

Patents and debating their place in the US constitution

Another challenge to the propriety of the Patent Trial and Appeal Board (PTAB) – is the Federal Circuit’s *Arthrex* decision the beginning or the end of this new debate? **Emily Gabranski** and **Tim McAnulty** of Finnegan discuss the ramifications and how they are unravelling.

It appears that IP practitioners will increasingly have to engage with constitutional law. The German courts have recently rejected Germany’s ratification of the Unified Patent Court Agreement on constitutional – entirely procedural – grounds: the requisite majority was not obtained. The Federal Court has rejected, in *Arthrex*, decisions of the PTAB on *inter partes* review, the quasi opposition procedure in the USPTO, also on procedural grounds (the appointment process for Administrative Patent Judges only slightly more). The Editor understands that a similar challenge has been raised in the German courts to the EPC, and it is not clear whether this has been rejected together with the latest challenge to the UPC. One can see, following the UK’s departure from the EU or indeed under the emergency Covid legislation, whether Ministers have the powers they purport to exercise. Interesting times.¹

Last autumn, the Federal Circuit’s decision in *Arthrex, Inc. v Smith & Nephew, Inc.*,² caused another constitutional debate over the propriety of the Patent Trial and Appeal Board (PTAB). In one of the more divisive decisions in 2019, the Federal Circuit ruled that the Administrative Patent Judges (APJs) who hear PTAB challenges were improperly appointed. The holding opened a debate about both the court’s ruling and its remedy. And, as many readers may know, it caused a flurry of activity that is likely to continue for the foreseeable future.

All parties in *Arthrex* petitioned the court for rehearing: Smith & Nephew (challenger-appellee) disagreeing with the court’s ruling, *Arthrex* (patent owner-appellant) disagreeing with the court’s remedy, and the US Patent and Trademark Office (USPTO) (intervenor) defending the appointment of the APJs, and the propriety of the PTAB. Many practitioners thought the court would grant *en banc* review but, in a fractured decision, it denied the request.³ *Arthrex* filed a petition for certiorari in early April, and many practitioners believe there is a strong chance the Supreme Court will hear the case because it reaches a US constitutional question. A decision on whether to

hear the case may take several months. Meanwhile, *Arthrex* is affecting numerous other cases on appeal and before the PTAB. Here, we break down what has happened since *Arthrex* and provide some insight about what might lie ahead in the coming months.

Arthrex – decision and appeal

The *Arthrex* decision arose out of a constitutional challenge to the process for appointing APJs that sit on the PTAB. The USPTO is an administrative agency within the US Department of Commerce, with its powers and duties vested in the Director (currently Director Andrei Iancu).⁴ The PTAB is an administrative tribunal within the USPTO, with its authority vested in (currently over 200) APJs that sit on the PTAB. The USPTO Director is nominated by the President and confirmed by the Senate, while APJs are appointed by the Secretary of Commerce in consultation with the USPTO director.⁵

The Appointments Clause of the US Constitution requires the President to nominate, and the Senate to confirm, certain agency positions (“principal [o]fficer[s]”) but permits the appointment of other “inferior [o]fficers” without the advice and

consent of the Senate.⁶ Supreme Court precedent distinguishes principal officers from inferior officers, concluding that

“‘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.”⁷

Specifically, the Supreme Court in *Edmonds* emphasised three factors for distinguishing inferior officers from principal officers:

1. whether a Senate-confirmed official can review and reverse the officer’s decision;
2. the level of supervision that a Senate-confirmed official has over the officers; and
3. the Senate-confirmed official’s power to remove the officers.⁸

Officers determined to be principal officers that were not nominated by the President and confirmed by the Senate are improperly appointed (and lack authority).⁹

