

Inferiority complex

THE CASE:

Arthrex Inc v Smith & Nephew Inc

US Court of Appeals for the Federal Circuit

19 October 2019

Jonathan Link considers what's next for patents after a decision that APJs were improperly appointed

In October of 2019, a three-judge panel for the US Court of Appeals for the Federal Circuit ruled in *Arthrex v Smith & Nephew* that administrative patent judges (APJs) under the America Invents Act (AIA) were appointed unconstitutionally.¹ The panel struck down the protections for the APJs and remanded the decision back to the Patent Trial and Appeals Board (PTAB) at the US Patent and Trademark Office (USPTO) for a new proceeding before a different panel of APJs. With this potential upheaval hanging over patent owners and petitioners alike, all stakeholders need to consider what actions to take to best protect their interests.

The Arthrex decision

In finding that APJs were improperly appointed, the Federal Circuit specifically noted that the AIA protections required the APJs to be confirmed by the US Senate. To address this problem, the Federal Circuit panel struck down the protections to the APJs, thus allowing them to be removed at will by the patent director and reclassifying them as inferior officers.² The panel then remanded the *inter partes* reviews (IPR) back to a new set of APJs who would decide the issues under this new scheme.³ However, the remedy has left many concerned about what will happen next for patent owners and petitioners whose cases, whether before the PTAB or in district court litigation, are not yet final.

Dissatisfaction

No one was satisfied with the *Arthrex* decision, as all of the parties asked the entire Federal Circuit to reconsider this ruling. *Arthrex* argued that the independence and impartiality of the APJs were critical elements of the AIA such that it would not have been enacted without them. Thus, "striking the removal provisions would thus lead to a statute that Congress would have refused to adopt".⁴ Therefore,

Arthrex argued that the entire statute must be ruled unconstitutional.

Smith & Nephew, on the other hand, asked for a rehearing *en banc* because it argues that the APJs already were inferior officers. Specifically, the USPTO director controls, among other things, APJ assignments, whether to institute IPRs at all, and whether an instituted IPR proceeds to a final written decision.⁵ Therefore, *Smith & Nephew* argued that the full Federal Circuit should either confirm that APJs are inferior officers, or take up the issue of the proper solution if it agreed that APJs are principal officers.

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The USPTO, quite naturally, also argued that the *Arthrex* decision was incorrect, as the APJs were not principal officers and the panel ignored the director's authority to select and remove APJs. In doing so, the USPTO

argued that "the panel thus effectively read a constitutional problem into, rather than out of, the statute."⁶ Further, the USPTO argued that *Arthrex* waived its challenge under the Appointments Clause because it never presented it to the board. "Even were there some constitutional defect, *Arthrex's* failure to raise the issue earlier should have constrained the decision whether and how to vacate and remand."⁷

The USPTO's arguments also addressed the effect of the *Arthrex* decision on stakeholders. "If the panel's holding and remand rule hold sway, hundreds of PTAB decisions could be remanded for adjudication before new PTAB panels, a massive undertaking imposing significant costs on the public fisc and impeding the agency's ability to complete IPR proceedings promptly."⁸

What should stakeholders do?

The Federal Circuit recently rejected the parties' requests to review the *Arthrex* decision *en banc* to address these issues. With the *Arthrex* decision as binding precedent, other panels are required to send PTAB decisions back for new proceedings before different panels. This will result in the PTAB having to handle hundreds of these remanded proceedings on top of its normal docket of cases. In addition, parties will be required to expend additional time, effort and funds in relitigating proceedings before the PTAB. The panel in *Polaris Innovations Ltd v Kingston Technology Co Inc*, felt bound by the *Arthrex* ruling, and remanded the PTAB decision back to a new panel.⁹ This was over the strongly worded concurring opinion of Judge Hughes and joined by Judge Wallach that criticised the *Arthrex* decision as incorrect, but recognised that they were bound to apply it.¹⁰

In light of the arguments set forth in the requests for *en banc* hearing to the Federal Circuit, it seems very likely that one or more

of the parties will petition the Supreme Court of the US to hear the case. If granted, the Supreme Court would likely not issue a ruling until late this year or even early 2021. Even if the Supreme Court decides not to take the case, such a decision will not likely happen until this summer at the earliest. All of this is without even considering whether Congress, after seeing the ultimate legal ruling, might decide to pass new legislation regarding these issues.

