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CONTINUING QUESTIONS ON THE  
CONSTITUTIONALITY OF IPRs: THE ROLE  
OF PRECEDENT IN THE *ARTHREX V. SMITH &  
NEPHEW* DECISION AND THE ONGOING  
REMEDY DEBATES

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In *Arthrex, Inc. v. Smith & Nephew, Inc.*,<sup>1</sup> decided October 31, 2019, the Federal Circuit concluded that the statutory procedure for appointing Administrative Patent Judges (“APJs”) to the Patent Trial and Appeal Board (“PTAB”) violated the Appointments Clause.<sup>2</sup> The court found that APJs were in fact principal officers under the Appointments Clause because they had authority and discretion in agency proceedings with limited supervision. However, the APJs were not appointed by the President. To remedy the violation, the court severed a portion of the offending statute related to removal of the APJs. The court’s conclusion that APJs were principal officers can be explained from precedent describing PTAB proceedings as closer to agency enforcement actions than civil litigation, and the focus on the agency’s discretion and control over the proceedings. Ongoing litigation and legislative activity indicate that the court’s remedy may not be the final solution to the constitutionality problem.

On November 15, 2016, Smith & Nephew and Arthrocare Corporation petitioned for *inter partes* review (“IPR”) of various claims of U.S. Patent No. 9,179,907 (“the ’907 patent”), owned by Arthrex.<sup>3</sup> The ’907 patent relates to a knotless suture securing assembly, to be used to secure soft tissue to bone.<sup>4</sup> Arthrex had previously asserted the ’907 patent against Smith & Nephew and Arthrocare in district court litigation.<sup>5</sup> That litigation went to trial in December 2016, where a jury found that four of the patent claims challenged in the IPR were willfully infringed and were not invalid for anticipation.<sup>6</sup> The parties then entered a settlement agreement that included dismissal of all claims and counterclaims in the litigation with prejudice, but the agreement also provided for the concurrent IPR to continue.<sup>7</sup> In May 2018, the PTAB held that the claims of the ’907 patent were unpatentable as anticipated.<sup>8</sup> Arthrex then appealed the PTAB’s decision to the Federal Circuit. Among the arguments Arthrex made on appeal was that the PTAB did not have constitutional authority to issue its final written decision in the IPR because the APJs were improperly appointed.<sup>9</sup> Under the Patent Act,

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1. 941 F.3d 1320 (Fed. Cir. 2019).

2. U.S. CONST., art. II, § 2, cl. 2.

3. Petition for *Inter Partes* Review, *Smith & Nephew, Inc. v. Arthrex, Inc.*, No. IPR2017-00275, 2016 WL 9408797 (P.T.A.B. Nov. 15, 2016).

4. *Arthrex*, 941 F.3d at 1325; U.S. Patent No. 9,179,907 col. 1 ll. 43–46.

5. *Smith & Nephew, Inc. v. Arthrex, Inc.*, No. IPR2017-00275, 2018 WL 2084866, at \*1 (P.T.A.B. May 2, 2018) (describing the district court proceeding for *Arthrex, Inc. v. Smith & Nephew, Inc.*, Nos. 2:15-cv-01047 and 2:15-cv-01756, 2016 WL 4211504 (E.D. Tex. Aug. 10, 2016)).

6. *Smith & Nephew*, 2018 WL 2084866, at \*1. At trial, Arthrex was awarded \$17.4 million for the infringement of claims of the ’907 patent and a second patent. *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 2:15-CV-01047, 2017 WL 365239, at \*1 (E.D. Tex. Jan. 25, 2017).

7. *Smith & Nephew*, 2018 WL 2084866, at \*2.

8. *Id.* at 17–18; *Arthrex*, 941 F.3d at 1325.