In *Arthrex*, the patentee appealed an *inter partes* review (IPR) decision (finding its claims unpatentable) and argued that the assigned APJs were not “inferior officers” under the Appointments Clause and, therefore, their appointment by the Secretary of Commerce was unconstitutional.¹⁰ The *Arthrex* panel concluded that “APJs exercise significant authority rendering them Officers of the United States.”¹¹ In view of this, the panel analysed the three *Edmonds* factors to determine if the APJs are principal or inferior officers and reached the following conclusions:

1. panels of APJs issue final decisions on behalf of the USPTO without the Director having the right to review them;
2. the Director exercises broad authority over APJs through issuance of procedures and regulations over the conduct of IPRs; and
3. the Director’s power to remove APJs is significantly limited by federal statute.¹²

Based on those findings, the panel agreed with *Arthrex*, concluding that the APJs were principal officers, and found their appointment by the Secretary of Commerce (without presidential nomination and Senate confirmation) violated the Appointments Clause of the US Constitution.¹³

In view of this conclusion, the panel weighed the proper remedy and concluded that APJs would be inferior officers under the *Edmonds* factors if the Director could remove them from office.¹⁴ The panel adopted the USPTO’s¹⁵ suggestion and struck down the statutory provision¹⁶ limiting the ability to remove APJs.¹⁷ With that correction in effect, the panel

considered the APJs inferior officers that were properly appointed and thus had competent authority to render final decisions in *inter partes* reviews.¹⁸ However, because the APJs had not been constitutionally appointed at the time they rendered the PTAB’s final written decision in the underlying IPR at issue in *Arthrex*, the Federal Circuit panel vacated that decision and remanded the case for a new hearing before a new panel of APJs.¹⁹ The government strongly objected to this course of action,²⁰ but the panel stated that it would be “limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal.”²¹

All of the parties sought rehearing.²² On 16 December 2019, *Arthrex*, Smith & Nephew, and the USPTO each filed a separate petition, and on 17 January 2020, filed responses. The parties’ arguments for rehearing generally related to two issues: whether the APJs were “principal officers” and (thus) unconstitutionally appointed and (if so) what is the proper remedy. Only Smith & Nephew and the USPTO sought review on the first issue; they separately argued that APJs are inferior officers and highlight evidence to support that argument. All three parties disagreed with the panel’s structured remedy. *Arthrex* argued that the entire statute governing *inter partes* review is unconstitutional and cannot be saved by severing the removal provisions for APJs, as the panel did.²³ Smith & Nephew argued that the appropriate remedy should be decided on by the full Federal Circuit.²⁴ And the USPTO contended that a remand for a new hearing by a new panel is not appropriate, and such a rule will amount to “a massive undertaking imposing significant costs” on the public and USPTO.²⁵

Before the court denied the en banc requests, some Federal Circuit judges took the opportunity to express their views of the *Arthrex* panel decision in other appeals.²⁶ In *Bedgear v Fredman Bros. Furniture*,²⁷ the panel vacated the PTAB’s decision and remanded for new hearing (like *Arthrex*), but Judge Dyk wrote a separate concurrence, which was joined by Judge Newman. He did not comment on the *Arthrex* panel’s ruling on constitutionality, but stated that the remedy of a new hearing before a new panel was not necessary.²⁸ Instead, Judge Dyk said the *Arthrex* panel’s ruling could just be made “retroactive so that the actions of APJs in the past were compliant with the constitution and the statute.”²⁹ In *Polaris Innovations Ltd. v Kingston Tech. Co.*,³⁰ Judge Hughes wrote a concurrence, joined by Judge Wallach, that directly addressed the *Arthrex* decision on constitutionality. In particular, Judge Hughes concluded that the USPTO Director’s power to direct and supervise the PTAB and APJs renders the APJs inferior officers.³¹ Judge Hughes also took issue with the *Arthrex* panel’s remedy and explained that he did not believe it “comports with congressional intent as evidenced by the employment practices provided to APJs and their predecessors for over 30 years.”³²

“ The *Arthrex* decision arose out of a constitutional challenge to the process for appointing Administrative Patent Judges that sit on the PTAB. ”

