

2018-2140

**United States Court of Appeals
for the Federal Circuit**

Arthrex, Inc.,
Appellant

v.

Smith & Nephew, Inc and ArthroCare Corp.,
Appellees

United States,
Intervenor.

**Appeal from the U.S. Patent & Trademark Office,
Patent Trial and Appeal Board, *Inter Partes* Review No. 2017-00275**

ARTHREX INC.'S SUPPLEMENTAL BRIEF

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October 29, 2019

CERTIFICATE OF INTEREST

Counsel for Appellant certifies the following:

1. The full name of every party represented by me is:

Arthrex, Inc.

2. The names of the real party in interest represented by me is:

Arthrex, Inc.

3. There are no parent corporations and any publicly held companies that own 10 percent of the stock of the parties represented by me.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this Court (and who have not or will not enter an appearance in this case) are:

Anthony P. Cho, David J. Gaskey, David L. Atallah, Jessica Zilberberg, and Timothy J. Murphy
Carlson, Gaskey & Olds, P.C.

5. The title and number of any case known to me to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

None.

Dated: October 29, 2019

/s/ Anthony P. Cho
Anthony P. Cho

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I. INTRODUCTION

If the Court concludes that there is an Appointments Clause violation but cures the constitutional infirmity by severing a portion of the Patent Act, the path forward is clear under *Lucia v. SEC*, 138 S. Ct. 2044 (2018). *Lucia* unequivocally prescribes the following remedy for a timely challenge to an adjudication “tainted with an appointments violation”: a new hearing before a new properly appointed judge. *Id.* at 2055.

The Supreme Court recognized that this remedy is appropriate to incentivize parties to raise Appointments Clause challenges. “[O]ur Appointments Clause remedies are designed not only to advance [constitutional structure] purposes directly, but also to create ‘[]incentive[s] to raise Appointments Clause challenges.’” *Id.* at 2055 n. 5; *see also Ryder v. United States*, 115 S. Ct. 2031, 2035 (1995). The Appointments Clause is not trivial. The Supreme Court characterized it as:

a bulwark against one branch aggrandizing its power at the expense of another branch, but it is more: it “preserves another aspect of the Constitution’s structural integrity by preventing the diffusion of the appointment power.”

Ryder, 115 S. Ct. at 2035 (quoting *Freytag v. Commissioner*, 111 S. Ct. 2631, 2638 (1991)).

Lucia determined that courts “best accomplish that goal by providing a successful litigant with *a hearing before a new judge.*” (emphasis added). *Lucia*,

138 S. Ct. at 2055 n. 5. Accordingly, this Court should vacate and remand this case for a new hearing before a new PTAB panel consistent with *Lucia*'s holding.

II. ARGUMENT

A. *Lucia* Requires a New Hearing Before a New Panel When an Appointments Clause Violation is Found

Lucia held that a new hearing was the appropriate remedy on virtually indistinguishable facts. In that case, the Securities and Exchange Commission (“SEC”) instituted an administrative proceeding against Raymond Lucia and his investment company. *Lucia*, 138 S. Ct. at 2049. On review, Lucia raised an Appointments Clause challenge, arguing that the administrative law judge who presided over his hearing was not constitutionally appointed. *Id.* at 2050.

The Supreme Court held that the Appointments Clause violation required a new hearing before a new officer. It explained: “[O]ne who makes a timely challenge to the constitutional validity of the appointment of an officer who adjudicates his case’ is entitled to relief.” *Id.* at 2055 (quoting *Ryder*, 115 S. Ct. at 2035). As explained in *Ryder*, “[a]ny other rule would create a disincentive to raise Appointments Clause challenges with respect to questionable judicial appointments.” *Ryder*, 115 S. Ct. at 2033. Accordingly, “the ‘appropriate’ remedy for an adjudication tainted with an appointments violation is a new ‘hearing before a properly appointed’ official.” *Lucia*, 138 S. Ct. at 2055.

The *Lucia* Court “add[ed] . . . one thing more”: a new official to decide the matter. *Id.* As it explained, “That official cannot be Judge Elliot, even if he has by now received (or receives sometime in the future) a constitutional appointment.” *Id.* “To cure the constitutional error, another ALJ (or the Commission itself) must hold the new hearing to which Lucia is entitled.” *Id.* The Court explained the compelling rationales supporting that requirement. “Judge Elliot has already both heard Lucia’s case and issued an initial decision on the merits. He cannot be expected to consider the matter as though he had not adjudicated it before.” *Id.* A new hearing before a new officer was thus necessary because “the old judge would have no reason to think he did anything wrong on the merits—and so could be expected to reach all the same judgments.” *Id.* at 2055 n.5. Moreover, the Court added that its “Appointments Clause remedies are designed... to create ‘[i]ncentive[s] to raise Appointments Clause challenges.’” *Id.* (quoting *Ryder*, 115 S. Ct. at 2035). “We best accomplish that goal by providing a successful litigant with a hearing before a new judge.” *Id.*

This case is no different. Just as in *Lucia*, Arthrex has raised a meritorious Appointments Clause challenge to the officers that adjudicated its case. And just as in *Lucia*, remanding the case for a hearing before the same judges would be a hollow remedy. Having already heard the case once, these same judges would have little reason to do anything but reiterate their previous decision. *Lucia*, 138 S. Ct. at 2055,

see also n. 5. Moreover, granting Arthrex a meaningful remedy on remand provides an appropriate incentive for Appointments Clause challenges.