9. Reply Brief for Appellant *Arthrex, Inc.* at 28–31, *Arthrex*, 941 F.3d 1320 (No. 2018-2140).

APJs are appointed by the Secretary of Commerce, in consultation with the Director of the Patent and Trademark Office (“PTO”).<sup>10</sup> *Arthrex* argued that APJs were in fact principal officers and thus required appointment instead by the President with the advice and consent of the Senate.<sup>11</sup>

Judge Moore wrote for the unanimous panel, which held that APJs were principal officers that required appointment by the President, not the Secretary of Commerce.<sup>12</sup> First, the court concluded that the APJs were officers and not employees because they “exercise[d] significant authority.”<sup>13</sup> In its analysis, the court focused on the “significant discretion” of the APJs in deciding IPRs and the litigation-like features of IPRs.<sup>14</sup> Second, the court analyzed whether APJs were principal officers, who are to be appointed by the President with the advice and consent of the Senate,<sup>15</sup> or inferior officers, whose work is to be directed and supervised by those appointed by the President with the advice and consent of the Senate.<sup>16</sup> To determine this, the court looked at the control and supervision appointed officials had over APJs in three areas emphasized by the Supreme Court in *Edmond v. United States*:<sup>17</sup> “(1) whether an appointed official has the power to review and reverse the officers’ decision; (2) the level of supervision and oversight an appointed official has over the officers; and (3) the appointed official’s power to remove the officers.”<sup>18</sup> The court concluded that the APJs were principal officers because neither the Director of the PTO nor the Secretary of Commerce exercised “sufficient direction and supervision over APJs.”<sup>19</sup> Important to the court was that the APJs issued final decisions in IPRs on behalf of the PTO and were not removable without cause.<sup>20</sup> Although the Director supervised APJs by issuing policies and procedures, this was not sufficient for the court to conclude that the APJs were inferior officers.<sup>21</sup> Because the APJs were not appointed by the President and confirmed by the Senate, as is required for principal

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10. 35 U.S.C. § 6(a) (2012).

11. Reply Brief for Appellant, *supra* note 9 at 28–31.

12. *Arthrex*, 941 F.3d at 1327.

13. *Id.* at 1328.

14. *Id.* (listing the APJs role in overseeing discovery, in applying Federal Rules of Evidence, hearing oral arguments, and in issuing final decisions with factual findings and legal conclusions).

15. U.S. Const., art. II, § 2, cl. 2. The word “principal” has been used to describe officers requiring appointment by the President, in contrast to the “inferior” officers that do not.

16. *Arthrex*, 941 F.3d at 1328 (citing *Edmond v. United States*, 520 U.S. 651, 662–63 (1997)).

17. 520 U.S. 651 (1997).

18. *Arthrex*, 941 F.3d at 1329 (citing *Edmond*, 520 U.S. at 664–65).

19. *Id.*

20. *Id.* at 1334.

21. *Id.* at 1332.

officers, the court concluded that the PTAB structure violated the Appointments Clause.<sup>22</sup>

Having decided that there was an Appointments Clause violation, the court then sought to remedy the constitutional problem by severing the removal restrictions on the APJs.<sup>23</sup> Under the Patent Act, APJs were subject to provisions of Title 5, which relate to federal employees.<sup>24</sup> According to the court, APJs could only be removed “for such cause as will promote the efficiency of the service,”<sup>25</sup> which the court has interpreted as requiring misconduct that “is likely to have an adverse impact on the agency’s performance of its functions.”<sup>26</sup> Following the approach taken by the Supreme Court in *Free Enterprise Fund v. Public Company Accounting Oversight Board*<sup>27</sup> and the D.C. Circuit in *Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*,<sup>28</sup> the Federal Circuit concluded that severing the removal restrictions, rendering the APJs inferior officers, would be the narrowest revision available.<sup>29</sup> The parties and the government as intervenor agreed that this approach was appropriate.<sup>30</sup> As a result of the severance, the court concluded that the APJs would then be classified as inferior officers because the Director would be able to guide APJs’ decisions by issuing policy and procedure, and the Secretary of Commerce would be able to remove APJs without cause.<sup>31</sup> The court concluded that this approach would also maintain Congress’s intent that APJs be inferior officers.<sup>32</sup>

The court limited the retroactive reach of its decision to those IPRs where final written decisions had already issued and Appointments Clause challenges were presented on appeal.<sup>33</sup> For the parties in *Arthrex*, the court vacated the decision and remanded for determination by a new panel of APJs with a new hearing.<sup>34</sup> The court concluded that there was no defect in the institution of the original IPR because the Director

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22. *Id.* at 1335.