These opinions show how the court itself has differing views on the issues, which many thought increased the chances of en banc review. Even in denying en banc review, the court again expressed differing views. The original panel – Judges Moore, Reyna, and Chen – were joined by Judge O’Malley and concurred in the denial. They noted that “rehearing would only create unnecessary uncertainty and disruption” in view of the panel’s corrective measures and “subsequent decisions from [the] court [that] have limited the now constitutionally composed Board’s burden of addressing cases on remand.”³³ Judge O’Malley, joined by judges Moore and Reyna, wrote separately to note disagreement with views from the dissent regarding whether the panel’s decision should be retroactive to any pending appeal.³⁴ Judges Dyk, Newman, Wallach, and Hughes dissented. Judge Dyk, joined by Judges Newman and Wallach, generally took issue with the corrective measure – severing the removal protections for APJs – that the original panel implemented.³⁵ Judge Hughes, joined by Judge Wallach, wrote separately explaining that “in light of the Director’s significant control” over the Board, “APJs are inferior officers.”³⁶

What has happened since *Arthrex* and how is it affecting other IPRs?

Unlike other constitutional challenges, which may be individualised to the parties that raised the challenge or result in a case-specific remedy after additional briefing and fact-finding, the remedy under *Arthrex* was automatic. And when the Federal Circuit applies *Arthrex* to similarly situated appeals, the result is remand and new hearing before the PTAB.³⁷ Most of the contested motions since *Arthrex* have addressed whether *Arthrex* can be applied in a given case, or if the moving party has waived or forfeited its Appointments Clause challenge.

Since October 2019, Federal Circuit panels have generally vacated and remanded appeals for rehearing before the PTAB

(like *Arthrex*) when patent owners raised an Appointments Clause challenge in their opening brief. For example, in *Bedgear v Fredman Bros. Furniture*,³⁸ Bedgear specifically argued that the PTAB’s final written decisions violated the Constitution’s Appointments Clause.³⁹ When the *Arthrex* panel decision issued, the *Bedgear* panel had already heard oral argument, but had not yet rendered a written opinion. The panel vacated the PTAB decision and remanded for rehearing *sua sponte*.⁴⁰ Similarly, the panels in *Image Processing Tech LLC v Samsung Elec Co*⁴¹ and *Uniloc 2017 v Facebook*⁴² vacated and remanded for rehearing *sua sponte* before oral argument, because each patent owner raised an Appointments Clause challenge in their opening briefs.

In several cases, parties have also successfully moved to vacate and remand an IPR decision based on *Arthrex* before filing an opening brief.⁴³ For example, in *Concert Pharm. v Incyte*, Concert filed a motion to remand raising an Appointments Clause challenge shortly after the *Arthrex* decision and before filing its opening appeal brief.⁴⁴ The USPTO intervened and filed a response to the motion, requesting that the court wait to rule on Concert’s remand motion until the court decided the pending en banc requests in *Arthrex* and follow-on cases.⁴⁵ Despite the USPTO’s suggestion, the panel granted Concert’s motion and remanded.⁴⁶

The court, however, is not remanding and ordering new hearings in all appeals. For example, several panels have indicated that *Arthrex* relief is not available if the appellant did not raise an Appointments Clause challenge in its principal briefing. For example, within days of the *Arthrex* decision, a panel issued a *per curiam* decision in *Customedia Techs. v Dish Network*,⁴⁷ denying a motion to vacate and remand the PTAB’s decision under *Arthrex*. That motion was filed after the patent owner filed its opening brief and the panel held that challenge was waived. It explained that Federal Circuit “law is well established that arguments not raised in the opening brief are waived,” and “Customedia did not raise any semblance of an Appointments Clause challenge in its opening brief.”⁴⁸ Therefore, the panel concluded that Customedia forfeited its opportunity to request and receive the relief granted in *Arthrex*.

