

What Does the Future Hold for IPRs After Arthrex?

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The Supreme Court will hear oral argument on March 1, regarding the constitutionality of the *inter partes* review (IPR) system. The Court's decision, which will likely issue this summer, could have far-reaching consequences for both current and future participants in patent cases.

In October 2019, in *Arthrex v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), the U.S. Court of Appeals for the Federal Circuit concluded that the statutory scheme appointing Patent Trial and Appeal Board (PTAB) administrative patent judges (APJs) violates the appointments clause of the U.S. Constitution. APJs at the PTAB render decisions on the patentability of issued patents, particularly through the commonly used adversarial IPR process. The Federal Circuit held that the APJs are "principal officers," reasoning that "[t]he lack of any presidentially-appointed officer who can review, vacate, or correct decisions by the APJs combined with limited removal power lead us to conclude ... that these are principal officers." *Arthrex*, 941 F.3d at 1335. "As such, they must be appointed by the President and confirmed by the Senate; because they are not, the current structure of the Board violates the Appointments Clause." *Id.*

As a remedy, the Federal Circuit concluded that a "partial invalidation of the statutory limitations on the removal of APJs" was the narrowest and most appropriate action. *Id.* at 1338. In other words, the director of the Patent and Trademark Office (PTO) was allowed to remove APJs without cause. This, the Federal Circuit stated, "renders [APJs] inferior rather than principal officers." *Id.*

After the *en banc* Federal Circuit declined to hear the case, each of the parties involved — Arthrex, Inc. (Arthrex) and Smith & Nephew, Inc. (Smith & Nephew), along with the United States (Government) as intervenor — filed petitions for writs of certiorari to the Supreme Court. The petitions were granted and consolidated into a single proceeding. See *generally United States v. Arthrex*, No. 19-1434 (U.S. 2020). Specifically, the Court granted certiorari on the following questions:

- "Whether, for purpose 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."
- "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."

Id. (Oct. 13, 2020).[1]

Since its decision in *Arthrex*, the Federal Circuit has remanded more than 100 appeals of IPR decisions raising appointments clause challenges to the PTAB for further proceedings — that is, with a new panel of APJs subject to removal on the terms specified in *Arthrex*.^[2] The PTAB, in turn, issued a general order, holding all such remanded proceedings in abeyance pending a decision from the Supreme Court.^[3]

With oral argument approaching, the parties have staked out their positions clearly. The parties' briefs primarily address whether the APJs are principal or inferior officers. While this question is important, the more significant potential consequence to practitioners lies in what will become of the IPR process. Accordingly, this article focuses on the possible outcomes of the upcoming *Arthrex* decision, and the impact each could have on the IPR system.

The spectrum of potential *Arthrex* outcomes can be viewed as five separate categories of not only varying probability, but also widely divergent potential impacts.

1. Much Ado About Nothing: The Supreme Court Overturns the Federal Circuit's Decision

The first — and least consequential — possible outcome is a decision finding no appointments clause violation. Such a decision would have the Court find that the APJs are “inferior officers” and, therefore, would require no remedy. Without a constitutional violation and concomitant remedy, there would be no change to the current IPR system, other than a reversion to the prior ability to remove APJs. Appeals from the PTAB that were remanded and held in abeyance would simply return to the Federal Circuit for consideration on any other issues.

The Supreme Court only affirms Federal Circuit decisions approximately one-third of the time,^[4] so this outcome is certainly plausible.

2. Chaos Theory: The Supreme Court Finds There is No Constitutional Cure

At the opposite end of the spectrum, the Court could find that APJs are principal officers and that it cannot remedy, by severing or otherwise, the constitutional violation. This scenario would leave it to Congress to reconstruct the IPR statutory framework in a permissible manner.

Such a decision could have far-reaching impacts. For instance, the validity of **all** prior IPR decisions could be called into question. However, it is unlikely the Court would countenance such an extreme result. The Court generally favors finality, despite any subsequent changes in the law, to avoid just such a chaotic result.^[5] And the Court could provide such finality by finding that prior PTAB decisions were issued by “*de facto*” officers.^[6]

More likely, however, all nonfinal cases — including current IPR proceedings, those on appeal, and any others that are not closed and where the right to appeal has not been exhausted — could be vacated. Such a scenario would launch not only the IPR system, but also federal courts across the country into disarray. For instance, all district court cases stayed pending IPR would likely be reopened. This disorder would persist until Congress can pass legislation both reconstituting the IPR system and addressing the rights of prior IPR participants.

Of course, this doomsday scenario is unlikely. Pursuant to long-standing principles, the Court will seek to

immunize a statutory scheme from its constitutional defects to the greatest extent possible.^[7]

Between these poles lie two more potential Supreme Court decisions.

3. The Muddled Middle: The Supreme Court Affirms the Federal Circuit's Decision

Another possible outcome is that the Court simply upholds the Federal Circuit's decision — including its prescribed remedy to the constitutional violation. According to the Federal Circuit, this scenario would have limited effect. Because “Appointments Clause challenges are ‘nonjurisdictional structural constitutional objections’ that can be waived when not presented,” “the impact of this case [is] limited to those cases where final written decisions were issued and where litigants present an Appointments Clause challenge on appeal.” *Arthrex*, 941 F.3d at 1340 (citation omitted). Similarly, the Federal Circuit reasoned that the unconstitutionality of the appointment of APJs does not infect the PTAB's decisions to *institute* IPRs.^[8] Thus, the effect would likely be limited to similarly situated cases — IPRs where a final written decision issued before the Federal Circuit's *Arthrex* decision on October 31, 2019, and where a party did not waive a challenge to the appointments clause violation on appeal. The Federal Circuit has already remanded these cases to the PTAB, which would in turn issue decisions by a new panel of APJs.