Accordingly, should the Court conclude that there was an Appointments Clause violation and fix the constitutional infirmity by severing a portion of the Patent Act, *Lucia* prescribes the remedy to be a new hearing before a different panel of correctly appointed PTAB judges.¹

B. Arthrex’s Appointments Clause Challenge Is Timely Within the Meaning of *Lucia*

The Government may argue that this case is distinguishable from *Lucia* because Arthrex did not make its Appointments Clause challenge before the Board itself. To be sure, *Lucia* held only that “‘one who makes a *timely* challenge to the constitutional validity of the appointment of an officer who adjudicates his case’ is entitled to relief.” *Lucia*, 138 S. Ct. at 2055 (quoting *Ryder*, 115 S. Ct. at 2035) (emphasis added). But Arthrex’s challenge *was* timely—and certainly no less timely than the challenge in *Lucia*.

¹Justice Breyer noted in dissent that, in some cases, the improperly appointed official may be the only official, such that no substitute would be available to hear the case on remand. *Lucia*, 138 S. Ct. at 2064 (Breyer, J., dissenting). However, here, many other PTAB judges are available to hear this case on remand, if they become properly appointed. That was the case in *Lucia*, as even Justice Breyer recognized. *Id.* at 2055 n. 5.

Arthrex raised its Appointments Clause challenge at the first stage where it could obtain relief. It would have been futile for Arthrex to raise the challenge before the PTAB because the PTAB lacked authority to grant any relief. “An administrative agency may not invalidate the statute from which it derives its existence and that it is charged with implementing.” *Jones Bros., Inc. v. Sec’y of Labor*, 898 F.3d 669, 673 (6th Cir. 2018) (citing *Mathews v. Diaz*, 426 U.S. 67, 76 (1976); *Weinberger v. Salfi*, 422 U.S. 749, 765 (1975); *Johnson v. Robison*, 415 U.S. 361, 368 (1974); *PUC v. United States*, 355 U.S. 534, 539-40 (1958)). The PTAB itself has declined to examine this issue in other cases. *See Samsung Elecs. Am., Inc. v. Uniloc*, 2017 LLC, No. IPR2018-01653, 2019 WL 343814, at *2 (P.T.A.B. Jan. 25, 2019) (declining to consider constitutional challenge to appointments because “administrative agencies do not have jurisdiction to decide the constitutionality of congressional enactments” and “[t]his is especially true when, as here, the constitutional claim asks the agency to act contrary to its statutory charter”) (internal citations and quotation marks omitted); *see also Intel Corp. v VLSI Tech. LLC*, No. IPR2018-01107, 2019 PAT. APP. LEXIS 4893, at *26-27 (P.T.A.B. Feb. 12, 2019); *Unified Patents Inc. v. MOAEC Techs., LLC*, No. IPR2018-01758, 2019 WL 1752807, at *9 (P.T.A.B. Apr. 17, 2019).

Courts do not fault “a petitioner for failing to raise a facial constitutional challenge in front of an administrative body that could not entertain it.” *Jones Bros.*, 898 F.3d at 674 (citing *McCarthy v. Madigan*, 503 U.S. 140, 147-48, (1992)); see also *Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 130 S. Ct. 3138, 3151 (2010) (permitting Appointments Clause challenge in district court where no such challenge was raised before the SEC in part because constitutional challenges were outside the Commission’s competence and expertise).

That is the case here. PTAB judges have the power of principal officers, yet the statutory scheme provides for appointment of those same PTAB judges as if they were inferior officers. Neither the PTAB judges nor the Patent Office has authority to remedy that defect by holding any provisions of their enabling statute unconstitutional. Arthrex thus lacked the ability to obtain any relief on this claim before the PTAB. That fact distinguishes this case from *DBC*, where the petitioner *could* obtain relief before the agency. See *In re DBC*, 545 F.3d 1373, 1379 (Fed. Cir. 2008) (“If DBC had timely raised this issue before the Board, the Board could have evaluated and corrected the alleged constitutional infirmity by providing DBC with a panel of administrative patent judges appointed by the Secretary.”).

Arthrex is situated no differently from the petitioner in *Lucia*. Lucia did not raise his Appointments Clause challenge before the administrative law judge who

presided over his case. Instead, he raised the challenge for the first time on review of the ALJ's decision before the Commission. *See Lucia*, 138 S. Ct. at 2055. That was the first stage at which Lucia could have obtained any relief on his claim because the Commission (as opposed to the ALJ) could have elected to preside over Lucia's hearing itself. *Id.*; *see also* n.6. The Supreme Court did not deem Lucia's challenge untimely merely because Lucia had not made a futile argument before the ALJ.

Likewise here, Arthrex raised its challenge at the first stage at which it could obtain relief. Unlike in *Lucia*, there was no intermediate administrative appeal from the Board's decision—indeed, the fact that Board decisions are appealable directly to this Court is one of the defects that gives rise to the Appointments Clause problem. And in any event, there is no remedy that the Board or anyone else at the PTO could provide. The only way to remedy the problem is either to provide for presidential nomination and Senate confirmation of Board members or else to hold some provision of the statute unconstitutional so Board members are no longer exercising principal officer authority. The agency lacks the ability to do either of those things.

Arthrex's Appointments Clause challenge was raised in this very first appeal from the faulty PTAB decision—exactly the same procedural posture as in *Lucia*. Accordingly, Arthrex is entitled to the remedy prescribed in *Lucia*.

