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PERSPECTIVE

Patent invalidity post-*Arthrex*: much ado about nothing?

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Following the U.S. Court of Appeals for the Federal Circuit's decision in *Arthrex, Inc. v. Smith & Nephew, Inc., et al.* on Oct. 31, significant attention has been paid to its potential impact on appeals of inter partes review decisions from the Patent Trial & Appeals Board. *Arthrex, Inc. v. Smith & Nephew, Inc. et al.*, 18-2140 (Fed. Cir. Oct. 31, 2019) IPRs became a very popular means of challenging the validity of patents after the America Invents Act created this mechanism in 2012. IPR proceedings are conducted before administrative patent judges who are appointed to the PTAB. In *Arthrex*, the Federal Circuit found a constitutional defect in the United States Patent and Trademark Office's appointment of APJs, finding that they are "principal officers" who must be appointed by the president and confirmed by the Senate under the appointments clause of the Constitution. The Federal Circuit also found that this constitutional defect could be remedied by the USPTO by eliminating removal protections of APJs, which would render them "inferior officers" and therefore, not subject to the constitutional requirements of the appointments clause.

While the USPTO devises a solution to the appointments clause issue, there remains the possibility of hundreds of cases being remanded and reheard before a new panel of APJs — placing a substantial burden on PTAB. The issue of determining which cases can present an appointments clause challenge is becoming clearer in light of two Federal Circuit decisions that follow closely on the heels of *Arthrex*. The first is *Customedia Technologies, LLC v. Dish Network Corp. Customedia Technologies, LLC v. Dish Network Corp.*, 18-2239 (Fed. Cir. Nov. 1, 2019). The second is *Bedgear, LLC v. Fredman Bros. Furniture Co. Inc. Bedgear, LLC v. Fredman Bros. Furniture Co., Inc.*, 18-2082 (Fed. Cir. Nov. 7, 2019).

In *Arthrex*, the Federal Circuit held that APJs were principal officers based primarily on three factors highlighted in *Edmond v. United States*. These *Edmond* factors, though not exclusive in

differentiating principal officers from inferior officers, involve the extent to which an appointed official has the power to review, supervise, and remove officers. While the Federal Circuit determined that the supervisory powers of the director of the USPTO supported a conclusion that APJs were inferior officers, it also found that the director's

power to review and remove officers lean more weight to the conclusion that APJs were principal officers. While other factors were briefly discussed, (such as the limits in officers' duties, jurisdiction), their impact on the decision that APJs were principal officers appeared to be minor.

Moreover, the Federal Circuit found several similarities between the case presented in *Arthrex* and that of *Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, 684 F.3d 1332 (2012). In *Intercollegiate*, the position of copyright royalty judges was found to violate the appointments clause, as CRJs were deemed to be principal officers. This was due, at least in part, to the finality of their decisions and their lack of removability by the librarian of Congress. Thus, as the Federal Circuit sought a remedy to the violation of the appointments clause in *Arthrex*, it determined that the narrowest approach mirrored that of *Intercollegiate*. This resulted in the Federal Circuit holding the statutory limitations of APJ removal unconstitutional, and severing that restriction to establish APJs as inferior officers.

Though the Federal Circuit contemplated other remedies and found that severing the restriction would be the least disruptive, there are potential issues with this decision. For example, it could put pressure on APJs and reduce morale if the director is urged to remove certain judges. But an alternative remedy to the lack of supervision of the director over officers would

potentially take longer to come into effect, such as Congress granting the director a clear supervisory role that could involve final review and ability to overrule of any written decision. A quick and limited solution is thus desirable in reducing the workload of the PTAB in the aftermath of *Arthrex*, and the remedy put forth by the Federal

Circuit in *Arthrex* achieves this goal.

In this vein, the Federal Circuit saw "the impact of [*Arthrex*] as limited to those cases where final written decisions were issued and where litigants present an appointments clause challenge on appeal" *Arthrex*, 18-1240 at 29*. Already, several litigants have argued on appeal that APJs violate the appointments clause, though the timing of these challenges has determined their effectiveness. For instance, *Customedia* concluded that the appointments clause challenge was waived because it was not included in the opening brief. In contrast, in *Bedgear*, the appellant included an appointments clause challenge in its opening brief, with the Federal Circuit vacating and remanding the case to the PTAB as consistent with the *Arthrex* decision. In both *Customedia* and *Bedgear*, the appellant was the patent owner in a case where the final written decision had rendered at least some of the challenged claims unpatentable.

The question of whether presenting an appointments clause challenge is an appropriate approach may depend on possible future actions of the parties in *Arthrex*. For instance, if an en banc rehearing is requested in *Arthrex*, cases that have been remanded on appeal with a successful appointments clause challenge are likely to be delayed until *Arthrex* appeals are complete. An appeal of the *Arthrex* decision to the Supreme Court is another possibility, and one that would also cause uncertainty and delays in pending remanded cases.

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agreed with the remedy to the appointments clause violation in *Arthrex*, and their position highlights the potential for an appeal's success. In *Bedgear*, circuit judges noted that new hearings are not necessary, as the *Arthrex* decision should have been retroactive. This view, if found favorable upon appeal, would significantly diminish PTAB workload as previous APJs would have acted properly in decided cases.

It appears that there is currently a subset of cases eligible to present an appointments clause challenge after appeal. These cases are those in which a final written decision has been entered prior to *Arthrex* and a party appeals to the Federal Circuit with the appointments clause challenge in its opening brief. The appellant may often be the patent owner, but can also be the petitioner in the original IPR. Thus, the impact of *Arthrex* should be limited to cases with a final written decision entered prior to *Arthrex* but are still appealable — a relatively narrow window. The USPTO is undoubtedly working on an administrative remedy to the constitutional issue raised by the Federal Circuit, while at the same time, seeking appellate review of the *Arthrex* decision.

The opinions expressed in this article are of the authors alone, and do not represent the views of others at Maynard Cooper & Gale or its clients.

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