23. *Id.* at 1337.

24. 35 U.S.C. § 3(c) (2012).

25. *Arthrex*, 941 F.3d at 1333 (quoting 5 U.S.C. § 7513(a) (2018)).

26. *Id.* (quoting *Brown v. Department of the Navy*, 229 F.3d 1356, 1358 (Fed. Cir. 2000)).

27. 561 U.S. 477 (2010).

28. 684 F.3d 1332 (2012).

29. *Arthrex*, 941 F.3d at 1337.

30. *Id.*

31. *Id.* at 1338.

32. *Id.* (“And we are convinced that Congress would preserve the statutory scheme it created for reviewing patent grants and that it intended for APJs to be inferior officers.”).

33. *Id.* at 1340.

34. *Id.*

had review power over institutions<sup>35</sup> and that the new panel could proceed on the existing IPR record.<sup>36</sup>

The court's finding in *Arthrex* that the APJs of the PTAB were principal officers was a likely conclusion given the precedent relying on the discretion and power of the officials in IPRs. The decision in *Arthrex* may have been inevitable, particularly after the court's decisions in *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals Inc.*<sup>37</sup> and *Regents of the University of Minnesota v. LSI Corp.*<sup>38</sup> These cases raised the issue of whether tribal sovereign immunity or state sovereign immunity could be asserted in an IPR. In *Saint Regis*, the court summarized Supreme Court decisions characterizing the IPR as a "hybrid proceeding," with features of both civil judicial proceedings and specialized agency proceedings.<sup>39</sup> But ultimately in both *St. Regis* and *LSI Corp.*, the court concluded that the proceeding was "more like an agency enforcement action than a civil suit brought by a private party" and that neither a tribe nor a state could assert sovereign immunity.<sup>40</sup> Key to the court's conclusion was the wide discretion and control the Director of the PTO and the PTAB have over the proceeding. First, the Director has discretion in deciding to institute the IPR.<sup>41</sup> Second, the PTAB can continue an IPR even after a petitioner drops out of the proceeding.<sup>42</sup> These procedural features were contrasted to civil litigation, in which parties have more control over the initiation and continuation of the case.<sup>43</sup>

Having focused on the discretion of the PTAB and the PTO Director in *Saint Regis* and *LSI Corp.*, the conclusion in *Arthrex* that the APJs were principal officers should not be surprising. Further supporting this view is that Judge Moore authored both *Arthrex* and *Saint Regis*, and both panels also included Judge Reyna.<sup>44</sup> The APJs have the authority to make decisions about property owned by sovereign entities where immunity cannot be raised. In justifying the abrogation of sovereign

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35. *Id.* (citing 35 U.S.C. § 314 (2012)).

36. *Id.*

37. 896 F.3d 1322 (Fed. Cir. 2018).

38. 926 F.3d 1327 (Fed. Cir. 2019).

39. *Saint Regis Mohawk Tribe v. Mylan Pharm. Inc.*, 896 F.3d 1322, 1326–27 (Fed. Cir. 2018) (summarizing *Oil States Energy Services v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018), which emphasized the government's role in IPRs, compared to *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018), which emphasized the ways IPRs mimic civil litigation).

40. *Saint Regis*, 896 F.3d at 1327; *Regents of the Univ. of Minn. v. LSI Corp.*, 926 F.3d 1327, 1339 (Fed. Cir. 2019).

41. *Saint Regis*, 896 F.3d at 1327; *LSI Corp.*, 926 F.3d at 1339.

42. *Saint Regis*, 896 F.3d at 1328; *LSI Corp.*, 926 F.3d at 1339.

43. *But see SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1355 (2018) ("Much as in the civil litigation system it mimics, in an inter partes review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.").

44. Judge Dyk authored the *LSI Corp.* decision and also sat on the panel for *Saint Regis*.

immunity, the court also relied on the political accountability of the PTO Director.<sup>45</sup> The requirement for increased federal political accountability over the actions of the APJs makes sense in this light.