Even if Arthrex's challenge were untimely, all parties agree that the Court has discretion to excuse the untimeliness and hear the Appointments Clause issue. *See Freytag*, 111 S. Ct. at 2635 (challenge made first at the Supreme Court); *see also* Arthrex's Opening Br. at 60; S&N Br. at 70-71; Gov't. Br. at 22-23. This case presents an even graver concern than the ones addressed in *Freytag* and *Lucia*. In both *Freytag* and *Lucia*, the Court determined that the administrative judges in question were improperly appointed inferior officers, as compared to mere employees. *Freytag*, 111 S. Ct. at 2640; *Lucia*, 138 S. Ct. at 2051. Here, the PTAB judges are principal officers, who must be appointed by the President and confirmed by the Senate. Hence, this case implicates even greater concerns about the aggrandizing of power of one branch over another and the diffusion of appointment power. Congress has relinquished its input into the appointment of principal officers in contravention of the Constitution. For this reason alone, the Court should exercise its discretion to decide this issue and grant Arthrex the remedy to which it is entitled under *Lucia*.

Furthermore, in contrast to *In re DBC*, there has been no remedial action undertaken by the Government that cures the Appointments Clause violation. *In re DBC*, 545 F.3d at 1380. That violation is still ongoing through no fault of Arthrex.

If Arthrex had raised its challenge sooner, there is no indication that Congress would have acted sooner to address this issue.

Exercise of this Court’s discretion to reach the issue is also appropriate under the key questions this Court identified in *Golden Bridge Technologies, Inc. v. Nokia, Inc.*, 527 F.3d 1318, 1322-23 (Fed. Cir. 2008). First, there has been a significant change in law. *Lucia* changed the remedy for Appointments Clause violations by precluding review by the same judges who could “rubber stamp” their prior decision on remand. *Lucia*, 138 S. Ct. at 2055 (characterizing the new remedy as “add[ing]... one thing more”). This remedy makes all the difference in the world to a successful litigant because there is no threat of a “rubber stamp” of the prior proceeding.

Second, the interests of justice warrant deciding these issues. *Golden Bridge*, 527 F.3d at 1323. Given the Supreme Court’s clear objective to incentivize parties to raise Appointments Clause challenges, the importance of such challenges, and this case’s posture as the first case (of multiple cases) to fully submit this particular challenge, this Court should decide the issue in the interests of justice. *See Ryder*, 115 S. Ct. at 2035; *Lucia*, 138 S. Ct. at 2055, n. 5.

C. *Lucia* Requires a New Oral Argument Before a New Panel

To the extent this Court's order called for briefing on the nature of the proceedings that should occur on remand, Arthrex submits that any proceedings should include, at a minimum, the opportunity for a new oral argument before a new panel. Any lesser remedy would defy the Court's instructions in *Lucia*.

Lucia by its terms requires "a new '**hearing**' before a properly appointed' official." *Lucia*, 138 S. Ct. at 2055 (quoting *Ryder*, 115 S. Ct. at 2039) (emphasis added). That language necessarily contemplates a new oral argument before new judges, not merely a cursory ratification of the existing record by a different judge. Consistent with *Lucia*'s mandate, the D.C. Circuit has ordered new hearings before new judges in *Lucia* and other cases. *See Lucia v. SEC*, 736 Fed. App'x. 2 (D.C. Cir. Aug. 15, 2018); *Harding Advisory LLC v. SEC*, 2018 U.S. App. LEXIS 26703 (D.C. Cir. Sept. 19, 2018); *Riad v. SEC*, 2018 U.S. App. LEXIS 26710 (D.C. Cir. Sept. 19, 2018); *Timbervest, LLC v. SEC*, 2018 U.S. App. LEXIS 32721 (D.C. Cir. Nov. 19, 2018). The SEC itself took the Supreme Court's directive very seriously, vacating its prior ratification order and reassigning the cases to new judges, who were ordered to "not give weight to or otherwise presume the correctness of any prior opinions, orders, or rulings issued in the matter." *In re Pending Administrative Proceedings*,

Exchange Act Release No. 83907, at 2 (Aug. 22, 2018) (available at <https://www.sec.gov/litigation/opinions/2018/33-10536.pdf>).

The Government and S&N may argue for an alternative remedy, such as the limited form of relief provided by the D.C. Circuit's decision in *Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 796 F.3d 111 (D.C. Cir. 2015). There, a case was remanded to the Copyright Royalty Board after the D.C. Circuit determined that the Board's members had been appointed in violation of the Appointments Clause. *Id.* at 116. On remand, a new, properly appointed Board performed a *de novo* review of the written record but without granting a new hearing. Although the D.C. Circuit accepted that approach, *id.* at 124-127, it did so before the Supreme Court's decision in *Lucia*. *Lucia* now mandates a new hearing before a different panel as an incentive for raising an Appointments Clause challenge. *Lucia* rather than *Intercollegiate* is the governing decision here.

Intercollegiate is also distinguishable on its facts. The court affirmed the approach taken on remand there because the Copyright Royalty Board's authorizing statutes explicitly allowed it to conduct the case on the written record and forgo a live hearing under some circumstances, which the Court found were reasonably present in that case. *Id.* at 126. In other words, a decision on the written record was entirely permissible within the statutory scheme of *Intercollegiate*.

By contrast, the AIA does not permit trial without an oral hearing. Indeed, the AIA prescribes that parties are entitled to an oral hearing as part of the IPR proceeding. 35 U.S.C. § 316(a)(10). A remand proceeding must satisfy this statutory requirement and cure the prejudice to Arthrex—the inability to be heard by a properly appointed PTAB panel as required by § 316(a)(10). The only way to cure this prejudice is for a new, properly appointed PTAB panel to conduct a new oral hearing on remand. *Lucia*, 138 S. Ct. at 2055.

