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PERSPECTIVES

UNCERTAINTY IN US PATENT CASES FOLLOWING THE ARTHREX DECISION

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On 31 October 2019, in *Arthrex, Inc. v. Smith & Nephew, Inc.* (2019), a panel of the Federal Circuit held that administrative patent judges (APJs) who serve on the Patent Trial & Appeal Board (PTAB) had been improperly serving as "principal officers" within the meaning of the US Constitution and thus struck down the Patent Act's removal protections in order to make the APJs removable at-will and cure the purported constitutional defect. Concluding that this remedy made the APJs inferior officers, the court then remanded the case for a new hearing before a new set of APJs who had not previously decided the case.

Contested issues and unanswered questions after *Arthrex*

In the six months since *Arthrex*, there has been tremendous uncertainty in numerous cases pending before the Federal Circuit, with different panels of the court taking different approaches, leaving litigants with many questions about how to proceed. One panel of the court requested supplemental briefing on the constitutional issues, some panels have remanded pending appeals to the board to be reheard by a new set of APJs, and other panels have stayed appeals pending resolution of the issues.

The full court is now considering *en banc* petitions from all three parties to *Arthrex*, as well as petitions in other cases decided in *Arthrex*'s wake. Those petitions have highlighted some of the questions that remain unanswered or hotly contested, including whether the *Arthrex* remedial cure is appropriate, when that remedy will take effect, and whether an appointments clause challenged must be raised before the PTAB to be raised on appeal. The answers to these questions have implications for both appeals at the Federal Circuit and PTAB proceedings.

First, panels of the court and parties have questioned whether the *Arthrex* remedial cure is appropriate. After requesting supplemental briefing on the issue in *Polaris Innovations Ltd. v. Kingston Tech. Co.*, judge Hughes, joined by judge Wallach, concurred in the decision to vacate in light of *Arthrex*, but questioned whether *Arthrex*'s remedy conflicted with congressional intent given that APJs had enjoyed removal protections for over three decades. In the same vein, litigants have argued in rehearing petitions that the *Arthrex* remedy still does not go far enough to cure the violation because Congress would not have enacted legislation where APJs are not independent. Judge Dyk, concurring in *Bedgear, LLC v. Fredman Bros. Furniture Co.* (2019), concluded that severing the unconstitutional removal provision, as *Arthrex*

did, retroactively cured any constitutional defect, and so any past opinions rendered by the PTAB should be reviewed on the merits, not vacated and remanded.

Second, there is a serious dispute about when the *Arthrex* remedy will take effect. Although the US government has taken the position that *Arthrex*

"Although the US government has taken the position that Arthrex cured any violation as of the time it issued, at least some judges on the Federal Circuit do not seem so sure."

cured any violation as of the time it issued, at least some judges on the Federal Circuit do not seem so sure. Remarking on the "host of problems in identifying the point in time when the appointments bec[o]me valid" under *Arthrex*, judge Dyk questioned when APJs become properly appointed inferior officers: "Is it when the panel issues the decision, when the mandate issues, when *en banc* review is denied, when certiorari is denied, or (if there is an *en banc* proceeding) when the *en banc* court affirms the panel, or (if the Supreme Court grants

review) when the Supreme Court affirms the court of appeals decision?".

The court has not yet resolved that question, but the Federal Rules of Appellate Procedure suggest that *Arthrex*'s remedy might not be effective until the mandate issues. If that is true, then all cases remanded to the PTAB before *Arthrex*'s mandate issues are potentially premature, and any new hearings held before *Arthrex*'s mandate issue would still be conducted by unconstitutionally appointed APJs.

Relatedly, there is a question whether *Arthrex*'s remedy applies "retroactively". Judge Dyk asserted in his *Bedgear* concurrence that, to be consistent with the Supreme Court, "the statute here must be read as though the PTAB judges had always been constitutionally appointed, 'disregarding' the unconstitutional removal provisions". Amici has flagged this issue as well, arguing that applying *Arthrex* prospectively only "would have devastating consequences for the agency, this court, and the integrity of the United States patent system".

