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SCOTUS Dubs PTAB/APJ Structure a 'Rare Bird', Pushes for Workable Remedies in *Arthrex* Oral Arguments

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Print Article

"Is it fair to say that, yes, this is a rare bird…[that] this is an unusual animal in the sense that there isn't final review in the agency head?" – Justice Gorsuch.

“It is unusual, but it is also well and historically founded, and until now unchallenged.” – Mark Perry for Smith & Nephew

 The Justices of the U.S. Supreme Court today heard arguments in *United States/ Smith & Nephew v. Arthrex*, in which the Court will decide whether the administrative patent judges (APJs) of the Patent Trial and Appeal Board (PTAB) are “principal” or “inferior” officers of the United States, and—if they are principal officers—whether the Federal Circuit’s 2019 fix was sufficient to cure any Appointments Clause defect. The Court generally seemed extremely skeptical of the “unusual” powers APJs seem to have compared with other administrative agencies and pushed both sides to offer reasonable solutions.

U.S. Government: the Director Has the Power

U.S. Deputy Solicitor General Malcom Stewart argued for the U.S. government that the Director of the U.S. Patent and Trademark Office (USPTO) has powers that “substantially exceed” those outlined in the key precedent in *Arthrex*, *Edmond v. United States* , 520 U.S. 651 (1997). That case held that *“‘*Whether 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.’” Stewart said APJs unequivocally meet this standard:

What the Court said in Edmond is that the mark of an inferior officer is that the inferior has a superior and is supervised at some level by Executive Branch officials who are appointed by the President and confirmed by the senate and we don't have a bright-line test for this. But the court in Edmond said the fact that the Court of Appeals for the Armed Forces can't second guess the factual determinations of the lower court is not sufficient to make those lower court judges principal officers. Things can slip through the cracks and supervision can nevertheless be sufficient, and that's essentially what we have here.

While the USPTO Director's authority is not plenary, said Stewart, it is "substantial". When Justice Thomas questioned how the Court should discern "substantial", Stewart said that the Court should focus on the mechanisms of control available in the first instance, such as issuing binding guidance, since "the usual hallmark of supervisory authority is that the supervisor can tell the subordinate how to do the job before the subordinate does it, and the Director has ample tools there."

Justice Sotomayor suggested that Arthrex's case was more straightforward than the government's and Smith & Nephew's case, which she characterized as "amorphous." While Arthrex seems to simply be arguing that someone cannot be an inferior officer if they can make final decisions that are unreviewable by the director, Sotomayor struggled to understand what Stewart's "baseline" is for the test of what makes APJs inferior officers. "What I want to understand is what is your final test being judged against?" asked Sotomayor.

"I thought I heard a little of it when you said the Director is setting the policies and procedures; he or she is the person who controls the outcome in the sense of setting what the policies and procedures are—am I right that that's your baseline?" Stewart explained that while that is part of his argument, there is no bright-line test because the Court has emphasized there is no exclusive criterion for determining inferior officer status.

He added that scrapping the *Edmond* test would lead to problems, because the government is so multifaceted that any attempt to form a bright-line test would lead to anomalous results.

Justice Kagan told Stewart that he seemed to be putting "a lot of weight" on the Director's ability to be part of a panel that rehears a decision when the usual mechanism for rehearing does not involve a panel that the Director chooses. When Stewart explained that the Director always has the choice to change panels, Kagan pushed him for more clarity on how the process works.

"The Director could *sua sponte* convene a new panel – what's known as the Precedential Opinion Panel, POP is the acronym – is presumptively composed of the Director, the Commissioner for Patents and the Chief APJ and that panel can sit to issue a binding decision, assuming two members of the panel vote to do so," said Stewart. But Kagan noted that the Director doesn't have authority over the other two panel members, returning to the point that the Director's authority is not plenary.

Justice Gorsuch referenced the Court's 2020 decision in *Seila Law LLC v. Consumer Financial Protection Bureau,* in which the Court said that "executive officials must always remain subject to the ongoing supervision and control of the elected President…through the President's oversight the chain of dependents is preserved so that the lowest officers, the middle grade and the highest all depend as they ought on the President and the President on the community." Gorsuch said he was struggling to understand how that interpretation of the Constitution squares with Stewart's argument that not even the President can reverse a decision of APJs. Stewart's replies to Gorsuch focused on the removal powers of the President over the Director or legislative branch oversight, and ultimately did not satisfy Gorsuch.

Justice Kavanaugh called the structure governing APJs "a real break from tradition," characterized by a lack of agency review that is ordinarily and historically has been present.

APJs are Part of a 'Long and Proud History of the Patent Office'

Mark Perry of Gibson Dunn & Crutcher, arguing for Smith & Nephew, fielded similarly tough questions. Chief Justice Roberts opened by asking Perry whether the kind of review he insisted exists, in which the Director has the authority to rehear decisions if he wants, indicates due process concerns. "It would make something of a charade out of the adjudication," said Roberts. "Yet you're relying on all of those powers to say everything is all right. It really doesn't' sound like any kind of adjudication that we would accept under due process." But Perry argued that whether there are due process concerns has nothing to do with the Appointments Clause question at issue here.

Justice Thomas pressed Perry for his test of whether someone is an inferior officer and Perry explained that principal officers "sit at right hand of the president," while APJs are "three times removed."

Returning to the "unusual" nature of USPTO/PTAB proceedings, Justice Kagan asked Perry if there was a story behind it, and Perry replied that "it's the long and proud history of the patent office," in which "interference examiners" have always been appointed by the Secretary of Commerce and there has been no question that they've been inferior officers. "We have a patent-specific tradition that comes out of the examination process…. Modern APJs are very much in line with a long, long history that in fact stretches all the way back to the founding."