On remand, the PTAB must give the case “fresh consideration by a properly constituted panel.” *Khanh Phuong Nguyen v. United States*, 123 S. Ct. 2130, 2139 (2003). The new panel must issue a “detached and considered judgment... in the normal course of agency adjudication.” *Doolin Sec. Sav. Bank v. Office of Thrift Supervision*, 139 F.3d 203, 213 (D.C. Cir. 1998). In so doing, the PTAB must not “blindly affirm the earlier decision without due consideration.” *Advanced Disposal Servs. E. v. NLRB*, 820 F.3d 592, 602-03 (3d Cir. 2016). Those principles fit squarely within the concerns about fairness that led *Lucia* to conclude that a new official is required to hear the case on remand. *Lucia*, 138 S. Ct. at 2055. This Court should thus order a remand to a new PTAB panel for a new oral argument.

D. The *De Facto* Officer Doctrine Does Not Apply

Arthrex cannot be denied a new hearing on the basis of the *de facto* officer doctrine. That approach is squarely foreclosed by *Ryder* and *Lucia*.

The *de facto* officer doctrine “confers validity upon acts performed under the color of official title even though it is later discovered that the legality of the actor’s appointment or election to office is deficient.” *Ryder*, 115 S. Ct. at 2034. *Ryder* considered and declined to apply the *de facto* officer doctrine in the Appointments Clause context, explaining that “one who makes a timely challenge to the constitutional validity of the appointment of an officer who adjudicates his case is entitled to a decision on the merits of the question and whatever relief may be appropriate if a violation indeed occurred.” *Id.* at 2035. That is the precise language the Supreme Court quoted when granting a new hearing in *Lucia*. 138 S. Ct. at 2055 (“‘[O]ne who makes a timely challenge to the constitutional validity of the appointment of an officer who adjudicates his case’ is entitled to relief.”) (quoting *Ryder*, 115 S. Ct. at 2035. Thus, so long as Arthrex’s challenge is “timely” within the meaning of *Lucia*—and for the reasons above, it is—*Lucia* and *Ryder* squarely prohibit this Court from relying on the *de facto* officer doctrine to deny relief.

One of the principal cases on which *Ryder* relies, moreover, confirms that Arthrex’s challenge was timely. *Ryder* cited *Glidden Co. v. Zdanok*, 82 S. Ct. 1459

(1962), a case in which the petitioners challenged the authority of certain judges but failed to raise that question before the challenged judges themselves. *Glidden*, 82 S. Ct. at 1464-66. The Solicitor General seized upon that circumstance, suggesting the petitioners should be precluded by the “so-called *de facto* doctrine” from questioning the validity of the designations for the first time on appeal. *Id.* at 1464-65. The Supreme Court rejected this argument, explaining that “[t]he alleged defect of authority here relates to basic constitutional protections designed in part for the benefit of litigants... We hold that it is similarly open to these petitioners to challenge the constitutional authority of the judges below.” *Id.* at 1465-66; *see also Ryder*, 115 S. Ct. at 2035 (“[H]is claim is based on the Appointments Clause of Article II of the Constitution—a claim that there has been a ‘trespass upon the executive power of appointment’ rather than a misapplication of a statute providing for the assignment of already appointed judges to serve in other districts.” (citation omitted)); *Free Enter.,*, 130 S. Ct. at 3151 (permitting Appointments Clause challenge in district court where no such challenge was raised before the SEC in part because constitutional challenges were outside the Commission’s competence and expertise).

Moreover, *Ryder* expressed an additional concern about applying the *de facto* officer doctrine to deny any relief to a party. *Ryder*, 115 S. Ct. at 2036 n. 3. That

would be precisely the case here—if the *de facto* officer doctrine were invoked to “remedy” the Appointments Clause violation, Arthrex would be denied the remedy of a new hearing before properly appointed officials that is clearly set forth in *Lucia*. For that reason too, the *de facto* officer doctrine does not apply. *See, e.g., Fed. Election Comm’n v. NRA Political Victory Fund*, 6 F.3d 821, 828 (D.C. Cir. 1993) (addressing Appointments Clause challenge after noting that “appellants raise the constitutional challenge as a defense to an enforcement action, and we are aware of no theory that would permit us to declare the Commission’s structure unconstitutional without providing relief to the appellants in this case”).²

Other courts have recognized the narrow scope of the *de facto* officer doctrine after *Ryder*. In *SW General Inc. v. NLRB*, 796 F.3d 67 (D. C. Cir. 2015), the D.C. Circuit explained that “[i]n its most recent cases... the Supreme Court has limited

²In one recent case involving a separation of powers challenge to the Federal Housing Finance Agency, the Fifth Circuit held that a mere declaration severing removal restrictions from the statute was a sufficient remedy. *See Collins v. Mnuchin*, 938 F.3d 553, 591-96 (5th Cir. 2019), *pet. for cert. filed*, No. 19-422 (Sept. 25, 2019). But the court expressly distinguished that case from challenges to “individuals who were not properly appointed under the Constitution.” *Id.* at 593. That is this case: Even if the Court severs the removal restrictions as a way to make patent judges inferior rather than principal officers, the fact remains that this case involves a constitutional challenge to the *appointment* of those officers, not merely restrictions on their removal. The officers were not validly appointed and thus lacked authority to take the actions they took. As the Fifth Circuit recognized, merely severing provisions from the statute is not a sufficient remedy for that type of violation.

the [*de facto* officer] doctrine, declining to apply it when reviewing Appointments Clause challenges and important statutory defects to an adjudicator’s authority.” *Id.* at 81 (citing *Ryder*, 115 S. Ct. at 2034, and *Nguyen*, 123 S. Ct. at 2132). The court declined to apply the *de facto* officer doctrine to an Appointments Clause challenge because the issue was not a “merely technical defect of statutory authority” but rather “a violation of a statutory provision that embodies weighty congressional policy concerning the proper organization of the federal courts.” *Nguyen*, 123 S. Ct. at 2137-38 (internal citations and quotation marks omitted); *see also United States v. Jones*, 74 M.J. 95, 97 (C.A.A.F. 2015) (finding the *de facto* officer doctrine inapplicable to appointment required to be made by the President with Senate advice and consent, and holding that the error was of “constitutional dimensions—certainly ‘fundamental’ by any reckoning”). Given the constitutional nature of the challenge here, the *de facto* officer doctrine does not apply.

