (Fed. Cir. 2019).

3 In her denial, Judge Kimberly Moore addresses recent binding precedents effectively limiting the number of prior APJ decisions that may be challenged on Appointments Clause grounds to a universe of 81. *See* Judge Moore's denial at 5 n.3, 6 n.4.

4 Judge Moore's denial at 4.

5 Judge Moore's denial at 5.

6 Judge Dyk’s dissent at 2.

7 Judge Dyk’s dissent at 3-6.

8 509 U.S. 86 (1993).

9 Judge O’Malley’s denial at 3.

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