The court also had the opportunity to consider the same issue in *Sanofi-Aventis Deutschland GMBH v Mylan Pharmaceuticals Inc.*⁴⁹ and *Duke University v Biomarin Pharmaceutical*.⁵⁰ In both cases the panels denied *Arthrex* relief and the full court denied rehearing en banc. In *Sanofi-Aventis*, briefing was complete and Sanofi had already argued its appeal when *Arthrex* was decided, when it requested supplemental briefing on the effect of *Arthrex*. A split panel denied Sanofi’s request, with Judge Newman dissenting.⁵¹ Sanofi requested rehearing en banc, arguing that the circumstances warranted an exception to the waiver rule. In particular, it noted that Federal Circuit’s precedents “excuse waiver when a party promptly raises an issue following a significant change of law.”⁵² In *Duke*, the panel had already issued its decision when *Arthrex* was decided.⁵³

Duke requested rehearing and similarly argued that waiver should not apply.⁵⁴ Both panels disagreed and the Supreme Court denied Sanofi's request to stay the Federal Circuit's mandate pending a petition for certiorari. And both cases, including the en banc denials, reinforce the conclusion in *Customedia*: relief under *Arthrex* is only available to parties that raised a constitutional challenge in its principal brief.⁵⁵

In addition, at least one panel has further limited the availability of relief under *Arthrex* to exclude appeals brought by IPR petitioners.⁵⁶ In *Ciena v Oyster Optics*, the IPR petitioner (Ciena) was unsuccessful before the PTAB and on appeal moved to vacate the PTAB's decision and remand for rehearing as in *Arthrex*.⁵⁷ The Federal Circuit panel⁵⁸ denied the request, explaining that "unlike the patent owner in *Arthrex*, Ciena sought out the Board's adjudication, knew or at least should have known of this structural defect, and was content to have the assigned Board judges adjudicate its invalidity challenges until the Board ruled against it."⁵⁹ Because Ciena had specifically requested that the challenged patents be adjudicated by the PTAB rather than in the district court,⁶⁰ and only raised the constitutional challenge when the PTAB ruled against it, the panel found that Ciena forfeited its Appointments Clause challenge.⁶¹

As the *Arthrex* appeal and other follow-on cases proceed, there are some open questions facing petitioners and patent owners, both on appeal before the Federal Circuit and even before the PTAB. First, it is unclear how the *Arthrex* remands will proceed when returned to the PTAB – questions remain about the scope of any additional briefing, the timing of a new hearing, the makeup of a new panel, and the scope of a new decision. And precise relief may not come very soon.

On 1 May, the Chief Administrative Patent Judge issued a general order holding all cases remanded in view of *Arthrex* in "administrative abeyance until the Supreme Court acts on a petition for certiorari or the time for filing petitions expires."⁶² Presumably, this Order will hold any case that is remanded in

view of the panel decision in *Arthrex* until all opportunities for additional relief in all affected cases (either by an en banc Federal Circuit or by the Supreme Court) expire. Adding additional uncertainty is the timing for a decision on remand after the abeyance is lifted. Unlike original petitions, there is no statutory period for the PTAB to issue a decision on remand. Another question that may be addressed is whether a patentee-appellant must raise an Appointments Clause challenge before the PTAB to preserve the issue for appeal? The *Arthrex* panel found that the issue was "properly and timely raised" for the first time on appeal, but the USPTO has repeatedly argued that an Appointments Clause challenge, like *Arthrex* raised, is forfeited on appeal if it was not raised before the PTAB. And a related question is the effect of the corrective measure in the original *Arthrex* panel decision and whether there are constitutionality issues with Board decisions that issue after *Arthrex*. These issues may not be finally resolved until the main constitutional challenges raised in *Arthrex* itself are finally resolved.