While this process unfolds, both patent owners and petitioners need to prepare for this evolving situation. The first thing a patent owner should do is to include reference to the *Arthrex* decision and the legal arguments made in that case in any PTAB proceeding. At a minimum, this may prevent a PTAB panel from arguing that the patent owner waived the argument. If the PTAB proceeding is near the end, or a decision has been made and is up on appeal, the patent owner should argue that the *Arthrex* decision is a substantial change in the law that allows the patent owner to raise this defence later in the proceeding. It is not clear yet whether the PTAB and the Federal Circuit will agree, but patent owners will put themselves in a better position to make this argument if they add it immediately. Based on these arguments, the patent owner can request that the petition be remanded to a new panel of APJs for a new proceeding.

Patent owners should also look into ways to extend a PTAB proceeding. While there are not many tools to do this at the PTAB, a patent holder can fully litigate the patent during the PTAB proceeding, including pursuing an appeal on any adverse final PTAB decisions to the Federal Circuit. In the past, some patent holders have disclaimed certain challenged patent claims, thereby voiding them and ending the proceeding while still having some claims left in the challenged patent. Now, those patent holders should consider whether this strategy still makes sense. Extending the PTAB proceeding may allow a reset of the proceeding, or alternatively, even the possibility of having the entire PTAB post grant proceeding structure struck down if the Supreme Court decides to hear this case.

Patent owners may also want to extend any currently pending litigation involving the challenged patent. If a remand results in a patent being revived (or at least a new proceeding with a chance of the claims being upheld), the patent owner may now have a chance to enforce a patent that it previously could not. This may permit a patent owner to obtain additional findings of infringement and increase the opportunity for and amount of damages. If litigation has been stayed, the patent owner now has an argument that if a

remand is to occur, there is yet another delay that is unfair to the patent owner.

Petitioners

Petitioners have their own issues to consider. While patent owners are seeking to extend PTAB proceedings, petitioners face more uncertainty. It certainly seems likely that a successful petition at the PTAB that invalidated the patent claims would be successful again, even in front of a panel of different APJs. But there is no guarantee that the petitioner will obtain that result. If a petitioner views its arguments to be weak, or subject to reasonable debate, it may rightly conclude that another panel is not guaranteed to reach the same result as the initial panel.

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Further, there is a risk, even if small, that the Supreme Court will throw out the entire post-grant proceedings of the AIA. Therefore, any action that can move a proceeding to its conclusion should be considered. For example, a petitioner should consider whether to drop a cross-appeal on a PTAB decision, or waive oral argument, thereby attempting to speed the appeal along to a final judgment before the full Federal Circuit rules on *Arthrex*.

Petitioners also must consider options where the challenged patent is being asserted against it in district court. Again, options for bringing the litigation to a close should be carefully considered. If the litigation has concluded and a finding of invalidity has been affirmed on appeal, a petitioner might consider

foregoing attorney's fees (or withdrawing such a motion) to allow the final judgment to be entered. This would conclude the litigation before the patent owner has an opportunity to save the patent at the PTAB and thus move forward with infringement in district court litigation.

Finally, settlement options should also be considered by both patent owners and petitioners in light of this new uncertainty. With so many potential outcomes, even a party that is seemingly in control of a proceeding should consider whether locking-in some of that advantage through a settlement would be to its benefit.

Summary

Arthrex and its potential outcomes have unsettled a lot of patent owners and petitioners. With this uncertainty, stakeholders need to re-evaluate their current strategy and analyse potential outcomes. From this, they can determine what if any, changes need to be made to their strategies at the PTAB and in district court to better protect their interests.

Footnotes

1. *Arthrex v Smith & Nephew*, 941 F.3d 1320, 1335 (Fed Cir 2019).
2. *Id* at 1338.
3. *Id* at 1338-1339.
4. *Arthrex, Inc* petition for rehearing and/or rehearing en banc, CAFC 18-2140 (16 December 2019) at 3.
5. *Smith & Nephew, Inc, Arthrocare Corp*, petition for rehearing *en banc*, CAFC 18-2140 (16 December 2019) at 5-6.
6. *US* petition for rehearing *en banc*, CAFC 18-2140 (16 December 2019) at 3.
7. *Id*.
8. *Id* at 16.
9. *Polaris Innovations Ltd v Kingston Technology Co, Inc*, 792 Fed Appx 819 (Mem) (31 January 2020).
10. *Id*.

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