No. 20-408

In The
Supreme Court of the United States

FREDMAN BROS. FURNITURE COMPANY, INC.,

Petitioner,

v.

BEDGEAR, LLC,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

MEMORANDUM IN RESPONSE

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QUESTIONS PRESENTED

1. Whether, for purposes of the Appointments Clause, U.S. Const. Art. II, § 2, Cl. 2, 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, if administrative patent judges are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 U.S.C. § 7513(a) to those judges.

RULE 29.6 DISCLOSURE STATEMENT

Pursuant to this Court's Rule 29.6, Respondent Bedgear, LLC ("Bedgear") states that it has no parent corporation and that no publicly held company owns 10% or more of its stock.

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INTRODUCTION

The petition in this case consolidates two appeals from the Federal Circuit. Both appeals raised—and the decisions below turned on—issues decided in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019) ("*Arthrex*").[1] The Federal Circuit decided *Arthrex* while these cases were pending before it and subsequently vacated and remanded these cases in light of that decision. Petitioner in this case seeks a hold in light of *Arthrex*.

Respondent Bedgear, LLC ("Bedgear") submits that the Federal Circuit correctly decided in *Arthrex* that administrative patent judges are principal officers who the President must appoint with the advice and consent of the Senate. Because the administrative patent judges' appointments violated the Appointments Clause, the decisions they made were constitutionally infirm and require reconsideration by a new and constitutionally appointed panel. The Federal Circuit remedied the Appointments Clause defect it identified by severing certain problematic removal provisions in the statute as applied to administrative patent judges, thus rendering them removable at-will and, therefore, changing their status to inferior officers, rather than principal ones.

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[1] The United States petitioned for writ of certiorari in *Arthrex*, *see* Supreme Court No. 19-1434 and the related cases, *see* Supreme Court Nos. 19-1458 and 1452. The Court granted review of two questions presented by those petitions on October 13, 2020.

The Court has granted review of the Federal Circuit's decision in *Arthrex*. However the Court decides the merits of the Appointments Clause questions it is considering, because these cases raised similar challenges to the constitutional validity of administrative patent judges, it would be appropriate for the Court to hold this petition pending the Court's disposition of *Arthrex*.

STATEMENT

1. In the proceedings below, Petitioner raised four challenges to patents held by Bedgear. Three of the challenges attacked patents for novel structures for pillows, including a cover made of two panels and a gusset joining them (Patent Nos. 8,646,134; 8,887,332; and 9,015,883) (the "Gusset Patents"). In three separate written decisions, the Board held that the challenged claims of these three patents were unpatentable. *See* Pet.App.63a-305a.

Patent No. 9,155,408 (the "Cover Patent"), which patented a unique outer pillow cover for protecting and cooling pillows, was the subject of the other challenge and proceeded separately. The Patent Trial and Appeal Board ("Board"), through three administrative patent judges, invalidated the Cover Patent because, the Board held, the challenged claim was unpatentable. *See* Pet.App.16a-62a.

2. Bedgear timely appealed each of the Board's decisions to the Federal Circuit. The three appeals

related to the Gusset Patents were consolidated (Federal Circuit Case Nos. 18-2082, 18-2083, and 18-2084). The appeal related to the Cover Patent proceeded separately (Federal Circuit Case No. 18-2170). In both appeals, Bedgear argued that the Board's decisions had to be vacated because they were made by unconstitutionally appointed administrative patent judges—the same Appointments Clause challenge raised in the then-pending *Arthrex* appeal.

3. While the two appeals were still pending below, the Federal Circuit issued its decision in *Arthrex*. In *Arthrex*, the Federal Circuit held that "[administrative patent judges] are principal officers" for purposes of the Appointments Clause because there is no "presidentially-appointed officer who can review, vacate, or correct decisions by the [administrative patent judges]," and because they are subject to "limited removal power[.]" *Arthrex*, 941 F.3d at 1335. The statute under which administrative patent judges are appointed precluded both the Director of the U.S. Patent and Trademark Office ("USPTO") and the President from exercising sufficient "control and supervision of the [administrative patent judges]" to render them inferior officers. *Id.*; *see also Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 484 (2010).