A lingering question is if easing removal requirements is an appropriate remedy to truly hold the APJs politically accountable, given their discretionary power and ultimate decision-making ability. The *Arthrex* decision did not diminish the job responsibilities or authority of APJs. Nor did the decision add an extra layer of review over the APJs' decision-making.<sup>46</sup> Instead, the decision expanded the role of the Secretary of Commerce, who may now remove APJs without cause. For judges and justices with lifetime tenure, removal at will and without cause likely appears a "powerful tool for control of an inferior."<sup>47</sup> We could ask how much this "tool" affects the function of the over 200 APJs at the PTAB and how much more accountable they feel toward the President as a result.

Although the application of the *Arthrex* remedy has been limited so far, whether this is the appropriate remedy is still under debate at the Federal Circuit and in Congress. Since deciding *Arthrex*, the court has denied parties relief under a purported Appointments Clause violation when a party did not raise the issue in their opening brief,<sup>48</sup> a position with which not all judges agree.<sup>49</sup> In cases where parties did raise Appointments Clause challenges in their opening briefs, the court has vacated the initial IPR and remanded to the PTAB.<sup>50</sup> Based on initial activity, some have predicted that the number of cases impacted by the court's decision will be limited.<sup>51</sup> However, the remedy appears far

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45. *Saint Regis*, 896 F.3d at 1327 ("Therefore, if IPR proceeds on patents owned by a tribe, it is because a politically accountable, federal official has authorized the institution of that proceeding." (citing *Alden v. Maine*, 527 U.S. 706, 756 (1999))).

46. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320, 1338 (Fed. Cir. 2019) (stating that "the Director still does not have independent authority to review decisions rendered by APJs").

47. *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 510 (2010) (quoting *Edmond v. United States*, 520 U.S. 651, 664 (1997)).

48. *Customedia Techs., LLC v. Dish Network Corp.*, 941 F.3d 1173, 1174 (Fed. Cir. 2019); *Customedia Techs., LLC v. Dish Network Corp.*, 941 F.3d 1174, 1175 (Fed. Cir. 2019).

49. *See, e.g., Sanofi-Aventis Deutschland GMBH v. Mylan Pharm. Inc.*, No. 2019-1368, 2019 WL 6130471, at \*11 (Fed. Cir. Nov. 19, 2019) (Newman, J., dissenting) ("Sanofi is entitled to the same benefit of the *Arthrex* decision as are the *Arthrex* parties.").

50. *See, e.g., Uniloc 2017 LLC v. Facebook, Inc.*, No. 2018-2251, 2019 WL 5681316, at \*1 (Fed. Cir. Oct. 31, 2019); *Bedgear, LLC v. Fredman Bros. Furniture Co.*, No. 2018-2082, 2019 WL 5806893, at \*1 (Fed. Cir. Nov. 7, 2019).

51. IPWatchdog, *What's Next After Arthrex? Reactions Suggest Limited Immediate Effect, But Some Question Whether CAFC Fix Will Hold* (Nov. 3, 2019), <https://www.ipwatchdog.com/2019/11/03/whats-next-arthrex-reactions-suggest-limited-immediate-effect-question-whether-cafc-fix-will-hold/id=115570/>

(providing commentary for various sources on effects of *Arthrex*); John Dragseth, Rob Courtney, & DJ Healey, *Arthrex, Inc. v. Smith & Nephew, Inc.—What Did the Federal Circuit Do?*, FISH & RICHARDSON: LEGAL ALERT (Nov. 4, 2019), <https://www.fr.com/news/>

from settled. Federal Circuit Judge Dyk argued that the remedy was wrongly decided.<sup>52</sup> In an ongoing case also raising the Appointments Clause question, the Federal Circuit recently requested the parties submit supplemental briefing related to the Appointments Clause violation and remedies.<sup>53</sup> The parties in *Arthrex* and the Government also all requested *en banc* review of the decision.<sup>54</sup>