4. The Great Unknown: The Supreme Court Affirms with a New Remedy

Finally, the Court could uphold the Federal Circuit's decision that APJs are principal officers, but substitute a different remedy for the constitutional violation. This scenario is difficult to predict, but *amici* have presented several options. For example, the Court could sever the language from 35 U.S.C. § 318(b), which would provide the director with discretion to review APJ panel decisions before they take effect; this option “allows any Board decision to be laid at the Director's feet.”^[9] Regardless of the remedy crafted by the Court, as with the third outcome above, this scenario would presumably permit remanded cases to proceed at the PTAB under the Court's prescribed scheme.

5. Moot the Court: Congressional Intervention

There is one other possibility that could avoid the Supreme Court altogether — congressional action before the Court rules. The Congressional Subcommittee on Courts, Intellectual Property, and the Internet held hearings on November 19, 2019 to discuss issues raised by the Federal Circuit's *Arthrex* decision. In theory, Congress could act to preemptively cure the constitutional violation, such as by giving the director discretion to review and reverse APJ decisions.^[10] Because Congress could make this correction retroactively, it could serve to moot the Supreme Court's consideration of the case. However, the Court is set to decide the case this summer, and Congress is primarily focused on the pandemic and economic relief. It thus appears more likely that Congress would react to the Court's decision than rush to preempt it.

^[1] The Court did not grant review of the failure to raise the appointments clause before the PTAB, which was raised by the Government. However, the Court granted certiorari in *Carr v. Saul*, No. 19-1442 and *Davis v. Saul*, No. 20-105, which directly address waiver of an appointments clause challenge.

[2] See, e.g., *Polaris Innovations Ltd. v. Kingston Tech. Co.*, 792 F. App'x 820 (Fed. Cir. 2020) (unpublished); *VirnetX Inc. v. Cisco Sys.*, No. 2019-1671, 2020 U.S. App. LEXIS 16698 (Fed. Cir. Jan. 24, 2020) (unpublished).

[3] See *General Order in Cases Remanded Under Arthrex Inc. v. Smith & Nephew Inc.*, 941 F.3d 1320 (Fed. Cir. 2019) (PTAB May 4, 2020).

[4] *JD Supra*, “How the Federal Circuit (and Its Judges) Fare at the Supreme Court,” <https://www.jdsupra.com/legalnews/how-the-federal-circuit-and-its-judges-53090/> (Oct. 1, 2020) (“Since October Term 2010, the Supreme Court affirmed 30.5% of the time when reviewing decisions of the various federal courts of appeals. In the 45 Federal Circuit decisions reviewed during the same period, the Supreme Court affirmed 31.1% of the time.”).

[5] See, e.g., *Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 758 (1995) (“New legal principles, even when applied retroactively, do not apply to cases already closed.”) (citation omitted).

[6] See, e.g., *Aurelius Inv., LLC v. Puerto Rico*, 915 F.3d 838, 862 (1st Cir. 2019) (“An ancient tool of equity, the *de facto* officer doctrine ‘confers validity upon acts performed by a person acting under the color of official title even though it is later discovered that the legality of that person’s appointment ... to office is deficient.’”) (quoting *Ryder v. United States*, 515 U.S. 177, 180 (1995)), *reversed on other grounds*, *Fin. Oversight & Mgmt. Bd. for P.R. v. Aurelius Inv., LLC*, 140 S. Ct. 1649 (2020).

[7] See, e.g., *Connolly v. Union Sewer Pipe Co.*, 184 U.S. 540, 565 (1902) (“The principles applicable to such a question are well settled by the adjudications of this court. If different sections of a statute are independent of each other, that which is unconstitutional may be disregarded, and valid sections may stand and be enforced.”); *Ayotte v. Planned Parenthood*, 546 U.S. 320, 328-29 (2006) (“Generally speaking, when confronting a constitutional flaw in a statute, we try to limit the solution to the problem. We prefer, for example, to enjoin only the unconstitutional applications of a statute while leaving other applications in force, or to sever its problematic portions while leaving the remainder intact.”) (citations omitted).

[8] *Id.* (“To be clear, on remand the decision to institute is not suspect; we see no constitutional infirmity in the institution decision as the statute clearly bestows such authority on the Director pursuant to 35 U.S.C. § 312.”).

[9] Brief of Unified Patents, LLC as *Amicus Curiae*, at 21-23, *Arthrex*, No. 19-1434 (U.S. Dec. 2, 2020).

[10] See, e.g., *Polaris Innovations Ltd. v. Kingston Tech. Co.*, 792 F. App'x 820, 831 (Fed. Cir. 2020) (unpublished) (Hughes, J., dissenting) (“For example, Congress might choose to: grant the Director unilateral review over all Board decisions; make the Chief PTAB Judge a presidential appointee and grant her review of all Board decisions; provide for review of Board decisions by a panel of three Presidential appointees at the USPTO (having created at least two such positions in addition to the Director); or provide for presidential appointment of all APJs.”).

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