If administrative patent judges are principal officers, they must be appointed by the President with advice and consent of the Senate. *See* U.S. Const. art. II, § 2, cl. 2; *Edmond v. United States*, 520 U.S. 651, 659 (1997); *see also Arthrex*, 941 F.3d at 1327. But administrative patent judges "are appointed by the Secretary

of Commerce, in consultation with the Director of the USPTO." *Arthrex*, 941 F.3d at 1327. Despite this appointment power, the Secretary and Director possessed only limited authority to *remove* administrative patent judges. *See id.* at 1333. "Specifically, [administrative patent judges] may be removed 'only for such cause as will promote the efficiency of the service.'" *Id.* (quoting 5 U.S.C. § 7513(a)).

To cure the Appointments Clause defect, the Federal Circuit severed application of the removal provisions in 5 U.S.C. § 7513(a) such that they no longer applied to administrative patent judges. *Arthrex*, 941 F.3d at 1338 ("[W]e hold unconstitutional the statutory removal provisions as applied to [administrative patent judges], and sever that application.").

Ultimately, "[b]ecause the Board's decision in [*Arthrex*] was made by a panel of [administrative patent judges] that were not constitutionally appointed at the time the decision was rendered, [the Court] vacate[d] and remand[ed] the Board's decision without reaching the merits." *Id.* at 1338-39. The Federal Circuit instructed that, on remand, "a new panel of [administrative patent judges] must be designated and a new hearing granted." *Id.* at 1340.

Because a number of other pending appeals raised similar Appointments Clause challenges (and in reliance on this Court's admonition in *Lucia* that "Appointments Clause remedies are designed not only to advance those purposes directly, but also to create incentives to raise Appointments Clause challenges,"

Lucia v. S.E.C., 138 S. Ct. 2044, 2055 n.5 (2018) (alterations omitted)), the Federal Circuit held that application of its decision in *Arthrex* extended to all "cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." *Arthrex*, 941 F.3d at 1340.

4. These cases fit that mold. While appealing the Board decisions to the Federal Circuit below, Bedgear raised Appointments Clause challenges to those decisions. Consequently, the Federal Circuit issued a short per curiam opinion vacating and remanding the decisions underlying the Gusset Patents in light of *Arthrex*. Pet.App.2a-3a. The Federal Circuit also vacated and remanded the decision regarding the Cover Patent on the same basis. Pet.App.306a-307a.

5. On September 25, 2020, in a consolidated petition seeking review of both Federal Circuit decisions, Fredman Bros. petitioned for certiorari and asked the Court to hold the petition pending disposition of *Arthrex*. This petition raises only one question, namely, whether the appointment of administrative patent judges violates the Constitution.

On October 13, 2020, the Court granted the *Arthrex* petition (and related petitions). The Court specifically granted review of two questions, indicating the Court will consider both the underlying constitutional merits question—whether administrative patent judges' appointments violate the Constitution—and the remedy question—if administrative patent judges' appointments violate the Constitution, should that harm be

redressed by severing the removal provisions in the statute to render administrative patent judges inferior officers.[2]

Separately, the United States sought review of 39 additional decisions of the Federal Circuit "involv[ing] identical or closely related questions." *See* Pet. for Writ of Certiorari, No. 19-1431 at 11. The United States intervened in all of those cases, and many of those petitions remain pending. This is not one of those cases. While the United States originally intervened in the decisions below, it subsequently withdrew.

ARGUMENT

This case presents both Appointments Clause questions on which this Court granted review in *Arthrex*. Because the Court intends to review these questions, and because *Arthrex* was the basis for the decisions below in this case, Bedgear agrees that the Court should hold this petition pending resolution of *Arthrex*.

[2] The Court did not grant review of a third question presented by the petitions, namely, whether the Federal Circuit erred in adjudicating an Appointments Clause challenge raised in the first instance before the court of appeals.

I. This Petition Raises The Same Questions On Which The Court Granted Review In *Arthrex*.

On October 13, 2020, the Court granted the petition for certiorari in *Arthrex*, limited to review of two questions as presented by the United States. *See* Supreme Court Docket No. 19-1434. The questions the Court will review in *Arthrex* are:

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, if administrative patent judges are principal officers, the court of appeals properly cured any Appointments Clause defect in the current statutory scheme prospectively by severing the application of 5 U.S.C. § 7513(a) to those judges.