For the foregoing reasons, this Court should grant Arthrex the relief of a new hearing before a different panel of constitutionally appointed PTAB judges pursuant to *Lucia*.

E. Arthrex Is Entitled to a New Hearing Regardless of What Approach the Court Adopts to Remedy the Appointments Clause Violation

The Court expanded the scope of supplemental briefing to address (1) the implications of the Court’s proposal to remedy the Appointments Clause violation by severing the words “[o]fficers and” from 35 U.S.C. § 3(c); and (2) the Government’s alternative proposal to “hold that 35 U.S.C. § 3(c)’s provision that USPTO officers and employees are subject to Title 5 cannot constitutionally be applied to Board members with respect to that Title’s removal restrictions, *and thus must be severed* to that extent.” [Dkt. 52 at 2 (quoting Gov’t. Br. at 35) (emphasis added by the Court)].

Whatever remedy the Court adopts would not alter Arthrex’s entitlement to, at the very least, a new hearing under *Lucia*.³ To the extent the Court decides to sever the removal restrictions, one remedy suggested by the Court at argument is to strike the words “[o]fficers and” from 35 U.S.C. § 3 (c). The Government apparently

³ The statute cannot simply be *construed* to avoid the constitutional issue. Section 3(c) clearly states that “[o]fficers and employees of the [USPTO] shall be subject to the provisions of title 5,” 35 U.S.C. § 3(c), and Title 5 makes those officers removable “only *for such cause* as will promote the efficiency of the service,” 5 U.S.C. § 7513(a) (emphasis added). Whatever else that means, it is clearly a “for cause” standard, not an “at will” one. The Court cannot avoid a constitutional issue by rewriting the statute. *See Free Enter.*, 130 S. Ct. at 3158, 3184-85 (holding that removal provisions “mean what they say” despite the constitutional avoidance canon and that a removal standard of “inefficiency, neglect of duty, or malfeasance” is a “for-cause” limitation on removal).

fears that striking those words could have collateral consequences by rendering other provisions of Title 5 inapplicable too. In its brief, the Government urges the Court to “hold that 35 U.S.C. § 3 (c)’s provision that USPTO officers and employees are subject to Title 5 cannot constitutionally be applied to Board members with respect to that Title’s removal restrictions, and thus must be severed to that extent.” Govt. Br. at 35.

Even if the Court adopts the Government’s proposed approach, that would in no way diminish Arthrex’s entitlement to a new hearing under *Lucia*. The Government’s approach still means that the statutory provision is unconstitutional with respect to the PTAB judges. Whichever remedy the Court adopts, therefore, one key fact remains: Until this Court orders that remedy—and thus at the time the Board heard Arthrex’s case—the PTAB members exercised principal officer authority they were not properly appointed to exercise. That Appointments Clause violation requires a new hearing under *Lucia*. See *Intercollegiate Broad. Sys. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1342 (D.C. Cir. 2012) (ordering vacatur and remand following severance of for-cause provisions because “the Board’s structure was unconstitutional at the time it issued its determination”). Moreover, even if the Court adopts the Government’s approach, the PTAB itself could not have granted that relief, so Arthrex raised the issue before the first forum capable of providing a

remedy. *See Hettinga v. United States*, 560 F.3d 498, 506 (D.C. Cir. 2009) (exhaustion not required because “[t]he Secretary lacks the power either to declare provisions of the [statute] unconstitutional, or to exempt the [plaintiffs] from the requirements... imposed by the [statute]”).

Finally, the Supreme Court has made clear that courts may not sever removal restrictions to remedy a constitutional violation if “striking the removal provisions would lead to a statute that Congress would probably have refused to adopt.” *Bowsher v. Synar*, 106 S. Ct. 3181, 3192 (1986). One of Congress’s major goals in enacting this statute was to establish an adjudicative framework in which patent judges would act as independent and impartial adjudicators.⁴ Arthrex believes that a regime in which patent judges could be removed at will over mere policy disagreements would undermine that goal.

⁴*See, e.g.*, H.R. Rep. No. 112-98, at 46 (2011) (statute sought to “convert[] inter partes reexamination from an examinational to an adjudicative proceeding”); 157 Cong. Rec. S1360, S1375 (Mar. 8, 2011) (Sen. Kyl) (“One important structural change made by the present bill is that inter partes reexamination is converted into an adjudicative proceeding”); *id.* at S1380 (statute designed to “move us toward a patent system that is objective, transparent, clear, and fair to all parties”); *see also Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC*, 138 S. Ct. 1365, 1378 (2018).

III. CONCLUSION

For the forgoing reasons, Arthrex request the Final Written Decision of the Board be vacated and the matter remanded below for a new hearing before a different panel pursuant to *Lucia*. In the alternative, if no remand and rehearing is granted, Arthrex prays for a decision from this Court on the other merits of its appeal.