It is hard to predict if and how the full Federal Circuit of the Supreme Court will address these and other issues in subsequent appeals or resolve the overall Appointments Clause challenge. Moreover, it remains to be seen how far (and long) the *Arthrex* decision will impact USPTO practice and how should practitioners adjust practice before the PTAB in both current and new cases. And there are some suggestions that it could have an even broader reach than expected. For example, the Federal Circuit has been asked to consider the applicability of *Arthrex* beyond IPR final decisions to IPR institution decisions⁶³ and PTAB decisions in *ex parte* examination.⁶⁴ Stay tuned as we continue to monitor developments in these and other cases. D

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Provider: OxFirst – free webinar **Date:** 23 June

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(FD1, FD2, FD4) see page 49

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Revision courses for the PEB's Final Diploma papers

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Basic Litigation Skills Course

Provider: CPD Training **Date:** 21-25 September 2020

Booster course: EQE "Pass paper C"

Provider: CEIPI **Date:** 26-27 October 2020

Notes and references

- 1 Editor's note
- 2 941 F.3d 1320 (Fed. Cir. 2019).
- 3 953 F.3d 760 (Fed. Cir. 2020).
- 4 See 35 U.S.C. § 3.
- 5 See 35 U.S.C. §§ 3, 6.
- 6 US Const. art. II, § 2, cl. 2.
- 7 *Edmond v United States*, 520 US 651, 662-63 (1997).
- 8 *Id.* at 664-65.
- 9 *Intercollegiate Broad. Sys. v Copyright Royalty Bd.*, 684 F.3d 1332, 1340 (D.C. Cir. 2012).
- 10 *Arthrex*, 941 F.3d at 1327.
- 11 *Id.* at 1328.
- 12 *Id.* at 1328-34.
- 13 *Id.* at 1335.
- 14 *Id.* at 1338.
- 15 The United States government through the USPTO is an intervenor in the appeal.
- 16 Under 5 U.S.C. § 7513(a), an APJ could only be removed "for such cause as will promote the efficiency of the service," which requires a nexus between the misconduct of the work of the agency. The statute also provides procedural requirements, including 30 days' advanced written notice of removal, an opportunity to respond to that notice, and representation by an attorney. *Id.* at 1333.
- 17 *Id.* at 1338.
- 18 *Id.*
- 19 *Id.* at 1340.
- 20 *Id.*, 941 F.3d at 1339.
- 21 *Id.*, 941 F.3d at 1340.
- 22 Appellant's Combined Petition for Rehearing and/or Rehearing En Banc at 4, *Arthrex v Smith & Nephew*, No. 2018-2140 (Fed. Cir. Dec. 16, 2019); Appellees' Petition for Rehearing En Banc at 3, *Arthrex v Smith & Nephew*, No. 2018-2140 (Fed. Cir. Dec. 16, 2019); United States Petition for Rehearing En Banc at 2, *Arthrex v Smith & Nephew*, No. 2018-2140 (Fed. Cir. Dec. 16, 2019)
- 23 Appellant's Combined Petition for Rehearing and/or Rehearing En Banc at 4, *Arthrex v Smith & Nephew*, No. 2018-2140 (Fed. Cir. Dec. 16, 2019).
- 24 Appellees' Petition for Rehearing En Banc at 4, *Arthrex v Smith & Nephew*, No. 2018-2140 (Fed. Cir. Dec. 16, 2019)
- 25 *Id.* at 16.
- 26 *Arthrex* was decided by Judges Moore, Reyna, and Chen.