See July 22, 2020 Mem. for the United States, Supreme Court Docket No. 19-1452.

The cases underlying this petition implicate both of these questions. With respect to the Gusset Patent appeals, the Federal Circuit vacated and remanded the decisions underlying these appeals because "[i]n its opening brief, Bedgear . . . argue[d] that the three final written decisions at issue in this appeal exceed the scope of the Patent Trial and Appeal Board's authority

and violate the Constitution's Appointments Clause." *See* Pet.App.3a. Because, the decision explains, the Federal Circuit "recently decided this issue in *Arthrex*," vacatur and remand was appropriate. *See id.*

Likewise, the Federal Circuit vacated and remanded the Board's decision in the Cover Patent appeal based on *Arthrex*. As the operative order notes, Bedgear "raised an Appointments Clause challenge in its opening brief," and, "[i]n view of [the] court's decision in *Arthrex*," the underlying Patent and Trial Appeal Board decision "is vacated and the case is remanded to the Board for proceedings consistent with [the] court's decisions in *Arthrex*." Pet.App.306a-307a.

The Gusset Patent appeals implicate the remedy question—Question 2 on which the Court granted review in *Arthrex*—with special force. Judge Dyk concurred in the judgment to vacate and remand the Gusset Patent appeals (because "the panel here is bound to follow *Arthrex*," Pet.App.4a), but he wrote separately to opine, at length, on why, in his view, *Arthrex* decided the remedy question incorrectly.[3]

Judge Dyk's separate concurrence would give retroactive effect to *Arthrex*'s holding on the merits that the removal provisions in the statute must be severed to render the statute constitutional. *See* Pet.App.6a-9a. In other words, Judge Dyk believes that the *Arthrex* court should have read the statute "as though PTAB judges had always been constitutionally appointed,

[3] Judge Newman joined Judge Dyk's concurrence. *See* Pet.App.4a.

'disregarding' the unconstitutional removal provisions." Pet.App.9a (quoting *Marbury v. Madison*, 1 Cranch 137, 178, 2 L.Ed. 60 (1803)). In light of this sleight-of-hand judicial fix, Judge Dyk claimed, no new hearings were required because administrative patent judges had always been constitutionally appointed (never subject to the unconstitutional removal provisions), and the *Arthrex* court's holding that required the remedy of new hearings was in error. *See* Pet.App.12a-13a.

This separate writing by Judge Dyk, and his particular focus on the remedy question, underscores that these appeals directly implicate *Arthrex*.[4] In light of that, the Court should treat these cases the same way it is treating other appeals implicating that decision (by holding the petition pending review of *Arthrex*).

In short, the Federal Circuit plainly viewed the cases presented by this petition as falling within the ambit of *Arthrex*'s admonition that that decision applied to "cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal." *Arthrex*, 941 F.3d at 1340. This Court should do likewise and hold this petition pending resolution of the merits in *Arthrex*.

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[4] In respondent's view, Judge Dyk's take on the remedy for a structural constitutional harm is inconsistent with this Court's precedents and basic fairness. *See infra* pp. 15-16. That, however, is a merits question that the Court will confront in *Arthrex*.

II. The Court Should Affirm The Federal Circuit's Decision In *Arthrex*.

Arthrex correctly holds that administrative patent judges are principal officers whose appointment should have been made by the President with the advice and consent of the Senate. Because they were not, administrative patent judges' appointments violated that constitutional requirement—a harm that *Arthrex* remedied by severing the removal provisions that otherwise applied to them, thus rendering them inferior officers.

1. The Appointments Clause mandates that "Officers of the United States" must be appointed by the President with advice and consent of the Senate, while "inferior Officers" need not be. *See* U.S. Const. art. II, § 2, cl. 2. This Court has held that the term "Officer of the United States" (*viz.*, a principal officer) encompasses "any appointee exercising significant authority pursuant to the laws of the United States." *Buckley v. Valeo*, 424 U.S. 1, 126 (1976).