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Dated: October 29, 2019

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CERTIFICATE OF COMPLIANCE WITH RULE 32(a)

I, Anthony P. Cho, counsel for Appellant, certify that the foregoing Brief complies with the type-volume limitation set forth in Fed. R. App. P. 27(d)(2).

Specifically, this Brief does not exceed 20 double-spaced pages (excluding the parts of the motion exempted by Fed. Cir. R. 27(d)). [Dkt. 65].

I further certify that the foregoing brief complies with the typeface requirements set forth in Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) as required by Fed. R. App. P. 27(d)(1)(E). Specifically, this brief has been prepared using a proportionally spaced typeface using Microsoft Word 2013, in 14-point Times New Roman font.

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2018-2140

United States Court of Appeals
for the Federal Circuit

Arthrex, Inc.,
Appellant

v.

Smith & Nephew, Inc., ArthroCare Corp.,
Appellees

United States,
Intervenor

**Appeal from the United States Patent and Trademark Office,
Patent Trial and Appeal Board, in No. IPR2017-00275**

**SUPPLEMENTAL BRIEF OF APPELLEES
SMITH & NEPHEW, INC. AND ARTHROCARE CORP.**

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CERTIFICATE OF INTEREST

Counsel for Appellees certifies the following:

1. The full name of every party represented by me is:

Smith & Nephew, Inc.

ArthroCare Corp.

2. The names of the real parties in interest represented by me are:

Smith & Nephew, Inc.

ArthroCare Corp.

3. All parent corporations and any publicly held companies that own 10 percent of the stock of the parties represented by me are listed below.

Smith & Nephew PLC is the parent corporation of Smith & Nephew, Inc. and ArthroCare Corp. No other publicly held corporation owns 10% or more of the stock of Smith & Nephew, Inc. or ArthroCare Corp.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this Court (and who have not or will not enter an appearance in this case) are:

WOLF, GREENFIELD & SACKS, P.C.: Jason M. Honeyman and Randy J. Pritzker.

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

None.

Date: October 29, 2019

/s/ Charles T. Steenburg
Charles T. Steenburg

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Even if the Court concludes that PTAB judges are principal officers as of today (before excising part of the Patent Act), vacating and remanding the decision is neither required by *Lucia v. SEC*, 138 S. Ct. 2044 (2018), nor warranted as policy. Specifically, vacating and remanding would not incentivize timely challenges at the agency (as in *Lucia*). Instead, it would encourage others to follow Arthrex’s lead—deferring Appointments Clause challenges until after agencies rule adversely on the merits. Further, remanding here would have major practical impacts both at this Court and the PTAB given the lack of any principled distinction between this case and the numerous other IPRs in which the PTAB has issued decisions adverse to patentees who (1) have first raised this issue on appeal or (2) can still do so because they have not yet filed opening briefs. The better course—consistent with *Lucia*—would be to address the merits here and remand only in situations where patentees have timely raised challenges at the PTAB.

I. LUCIA IS INAPPLICABLE BECAUSE ARTHREX NEVER RAISED THE APPOINTMENTS CLAUSE ISSUE BELOW.

Lucia restated decades-old law “that ‘one who makes a *timely* challenge to the constitutional validity of the appointment of an officer who adjudicates his case’ is entitled to relief.” 138 S. Ct. at 2055 (quoting *Ryder v. United States*, 515 U.S. 177, 182-83 (1995)) (emphasis added). Indeed, “*Lucia* made just such a timely challenge: He contested the validity of [the ALJ’s] appointment before the Commission....” *Lucia*, 138 S. Ct. at 2055.

Ryder likewise involved a petitioner who had “raised his objection to the [Article I] judges’ titles before those very judges and prior to their action on his case.” 515 U.S. at 182. The Supreme Court thereby distinguished cases such as *Ward*, which declined relief as to a prisoner belatedly challenging his sentencing by a judge who allegedly had been unconstitutionally appointed. *Ryder*, 515 U.S. at 181-82 (discussing *Ex parte Ward*, 173 U.S. 452 (1899)).

Conditioning relief on a “timely challenge” tracks the Supreme Court’s warning that “courts should not topple over administrative decisions unless the administrative body not only has erred but has erred against objection made at the time appropriate under its practice.” *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37-38 (1952) (“[T]he defect in the examiner’s appointment...is not one which deprives the Commission of power or jurisdiction....”).

This principle applies with particular force to “procedural issues that are collateral to the merits,” *Scott v. McDonald*, 789 F.3d 1375, 1381 (Fed. Cir. 2015), and it extends to constitutional challenges. *E.g.*, *Marine Mammal Conservancy, Inc. v. USDA*, 134 F.3d 409, 413 (D.C. Cir. 1998) (citing *L.A. Tucker*: “An agency, like a court, may alter or modify its position in response to persuasive arguments and to avoid serious constitutional questions”); *W. Res., Inc. v. Surface Transp. Bd.*, 109 F.3d 782, 793-94 (D.C. Cir. 1997) (citing *L.A. Tucker* and declining to address “constitutional argument,” which appellant had not raised with agency).

Following *Lucia*, courts consistently have held that a “timely challenge” concerning the Appointments Clause is one raised at the agency—not merely on appeal.¹ This includes cases involving SEC ALJs—the very officers addressed in *Lucia*. *E.g.*, *Malouf v. SEC*, 933 F.3d 1248, 1258 (10th Cir. 2019) (“Mr. Malouf failed to administratively exhaust his challenge under the Appointments Clause. We thus conclude that Mr. Malouf forfeited this challenge.”). In other words, those courts declined to vacate and remand—despite the constitutional infirmity the Supreme Court had already flagged in *Lucia*.