- 27 783 Fed. Appx. 1029 (Fed. Cir. Nov. 7, 2019)
- 28 *Id.* at 1030.
- 29 *Id.* at 1030.
- 30 No. 2018-1831, 2020 US App. LEXIS 3019, at *2-3 (Fed. Cir. Jan. 31, 2020)
- 31 *Id.* at *4-5.
- 32 *Id.* at *18.
- 33 953 F.3d at 762.
- 34 *Id.* at 766-767.
- 35 *Id.* at 770.
- 36 *Id.* at 781.
- 37 See, e.g., *Bedgear v Fredman Bros. Furniture* 783 Fed. Appx. 1029 (Fed. Cir. Nov. 7, 2019)
- 38 *Id.*
- 39 *Id.* at 1030.
- 40 *Id.*
- 41 No. 18-2156 (Fed. Cir. Dec. 5, 2019)
- 42 No. 2018-2251, ECF No. 45 (Fed. Cir. Oct. 31, 2019)
- 43 See, e.g., *Document Sec. Sys., Inc v Seoul Semiconductor Co., Ltd.*, No. 19-2430, ECF No. 24 (Fed. Cir. Feb. 3, 2020); *Concert Pharm., Inc. v Incyte Corp.*, No. 19-2011, ECF No. 39 (Fed. Cir. Jan. 24, 2020).
- 44 *Concert Pharm., Inc. v Incyte Corp.*, No. 19-2011, ECF No. 24 (Fed. Cir. Nov. 12, 2019)
- 45 *Concert Pharm., Inc. v Incyte Corp.*, No. 19-2011, ECF No. 35, at 2-3 (Fed. Cir. Dec. 26, 2019)
- 46 *Concert Pharm., Inc. v Incyte Corp.*, No. 19-2011, ECF No. 39 (Fed. Cir. Jan. 24, 2020).
- 47 941 F.3d 1174 (Fed. Cir. Nov. 1, 2019)
- 48 *Id.* at 1175.
- 49 See *Sanofi-Aventis Deutschland GMBH v Mylan Pharm. Inc.*, No. 2019-1368, ECF No. 69 (PTAB Jan. 28, 2020).
- 50 No. 2018-1696, ECF No. 63 (Fed. Cir. Feb. 3, 2020).
- 51 In her dissent, Judge Newman agreed with Sanofi, citing Supreme Court precedent that "when the law changes while a case is on appeal, the changed law applies." *Sanofi-Aventis Deutschland GMBH v Mylan Pharm. Inc.*, No. 2019-1368, 2019 US App. LEXIS 34328, at *34 (Fed. Cir. Nov. 19, 2019).
- 52 See *Sanofi-Aventis Deutschland GMBH v Mylan Pharms. Inc.*, No. 2019-1368, ECF No. 63, at 2 (PTAB Dec. 19, 2019).
- 53 Appellant's Petition for Rehearing En Banc, No. 2018-1696 (Fed. Cir. Dec. 11, 2019).
- 54 *Id.*
- 55 See *Sanofi-Aventis Deutschland GMBH v Mylan Pharm. Inc.*, No. 2019-1368, ECF No. 69 (PTAB Jan. 28, 2020)
- 56 *Ciena Corp. v Oyster Optics, LLC*, No. 2019-2117, ECF No. 31 (Fed. Cir. Jan. 28, 2020).
- 57 No. 2019-2117, ECF No. 19 (Fed. Cir. Nov. 21, 2019). Ciena moved to vacate the IPR decision before filing its Opening Brief in the appeal, so there was no waiver of an Appointments Clause challenge as in *Customedia. Id.*
- 58 The assigned panel was Judges Moore, O'Malley, and Stoll.
- 59 No. 2019-2117, ECF No. 31, at 2 (Fed. Cir. Jan. 28, 2020).
- 60 *Id.* (explaining that after Oyster sued Ciena in district court for infringing the challenged patents, Ciena filed petitions for IPR on the patents, and moved for a stay in the district court litigation, which was granted).
- 61 *Id.* citing *Customedia*, 941 F.3d at 1173 (Appointments Clause challenges are not jurisdictional and subject to the rules of forfeiture).
- 62 General Order in Cases Remanded Under *Arthrex, Inc. v. smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019) (P.T.A.B., May 1, 2020).
- 63 *United Fire Prot. Corp. v Engineered Corrosion Sols., LLC*, No. 2020-1272, ECF No. 16 (Fed. Cir. Jan. 9, 2020).
- 64 *In re Boloro Global Ltd.*, No. 19-2349, ECF No. 15 (Fed. Cir. Jan. 2, 2020).