"Is it fair to say that, yes, this is a rare bird in that in this area…this is an unusual animal in the sense that there isn't final review in the agency head?" asked Justice Gorsuch.

Perry ultimately replied that "it is unusual, but it is also well and historically founded and until now unchallenged."

Justice Barrett pushed Perry for his preferred fix should he lose on the Appointments Clause issue since it's not one specific provision in the statutory

scheme being challenged as unconstitutional, but rather, the way they work together. The Court could make all APJs principal officers, it could strike the provision in the statute that only the PTAB may grant rehearings so that the Director has that authority, or it could make them at-will employees. “That’s a lot of discretion to give us in trying to shape a remedy here,” said Barrett. “Why should we even assert the authority to sever?”

Perry answered, “If you tell me how we lose, we can tell you what the remedy is.” He said that if the Court were to determine, for example, that the problem is the lack of agency reviewability, the most direct solution would be to sever the provision requiring Board rehearings so that the Director could unilaterally review. However, Arthrex’s solution is to “take down the whole system” and “blow up the whole thing” because of a structural problem that doesn’t exist, said Perry.

Arthrex: the Fix is Not Up to the Court

Jeffrey Lamken of MoloLamken LLP argued for Arthrex and emphasized that Congress must solve the problem, not the Court, because the possible solutions “point in opposite directions”:

APJs do one thing – decide cases. Their decisions are the Executive’s final word…. They can even overturn earlier decisions by their own agency head to grant a patent. No superior in the Executive has authority to review their decisions, to overturn their exercise of government authority. Accountability suffers. If a principal officer has review authority but refuses to exercise it and overrule subordinates, the President and the public can hold him accountable for that choice. But the Principal is not accountable if the answer is, “I have no authority; Congress made my supposed underlings the final word.” Punishing APJs for decisions or guidance to prevent future error doesn’t undo decisions already made. For parties, the decision remains the Executive’s final word. In 200 years, this court has never upheld such a scheme.

Lamken said that when the potential remedies are so various it’s “more respectful of Congress” to allow them to choose the right option themselves.

The justices' questions for Lamken leaned heavily toward finding the right fix, within reason. Chief Justice Roberts said that "what you're supposing is really quite impractical." The notion of meaningful review of each of the hundreds of APJ decisions seems "fanciful," he said. But Lamken said that accountability and legal authority is what matters. If the Director doesn't want to review every decision, with the proper structure in place, he or she can be held accountable for failing to review a particular decision, said Lamken. But if the issue is that he or she simply doesn't possess the inherent authority in the first place, there is no accountability.

Responding to follow-up questions from Justice Thomas, Lamken gave the analogy of the relationship between lower courts and the Supreme Court. "The lower federal courts don't cease to be inferior courts merely because this Court denies certiorari in the vast majority of cases," explained Lamken. "It is the availability of review that makes them inferior courts and this Court the Supreme Court."

Lamken said that one option would be for Congress to take the same approach they did in the recent Trademark Modernization Act, in which an amendment was added to indicate that "the Director has the authority to reconsider, modify, or set aside TTAB decisions." But the Court itself can't "pencil in" that kind of authority, said Lamken.

Justice Alito asked Lamken if, assuming the Court agreed that the current scheme violates the Appointments Clause, what relief he expected. Lamken said that because the inter partes review (IPR) system is unconstitutional, the case can't proceed and the IPR should be dismissed. When Alito asked why that would be preferable to a decision that the Director could review the decision of the Board, Lamken said that the Court could not do that without rewriting the statute, but Alito said all the Court would have to do is say "this is what the constitution requires."

Justice Kagan pressed Lamken on whether it might be acceptable to impose a standard on determining Director review—for example, a "clear error" versus "egregious error" standard. While Lamken said a "clear error" standard would "probably be sufficient", he said that "at some point where the authority of the

Director is so cut off that he is not able to say with any accountability that the final decision of the APJ represents the views of the United States, that this is a decision he is willing to stand behind as the word of the PTO then I think at that point you've gone too far."

Justices Gorsuch and Barrett drilled down on various ways to sever 35 U.S.C. § 6 but, ultimately, Lamken held fast to his argument that Congress must come up with the solution. Gorsuch noted that setting aside IPRs and waiting for Congress to fix them could take a long time, but Lamken said that hearings on the topic have already been held and they've done it for trademarks. "[Congress] has before it ready-made solutions—one historical, one more recent with the TTAB—available, and there's only 750 of these IPRs pending, which is a little more than three per APJ."

Justice Kavanaugh seemed to want to distill and clarify Lamken's previous responses to the Justices regarding the options available to the Court, including whether it might be ok for the Director delegate the power of review to someone else once given such authority. Lamken said that would be ok because it would still ensure accountability. Kavanaugh also said that Lamken's request that the Court "take down the whole system" if it agrees with him on the merits had been repeatedly frowned upon by the Court and asked about severing Section 6(c) instead.

It's Not Practical

In his rebuttal, Stewart addressed Lamken's analogy to the Supreme Court and lower courts, explaining that the principal means by which the Court supervises the lower courts is via precedential opinions, which Stewart likened to the "front-end mechanisms" the Director has available to influence decisions. Furthermore, Lamken's contention that the Director can't be held accountable if the Board is wrong is incorrect, said Stewart. "The losing party can always request the Director convene a new panel to grant rehearing and to put the Director himself on that

panel," said Stewart. While the other two members of the panel could still outvote him, they would still be bound by the front-end policies of the Director.

Finally, said Stewart, "a blanket rule that an officer is a principal officer if he or she can do anything that binds the United States without being subject to being countermanded by a Senate-confirmed officer" would simply be unworkable as a practical matter.