¹ *E.g.*, *Island Creek Coal v. Bryan*, 937 F.3d 738, 745-54 (6th Cir. 2019) (declining to consider challenge to Department of Labor ALJs); *Energy W. Mining v. Lyle*, 929 F.3d 1202, 1206 (10th Cir. 2019) (same); *Pharmacy Doctors Enters. v. DEA*, 2019 WL 4565481, at *2-4 (11th Cir. Sept. 20, 2019) (declining to consider challenge to DEA ALJ); *Muhammad v. Berryhill*, 381 F. Supp. 3d 462, 466-71 (E.D. Pa. 2019) (declining to consider challenge to Social Security ALJ); *Diane v. Berryhill*, 379 F. Supp. 3d 498, 505-06 (E.D. Va. 2019) (same: “[E]xcusing Plaintiff’s failure to **timely** raise such claim would incentivize ‘sandbagging’....”) (emphasis original); *Bonilla-Bukhari v. Berryhill*, 357 F. Supp. 3d 341, 351 (S.D.N.Y. 2019) (same: “This Court, however, agrees with the vast majority of courts that have considered this issue following *Lucia* and have concluded that exhaustion before the ALJ is required.”); *Debiase v. Saul*, 2019 WL 5485269, at *4 (D. Conn. Oct. 25, 2019) (same: “Directed by the Supreme Court’s clear language in *Lucia*, this Court concludes that an Appointments Clause challenge may not be raised for the first time on appeal....In reaching this conclusion, this Court adopts the view of almost all of the courts to address the issue....”); *Abbington v. Berryhill*, 2018 WL 6571208, at *2–3 (S.D. Ala. Dec. 13, 2018) (same: “The commonality between *Ryder* and *Lucia* is that both petitioners first raised their Appointments Clause challenges to the entities utilizing the deficiently appointed official or officials.”). Contrast with *Jones Bros. v. Sec’y of Labor*, 898 F.3d 669 (6th Cir. 2018), which *Island Creek*, *Energy West Mining*, and *Pharmacy Doctors* all distinguished—in *Jones Brothers*, (1) the appellant had identified the issue to the agency and (2) the statute at issue included an exception to exhaustion rules.

The small number of cases to the contrary are distinguishable and unpersuasive. They generally stress (1) the non-adversarial nature of Social Security proceedings (in which claimants often appear *pro se*) and/or (2) the purported distinction between constitutional and non-constitutional claims under *L.A. Tucker*.² But PTAB proceedings are adversarial, and Arthrex was represented by counsel. Further, cases such as *Marine Mammal* and *Western Resources* confirm that *L.A. Tucker* extends to constitutional issues not raised at the agency.

Applying *L.A. Tucker*, this Court has held that a “timely” Appointments Clause challenge is one raised at the Board—not just appeal. *In re DBC*, 545 F.3d 1373, 1379 (Fed. Cir. 2008) (“If DBC had *timely raised* this issue before the Board, the Board could have evaluated and corrected the alleged constitutional infirmity....Of course, the Board may not have corrected the problem, or even acknowledged that the problem existed. But in that case, DBC would have preserved its right to appeal....”) (emphasis added). There are multiple steps the PTO could have taken had Arthrex raised the issue below. *See infra* Section II.C.

Thus, even if the Court (1) exercises its discretion to consider the Appointments Clause issue despite Arthrex’s waiver below and (2) concludes that a constitutional infirmity exists, nothing in *Lucia* mandates any particular remedy.

² *E.g.*, *Culclasure v. Comm’r of Soc. Sec. Admin.*, 375 F. Supp. 3d 559, 570 (E.D. Pa. 2019); *Bizarre v. Berryhill*, 364 F. Supp. 3d 418 (M.D. Pa. 2019); *Probst v. Berryhill*, 377 F. Supp. 3d 578 (E.D.N.C. 2019).

II. VACATING AND REMANDING WOULD BE BAD POLICY.

Aside from being unnecessary under *Lucia*, vacating and remanding the PTAB's decision would create a host of practical problems. First, remand would unfairly force S&N to do the same work twice. It would also effectively require new hearings for numerous other patentees that include appointments issues on appeal despite never having raised them below. If the Court remands here, all similarly situated patentees can (and likely will) seek such relief in their opening appeal briefs, at which point there will be no principled distinction between those cases and this one. To wit, Arthrex itself merely copied its Appointments Clause argument from the brief of another before this Court. Finally, remand would skew the incentives the Supreme Court crafted in *Lucia* and *Ryder* to encourage "timely" challenges under the Appointments Clause. Parties would instead wait to see how things turn out at the agency—holding appointment-related challenges in reserve.

A. Remand Would Unfairly Prejudice Smith & Nephew.

Remanding for a new hearing would unjustly require S&N to redo work and commit additional resources (both time and money) concerning the '907 patent, which S&N has already been litigating for almost four years. *See* Red Br. (Dkt. No. 33) at 5-6. Indeed, the parties settled related district court litigation in February 2017 with the express understanding that the IPR would continue. Appx0532-0533 at 52:20-53:3 (acknowledgment by Arthrex's counsel).

Having filed the IPR in November 2016 (Appx0135), S&N reasonably anticipated a final written decision in May 2018 (i.e., eighteen months after filing). That expectation was confirmed, per established PTAB practice.

