

Clients & Friends Memo

Federal Circuit to Examine the Constitutionality of Prior *Inter Partes* Review Invalidity Determinations in the Wake of *Arthrex*

November 26, 2019

On November 9, 2019, the United States Court of Appeals for the Federal Circuit ordered the parties in *Polaris Innovations Lt. v. Kingston Technology Company, Inc.* to provide supplemental briefing addressing the constitutional questions in the case, specifically the constitutionality of Administrative Patent Judges (“APJs”) in the Patent Trial and Appeal Board (“PTAB”). The court asked the following:

- **First**, “what level of supervision and review distinguish a principal from an inferior officer”;
- **Second**, “whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. §3(c) sufficiently remedies the alleged unconstitutional appointment at issue in these appeals”;
- **Third**, “whether, and how, the remedy for an Appointment Clause violation differs when it stems from an unconstitutional removal restriction, rather than an unconstitutional appointment itself”; and
- **Fourth**, “whether severing the application of Title 5’s removal restrictions with respect to APJs under 35 U.S.C. § 3(c) obviates the need to vacate and remand for a new hearing, given the Supreme Court’s holdings on the retroactive application of constitutional rulings.”

While *Polaris* deals expressly with the constitutionality of patentability decisions issued by the PTAB, the outcome will likely impact other administrative proceedings considering that both the SEC and PTAB have been found to be in constitutional violation when subjected to judicial scrutiny.

Arthrex Inc. v. Smith & Nephew Inc.

These questions are significant considering the U.S. Court of Appeals of the Federal Circuit recently ruled in *Arthrex Inc. v. Smith & Nephew Inc.*, 2019 WL 5616010 (Fed. Cir. 2019), that the current system to appoint APJs violated the Appointment Clause of the U.S. Constitution. The Court held that APJs were officers due to their “significant discretion,” oversight, and their “ability to issue final written decisions[.]” *Id.* at *9. The Court then held that the APJs were principal officers, and therefore fell under the Appointment Clause, because of the lack of supervision and review. Since APJs are not appointed by the President, this decision rendered all APJs unconstitutional.

The Court developed a remedy by severing the portion of the statute that provided APJs with certain employment protections, and held that this change would render APJs inferior officers and, therefore, would not require presidential appointment. *See Intercollegiate Broadcasting System, Inc. v. Copyright Royalty Board*, 684 F.3d 1332 (D.C. Cir. 2012); *Free Enterprise Fund v. Public Company Accounting Oversight Board*, 561 U.S. 477 (2010).

Polaris Innovations Lt. v. Kingston Technology Company, Inc.

In the present case, another panel of the Federal Circuit is poised to revisit *Arthrex* to explore the constitutional implications of its holding. Specifically, the Court's first and second questions directly relate to *Arthrex* and signal that the Court is carefully considering how its holding affects other cases. Affirming the holding and rationale of *Arthrex* would provide further certainty that newly issued PTAB decisions pass constitutional muster, but still may leave unanswered questions regarding the near-decade's worth of past PTAB decisions. However, any divergence from the reasoning of *Arthrex* may cast doubt on the *inter partes* review process, requiring resolution from the *en banc* Federal Circuit.

Also lurking in the background is the possibility of further review by the Supreme Court, which recently addressed the constitutionality of *inter partes* reviews in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018) and the constitutionality of administrative law judges in *Lucia v. S.E.C.*, 138 S. Ct. 2044 (2018). In *Oil States*, Justice Gorsuch filed a dissenting opinion, where he argued PTAB judges lacked independence and therefore were vulnerable to political sway. This opinion, though in dissent, combined with the argument that APJs lack oversight, may have an impact on the Federal Circuit's ruling.

Possible Ramifications

There are several possibilities that may occur if the *Polaris* court finds a constitutional violation. First, all unexpired patents invalidated by the PTAB could be reinstated. This is the most extreme outcome and likely would spawn numerous litigations, as well as uproar over the nullification of invalidity decisions that required significant monetary and time investments to obtain. Such an approach also would jeopardize the position of parties who relied in good faith on prior PTAB invalidity determinations when making business decisions. Second, the PTAB could appoint constitutional judges, who quickly review all past opinions. This result would be less drastic, as past decisions likely would be upheld. However, a mere rubberstamping of past opinions may raise constitutional concerns, particularly in view of *Oil States*. Alternatively, a fulsome re-litigation of all implicated PTAB decisions would be burdensome and costly. Third, Congress could pass new legislation that would allow review of prior APJs' decisions under a framework that attempts to avoid the constitutional concerns identified by the Supreme Court and Federal Circuit. While this solution would be the most definitive, it may not come quickly enough to resolve many pressing issues, and it would still be vulnerable to a constitutional challenge by dissatisfied parties.

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If you have any questions, please feel free to contact any of the following Cadwalader attorneys.

Danielle Tully	+1 212 504 6585	danielle.tully@cwt.com
Dorothy Auth	+1 212 504 6018	dorothy.auth@cwt.com
Michael Powell	+1 212 504 6246	michael.powell@cwt.com
Michael Sebba	+1 212 504 6523	michael.sebba@cwt.com
Jaclyn Hellreich	+1 212 504 6025	jaclyn.hellreich@cwt.com