The Court has laid down certain guideposts to evaluate whether an appointee is a principal or an inferior officer. Among those, the Court asks whether the appointee "occup[ies] a continuing position established by law," rather than an "occasional or temporary" post. *See Lucia v. S.E.C.*, 138 S. Ct. 2044, 2051 (2018). Where the appointee's authority is "established by Law . . . and the duties, salary, and means of appointment for that office are specified by statute," the position aligns with the requirements for a principal officer. *See*

Freytag v. Comm'r, 501 U.S. 868, 881 (1991); *Lucia*, 138 S. Ct. at 2052 (The appointees "serve on an ongoing, rather than a temporary or episodic basis; and their duties, salary, and means of appointment are all specified in the Tax Code." (alterations omitted)).

Applying this factor to administrative patent judges leads to the conclusion they are principal officers. Federal statute defines the "duties" of an administrative patent judge. *See* 35 U.S.C. § 6(b) (The Board shall "review adverse decisions of examiners upon applications for patents;" "review appeals of reexaminations;" "conduct derivation proceedings;" "conduct inter partes reviews and post-grant reviews[.]"). They also hold a continuing office. *See* 35 U.S.C. § 6(a).

Next, the Court considers "the extent of power an individual wields in carrying out his assigned functions." *Lucia*, 138 S. Ct. at 2051. An appointee who exercises "significant discretion when carrying out . . . important functions" is likely acting as a principal officer. *See id.* at 2053 (citations omitted).[5] In *Lucia* and *Freytag*, the appointees were principal officers in part because "[b]oth sets of officials have all the authority needed to ensure fair and orderly adversarial

[5] Some members of the Court define principal officers without reference to the significance of the power they wield. *See Lucia*, 138 S. Ct. at 2056 (THOMAS, J., concurring) ("The Founders likely understood the term 'Officers of the United States' to encompass all federal civil officials who perform an ongoing, statutory duty—no matter how important or significant the duty."). Under this originialist definition, administrative patent judges remain principal officers, because they "perform a continuous public duty" set by statute. *Id*.

hearings—indeed, nearly all the tools of federal trial judges." *Lucia*, 138 S. Ct. at 2053; *Freytag*, 501 U.S. at 878. Control is a key indicator of the degree of power an appointee wields: Because the Appointments Clause is "designed to preserve political accountability relative to important Government assignments," the question "[w]hether one is an 'inferior' officer depends on whether he has a superior" who "directs and supervises" the appointee's work (and, thereby, exercises accountability and control over it). *Edmond*, 520 U.S. at 662-63. The power to remove an appointee at-will is "a powerful tool for control." *Id.* at 664.

Here again, application of this factor points to the conclusion that administrative patent judges are principal officers. "Like the special trial judges . . . in *Freytag* . . . and the SEC Administrative Law Judges in *Lucia*, . . . [administrative patent judges] exercise significant authority rendering them Officers of the United States." *Arthrex*, 941 F.3d at 1328. Moreover, administrative patent judges operate without political accountability or control from another principal officer. "The only two presidentially-appointed officers that provide direction to the USPTO are the Secretary of Commerce and the Director. Neither of those officers individually nor combined exercises sufficient direction and supervision over [administrative patent judges] to render them inferior officers." *Id.* at 1329. Further, administrative patent judges enjoy removal protection, and can be removed "only for such cause as

will promote the efficiency of the service." *See* 5 U.S.C. § 7513(a).[6]

2. After holding that administrative patent judges are principal officers whose appointment violated the constitution, the Federal Circuit cured the constitutional infirmity by demoting administrative patent judges to inferior officers, a feat the court accomplished by severing the removal provisions that applied to them (thus making them removable at-will by a politically accountable principal officer). In this roundabout way, the court cured the Appointments Clause violation it had identified. The updated removal provisions downgraded administrative patent judges to inferior officers and negated the requirement that the President appoint them with the Senate's advice and consent.