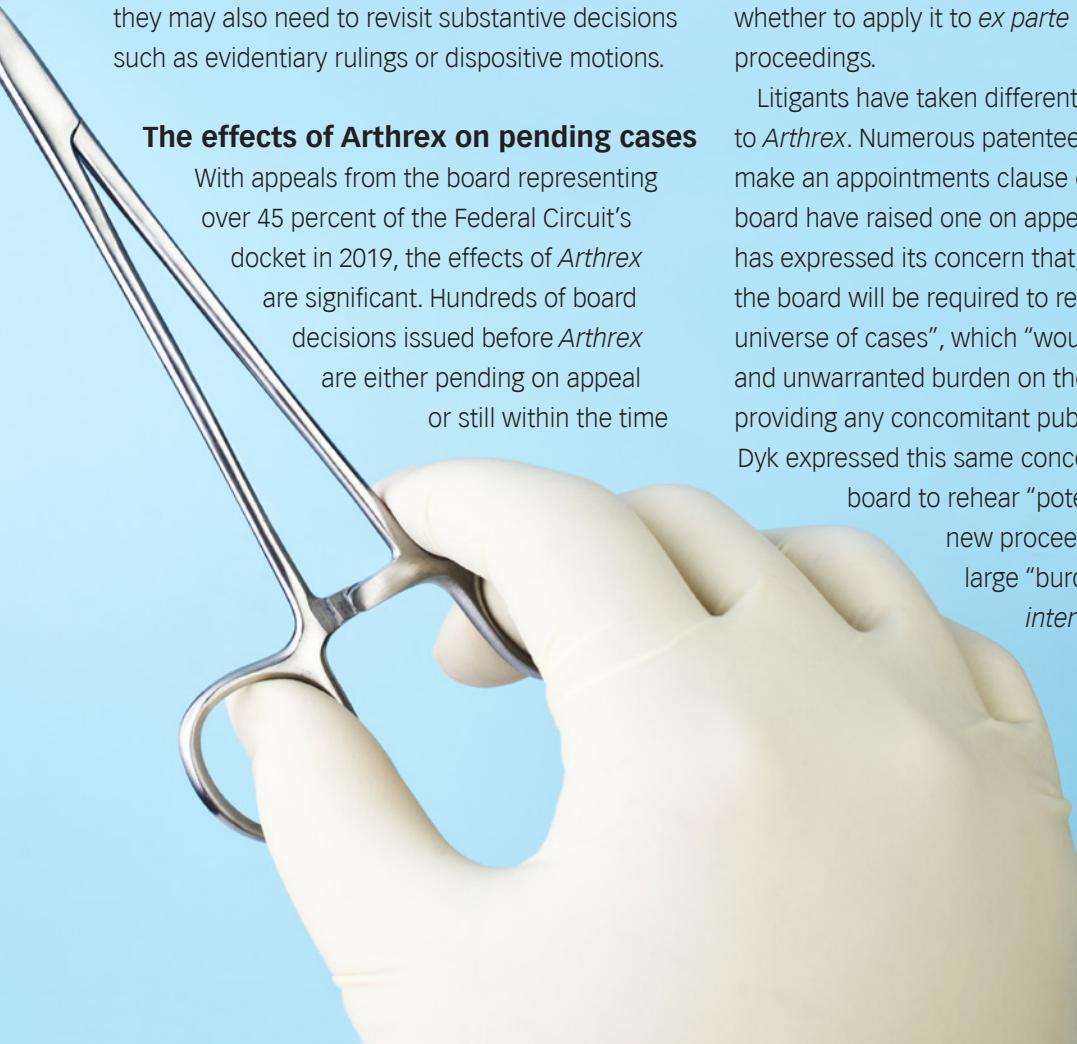
Third, the question remains when a party must raise an appointments clause challenge in order to be entitled to a remand. The day after *Arthrex* issued, the Federal Circuit said that a party must have raised the challenge at least by its opening brief on appeal in order for it to be preserved. Numerous parties have expressed disagreement with this view. In the government's view, a party could have and should

have raised the challenge to the agency in order to preserve it for appeal.