In addition to the ongoing appellate battles, a hearing on the recent Appointments Clause decisions was held in November before the House Judiciary Subcommittee on Courts, Intellectual Property and the Internet, indicating the potential for a legislative remedy.<sup>55</sup> Given the challenges faced by the Federal Circuit in *Arthrex* to tailor a narrow remedy that met Congress's intuited intent, a legislative change could offer a clearer and more immediate solution to patent holders and patent challengers. Several alternative remedies were proposed by the Subcommittee Chair, Representative Hank Johnson (D-GA).<sup>56</sup> A

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legal-alert-arthrex-v-smith-nephew-fed-cir/ (offering guidance and initial thoughts on who would be affected by *Arthrex*); Dion M. Bregman, Lindsey M. Shinn, Julie S. Goldemberg, & W. Scott Tester, *Administrative Patent Judges Are Safe for Now, but Will Scores of PTAB Decisions Get a Do-Over?*, MORGAN LEWIS: LAWFLASH (Nov. 26, 2019), <https://www.morganlewis.com/pubs/administrative-patent-judges-are-safe-for-now-but-will-scores-of-ptab-decisions-get-a-do-over> (summarizing the *Arthrex* decision and subsequent patterns of activity by the PTAB, the government, the Federal Circuit, and Congress).

52. *Bedgear, LLC v. Fredman Bros. Furniture Co.*, 783 F. App'x 1029, 1034 (Fed. Cir. 2019) (Dyk, J., concurring in the judgment) ("I respectfully suggest that *Arthrex* was wrongly decided on the issue of remedy. As a result of the *Arthrex* construction, APJs were properly appointed by the Secretary of Commerce and their prior decisions are not invalid.")

53. Order at 2, *Polaris Innovations Limited v. Kingston Technology Co. Inc.*, No. 18-01768 (Fed. Cir. Nov. 8, 2019).

54. For summaries of briefing and news related to the *en banc* review, see, e.g., Dani Kass, *Full Fed. Cir. Urged By All Sides To Rethink Arthrex*, LAW360 (Dec. 17, 2019), <https://www.law360.com/articles/1228904/full-fed-circ-urged-by-all-sides-to-rethink-arthrex>;

Eileen McDermott, *All Parties in Arthrex Want the Full Federal Circuit to Render a Better Decision*, IPWATCHDOG (Dec. 18, 2019), <https://www.ipwatchdog.com/2019/12/18/all-parties-in-arthrex-want-the-full-federal-circuit-to-render-a-better-decision/id=117276/>; Tiffany Hu, *USPTO Slams Arthrex Call To Strike Down IPRs At Fed. Cir.*, LAW360 (Jan. 17, 2020), <https://www.law360.com/articles/1235666/uspto-slams-arthrex-call-to-strike-down-iprs-at-fed-circ->; Ian Lopez, *Patent Office Doubles Down on Full Court Arthrex Review*, BLOOMBERG LAW NEWS (Jan. 21, 2020), <https://news.bloomberglaw.com/ip-law/patent-office-doubles-down-on-full-court-arthrex-review>.

55. *The Patent Trial and Appeal Board and the Appointments Clause: Implications of Recent Court Decisions: Hearing Before the Subcomm. On Courts, the Internet, and Intellectual Property of the H. Comm. On the Judiciary*, 116th Cong. (2019), <https://judiciary.house.gov/legislation/hearings/patent-trial-and-appeal-board-and-appointments-clause-implications-recent-court>.

56. Holly Fechner, Matthew Shpanka, & Eric Chung, *Congress Likely to Pursue Legislation in 2020 to Address the Constitutionality of Patent Trial and Appeal Board Judges*, COVINGTON & BURLING LLP: GLOBAL POLICY WATCH (Jan. 8, 2020), <https://www.globalpolicywatch.com/2020/01/congress-likely-to-pursue-legislation-in-2020-to-address-the-constitutionality-of-patent-trial-and-appeal-board-judges/> (summarizing the *Arthrex* decision and legislative subcommittee meeting, listing four alternative remedies proposed by Rep. Johnson).

legislative solution may also offer clearer job descriptions to APJs and their politically accountable superiors.