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THINK FORWARD

Federal Circuit Denies En Banc Review in Arthrex, Inc. v. Smith & Nephew, Inc., et al.

By Brad Lane

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On March 23, 2020, the Federal Circuit denied appellant Arthrex Inc.'s ("Arthrex") petition for rehearing *en banc*. Accordingly, the original Federal Circuit panel decision of October 31, 2019, remains intact, which held that the appointment of Administrative Patent Judges ("APJs") to the Patent Trial and Appeal Board of the U.S. Patent and Trademark Office ("USPTO") – the Judges who hear *inter partes* review proceedings at the USPTO, among other proceedings – violated the Appointments Clause of the U.S. Constitution, Art. II, § 2, cl. 2. An earlier alert summarizing this panel decision can be found here.

To summarize briefly, the panel determined that to remedy the constitutional infirmity of the APJs as currently appointed by a mechanism that does not include appointment by the President of the United States and with the advice and consent of the Senate, the panel severed and invalidated a portion of the applicable statute that prevented APJs from being removed at will by the Secretary of Commerce. With this alteration of the statute, the panel determined APJs were inferior officers and their decisions could not thereafter be questioned on constitutional grounds under the Appointments Clause, and remanded the underlying action – an *inter partes review* of patent validity – back to the Patent Trial and Appeal Board.

Opinions Accompanying the Order Denying *En Banc* Rehearing

The Federal Circuit Order denying rehearing *en banc* was issued *per curiam*, in other words by the Court, and consequently, a majority of the Judges sitting on the Federal Circuit decided against rehearing the matter *en banc*. Nevertheless, it is noteworthy that the Order was accompanied by two concurring opinions and three dissenting opinions authored or joined by eight Judges, which is a majority of Federal Circuit Judges not of senior status. One concurrence, authored by Judge Moore, who was the author of the original panel decision and joined by Judges O'Malley, Reyna, and Chen, stated up-front that "[i]f Congress prefers an alternate solution to that adopted by this court, it is free to legislate." (Slip Op. at 2.) Judge Moore further stated that "in the meantime, the Board's APJs are constitutionally appointed and *inter partes* reviews may proceed." (*Id.*) She also noted the *Arthrex* panel decision followed Supreme Court precedent, and was consistent with other circuit courts' analyses of Appointment Clause questions. (*Id.* at 3.) In her view, the severance in the prior *Arthrex* decision did not cause any major disruptions to the USPTO *inter partes* review system, and no uncertainty remains as to constitutionality of APJ appointments. (Slip Op. at 7.) She also took issue with a proposal suggested in the dissent of Judge Dyk, addressed below, stating that a stay of all *inter partes* review proceedings so as to create a new agency framework for such proceedings would create a new separation of powers issue, distinct from the one that the panel decision had addressed, and therefore would be unacceptable. (Slip Op. at 8.) An additional concurrence, written by Judge O'Malley and joined by Judges Moore and Reyna, criticized the remedy proposed in the dissent of Judge Dyk,

and concluded that the dissent misapplied Supreme Court and appellate decisions in this area of constitutional law. (Slip Op. at 6.)

Four Judges dissented in denying rehearing of the *Arthrex* appeal *en* banc, namely Judges Dyk, Newman, Wallach, and Hughes. Judges Dyk, Hughes and Wallach each issued their own dissenting opinions. Citing numerous cases and legislative history, Judge Dyk concluded that APJs "have been afforded longstanding and continuous protection from removal" under the Patent Statute and that Congress should be afforded the opportunity to correct any Appointment Clause problems. (Slip Op. at 6.) Specifically, Judge Dyke explained that Supreme Court and circuit court precedent support a temporary stay to allow a legislative fix. (Slip Op. at 9.) Alternatively, Judge Dyk suggested that the USPTO could fix the issue itself. (Id.) His disagreement with the panel's *Arthrex* decision is summarized in two main points: (1) the panel's remedy invalidating the statutory removal protections for APJs is contrary to congressional intent and should not be invoked without giving Congress and the USPTO the opportunity to devise a less disruptive remedy; and (2) even if the *Arthrex* panel's remedy were adopted, there would be no need for a remand for a new hearing before a new panel because APJs will be retroactively properly appointed by the Secretary of Commerce and their prior decisions will not be rendered invalid. (Slip Op. at 23-24.) Judge Dyk's dissent was joined by Judges Newman and Wallach. Judge Hughes, also joined by Judge Wallach, viewed the *Arthrex* panel's decision as wrongly determining the threshold issue of a constitutional infirmity with the appointment of APJs, and in any event, the severance and invalidation of the APJs' employment protections was against clear congressional intent and therefore the panel's remedy was fundamentally flawed. Judge Wallach authored a further dissent underscoring his views that the panel overlooked key elements of the USPTO oversight of APJs that further justified his conclusion that the panel erred on the threshold issue of the constitutional infirmity of the appointment of APJs.

Key Takeaways

With denial of *en banc* rehearing by the full Federal Circuit, the *Arthrex* panel decision is now clearly the law in this area, unless and until the Supreme Court decides otherwise, or the statute is altered by federal legislation. Accordingly, future final written decisions in *inter partes* review proceedings rendered by the Patent Trial and Appeal Board, as currently constituted under the law set forth in the *Arthrex* panel decision, are not constitutionally infirm under the Appointments Clause of the U.S. Constitution.

As for the Supreme Court, and in view of the contrasting concurrences and dissents accompanying the *en banc* denial Order, it is likely that one or more of the litigants in *Arthrex* will seek Supreme Court review. But whether the Supreme Court will grant *certiorari* is an open question. If the Court does grant *certiorari*, the arguments will likely be centered around Supreme Court Appointments Clause jurisprudence and whether the remedy selected by the panel to address the constitutional infirmity was proper.

Because of the importance of this case to *inter partes* review proceedings, as well as others at the USPTO, we will continue to monitor this area and provide updates as further developments arise.