In the Federal Circuit's words, "we believe severing the restriction on removal of [administrative patent judges] renders them inferior rather than principal officers. Although the Director still does not have independent authority to review decisions rendered by [administrative patent judges], his provision of policy and regulation to guide the outcomes of those

[6] There is some disagreement among the parties in *Arthrex* over which statutory removal provision governs administrative patent judges—the "efficiency of service" provision in 5 U.S.C. § 7513(a) or the "good cause" provision in 5 U.S.C. § 7521(a). *See Arthrex*, 941 F.3d at 1333 n.4. The *Arthrex* court applied the lower "efficiency of service" standard advocated by the Government. If the heightened "good cause" standard applies, removal would be even more difficult (and the corresponding lack of political accountability and control greater).

decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions." *Arthrex*, 941 F.3d at 1338.

This Court has granted review on the remedy question, namely, whether the Federal Circuit properly cured the Appointments Clause defect when it severed the removal provisions in 5 U.S.C. § 7513(a) from application to administrative law judges. Whether its *method* was the right one (and whether the statute it severed was the applicable one, *see supra* note 6), the *outcome* the *Arthrex* court reached aligns with this Court's prior cases.

In *Lucia*, the Court held that the "relief [that] follows" from a successful Appointments Clause challenge "is a new 'hearing before a properly appointed' official." *Lucia*, 138 S.Ct. at 2055 (quoting *Ryder v. United States*, 515 U.S. 177, 183 (1995)). That "properly appointed official" must also be a *new* official, the Court held, because the prior appointee "cannot be expected to consider the matter as though he had not adjudicated it before[.]" *Id.*

The Federal Circuit's remedy tracks the result the Court ordered in *Lucia*. *Arthrex* held that, "on remand . . . a new panel of [administrative patent judges] must be designated and a new hearing granted." *Arthrex*, 941 F.3d at 1340. The extension of that same relief to other "cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal," *id*., is just a routine application of the long-standing principle "that an appellate court

must apply the law in effect at the time it renders its decision." *See Thorpe v. Hous. Auth. of City of Durham*, 393 U.S. 268, 281-82 (1969) (listing cases and noting that "Chief Justice Marshall explained the rule over 150 years ago" in *United States v. Schooner Peggy*, 1 Cranch 103, 110, 2 L.Ed. 49 (1801)); *see also Bradley v. Sch. Bd. of City of Richmond*, 416 U.S. 696, 711-16 (1974); *Women's Equity Action League v. Cavazos*, 906 F.2d 742, 751 n.14 (D.C. Cir. 1990) (Ginsburg, J.) ("When intervening legal authority makes clear that a prior decision bears qualification, that decision must yield. Law of the case cannot be substituted for the law of the land.") (quotation omitted).

Given the Court's language in *Lucia*—requiring a new hearing before a new judge to remedy a structural constitutional error in a prior hearing—Judge Dyk's concurrence in this case is wrong. Judge Dyk would remedy a structural constitutional error retroactively via judicial decree, rather than offering the party who suffered the constitutional harm—weathering a hearing before a panel that was appointed in violation of the Constitution—the relief of a new and constitutionally sufficient process. A federal court's holding that a hearing officer was unconstitutionally appointed amounts to a holding that the hearing itself occurred outside the protections that the Constitution ensures. That harm can be remedied only by a new hearing before a new and proper panel.

Indeed, even the dissenters in *Lucia*, who expressly disagreed on the remedy question, still seemed to agree that a new hearing would be required in that

case—they only quibbled with the idea that such a hearing had to be before a new judge, rather than the same one (after the constitutional appointment was remedied). *See Lucia*, 138 S. Ct. at 2064 (BREYER, J., dissenting) ("Separately, I also disagree with the majority's conclusion that the proper remedy in this case requires a hearing before a *different* administrative law judge. . . . I see no reason why [the same judge] could not rehear the case.") (emphasis in original).

The Federal Circuit fashioned a remedy that correctly required new hearings, before new administrative patent judges, to cure the defect of a prior hearing that suffered from structural constitutional infirmities. That outcome aligns with what this Court has required in remedying other Appointments Clause violations.

CONCLUSION

The petition for writ of certiorari should be held pending resolution of *Arthrex*. Because the Federal Circuit's decision in that case was correct on the merits and fashioned a remedy that sufficiently redressed the harm it identified, the Court should affirm that decision.

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