Other parties argue that *Arthrex* represents a significant change in the law, such that the constitutional challenge need not have been made prior to the court's decision and any waiver may be excused. If the Federal Circuit agrees that *Arthrex* represents a significant change in the law, then all cases – both pending PTAB appeals and final written decisions issued before *Arthrex* took effect – would be subject to a new hearing and decision by a new set of APJs. But at least some members of the Court do not view *Arthrex* as a significant change in law, and instead as an argument that can be forfeited.

Although not yet the focus of any rehearing petitions, other important questions remain. For one, should *Arthrex*'s holding apply to patentees and petitioners alike, or only to patentees who were forced to defend themselves before the board? For now, the Federal Circuit seems to view it as only applying to patentees. The court has only addressed the question in nonprecedential orders, denying motions by petitioners to vacate and remand, reasoning that petitioners could have pursued its invalidity arguments in district court but voluntarily consented to APJs hearing their petition.

Further, the scope of further proceedings on remand is unclear. *Arthrex* left it to "the board's sound discretion" to decide whether a given remand



should proceed on the already-developed record, or whether “additional briefing” or even “reopen[ing] the record” entirely is appropriate. Thus, although the new set of APJs must conduct a new hearing pursuant to *Arthrex*, it remains to be seen whether they may also need to revisit substantive decisions such as evidentiary rulings or dispositive motions.

The effects of *Arthrex* on pending cases

With appeals from the board representing over 45 percent of the Federal Circuit’s docket in 2019, the effects of *Arthrex* are significant. Hundreds of board decisions issued before *Arthrex* are either pending on appeal or still within the time

for appeal. And, the number of affected cases is even larger now that the Federal Circuit has begun applying *Arthrex* to vacate and remand not only *inter partes* review but also to CBM, *inter partes* reexamination proceedings, and is considering whether to apply it to *ex parte* reexamination proceedings.

Litigants have taken different tacks in response to *Arthrex*. Numerous patentees who failed to make an appointments clause challenge to the board have raised one on appeal. The government has expressed its concern that, if *Arthrex* stands, the board will be required to rehear a “large universe of cases”, which “would impose a major and unwarranted burden on the agency without providing any concomitant public benefit”. Judge Dyk expressed this same concern, that requiring the board to rehear “potentially hundreds of new proceedings” would impose large “burdens on the system of *inter partes review*”.

Despite these concerns, the court has already issued dozens of orders in connection with remand motions filed by appellants, many of whom did not raise a constitutional

challenge to the PTAB. In some cases, the patentee has moved for, and the *panel has granted, vacatur and remand based on Arthrex*. In other cases, the court has *sua sponte* cancelled oral argument and vacated and remanded to the board based on a party's having made an appointments clause challenge in its opening brief.

Some parties have moved to stay their case pending resolution of the rehearing petitions rather than asking the court to apply *Arthrex* now. Those parties generally argue that an immediate remand risks wasting resources because the full court may change some or all of *Arthrex*. The Federal Circuit granted some of these motions, putting those cases on hold, but has also granted remands in some cases. The PTAB, however, has not been open to motions to stay IPR pending resolution of issues created by *Arthrex*.

Other parties that disagree with *Arthrex* have opted to brief the constitutional issue, rather than ask for remand or stay. For example, the patentee in *Netlist, Inc. v. SK Hynix Inc.* argued that not only should the court vacate and remand the board's final

written decision, but that it should also order that the IPR be dismissed because *Arthrex*'s remedy does not save the statute.

Given the disagreement between some judges on the Federal Circuit, the government and private litigants, it is likely that these questions will remain the subjects of debate for several months to come and may ultimately have to be resolved by the Supreme Court of the United States. 



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