S&N also expected to prepare for a single hearing at the PTAB concerning the '907 patent.³ Indeed, the PTAB's Standard Operating Procedure 9 stresses that second hearings are rare even if IPRs are remanded following appeal. SOP 9 at 7.⁴ "Normally, the existing record and previous oral argument will be sufficient." *Id.*

Arthrex's proposed remedy—buried in a footnote in its Blue Brief (Dkt. No. 66 n.5), and thus waived⁵—would eviscerate such expectations. S&N would need to spend time and money preparing for a new hearing—notwithstanding the original one (in which S&N already participated, without any suggestion by Arthrex of any procedural problem). Further, S&N's future product launch and clearance plans could be disrupted given the uncertain timing of any new final decision. S&N would also potentially need to redo the entire appellate process.

³ S&N's involvement in the case and the unfair prejudice it would face on remand stands in contrast to *Lucia* and *Ryder*. Aside from featuring "timely challenges" (i.e., at the agency level), both of those cases involved a single private party facing off against the government. Here, by contrast, IPR is by definition an *inter partes* matter. S&N already prosecuted the case once. It should not have to do so again.

⁴ https://www.uspto.gov/sites/default/files/documents/sop_9_%20procedure_for_decisions_remanded_from_the_federal_circuit.pdf

⁵ If the Court were inclined to overlook Arthrex's waiver, fairness would also dictate considering S&N's explanation herein why vacating and remanding for a new hearing would unfairly prejudice S&N.

Such additional expenses and disruptions are unnecessary and unwarranted in any scenario where a patentee raises an Appointments Clause issue on appeal after failing to raise it below. *See supra* Section I. These burdens would be particularly inappropriate here, as Arthrex itself has repeatedly filed IPRs of its own and even benefited from rulings made by the same three APJs whose appointments Arthrex now challenges.⁶ In other words, Arthrex seeks relief on the theory that the same judges who issued decisions in Arthrex's favor should not have been passing judgment when it came to patents owned by Arthrex.

To be clear, Arthrex's repeated reliance on IPRs (eight different petitions) does not legally bar Arthrex from raising an Appointments Clause challenge.

But Arthrex's IPR history would be pertinent in assessing whether to grant Arthrex's requested remedy. Given Arthrex's failure to raise the issue below, nothing *requires* remand even if a constitutional problem exists. *See supra* Section I. Instead, the nature of any remedy would be committed to this Court's equitable discretion. *See, e.g., Malouf*, 933 F.3d at 1258 (declining to grant relief despite authority confirming constitutional problem with appointment process). As such, the totality of the circumstances—including Arthrex's past reliance on the very procedure (and same panel) it challenges here—would merit consideration.

⁶ *See Arthrex v. Vite Techs.*, IPR2016-381, Paper 7 (June 23, 2016) (instituting IPR); *Arthrex v. Vite Techs.*, IPR2016-382, Paper 7 (June 28, 2016) (same). These IPRs (co-filed with S&N) ended when the patentee sought adverse judgment.

B. Remand Would Effectively Entitle Numerous Other Patentees to New IPR Hearings of Their Own.

Apart from the unfair prejudice to S&N, remanding for a new hearing would open the floodgates and allow *any* patentee appealing an adverse IPR result to get a do-over any time (1) the PTAB issued a final decision before the Court's contemplated ruling and (2) the patentee has raised (or may still raise) appointments issues on appeal. There are over **160** such IPRs, including roughly:

- **19** IPRs on appeal in which patentees included appointment-related challenges in opening briefs (despite not raising them with the PTAB);⁷
- **100** IPRs on appeal in which patentees have not yet filed opening briefs;⁸

⁷ 18-1768 (IPR2016-01621); 18-2156 (IPR2017-00353); 19-1178 (IPR2017-00890); 19-1202 (IPR2016-01622); 19-1215 (IPR2017-00951); 19-1216 (IPR2017-00952); 19-1218 (IPR2017-00950); 19-1293 (IPR2017-01048); 19-1294 (IPR2017-01049); 19-1295 (IPR2017-01050); 19-1408 (IPR2017-01218); 19-1444 (IPR2017-01391); 19-1445 (IPR2017-01392); 19-1464 (IPR2017-01393); 19-1466 (IPR2017-01406); 19-1467 (IPR2017-01409); 19-1468 (IPR2017-01410); 19-1483 (IPR2017-01500); and 19-1484 (IPR2017-00901).

⁸ This is a conservative estimate based on a review of all notices of appeal filed in July and associated with appeals still pending. That review confirmed **27** such IPRs appealed by patentees in that month alone. 19-2074 (IPR2018-0391); 19-2082 (IPR2018-0320); 19-2098 (IPR2018-0095); 19-2108 (IPR2018-0105); 19-2109 (IPR2018-0106); 19-2110 (IPR2018-0109); 19-2111 (IPR2018-0107); 19-2120 (IPR2018-0067); 19-2127 (IPR2018-0176); 19-2136 (IPR2018-0094); 19-2137 (IPR2017-1683); 19-2152 (IPR2018-0063); 19-2159 (IPR2017-1668); 19-2162 (IPR2017-1667); 19-2165 (IPR2017-1797); 19-2166 (IPR2017-1800); 19-2167 (IPR2017-1801); 19-2168 (IPR2017-1799); 19-2169 (IPR2017-1802); 19-2171 (IPR2016-1542); 19-2173 (IPR2018-0166); 19-2177 (IPR2018-0165); 19-2178 (IPR2018-0160); 19-2181 (IPR2018-0167); 19-2182 (IPR2018-0292); 19-2210 (IPR2018-0205); and 19-2212 (IPR2018-0180).

- and 50 IPRs in which the PTAB has issued final decisions adverse to patentees who have not yet appealed but still have time to do so.⁹

This *omits* the Polaris 18-1831 appeal (to be argued next week), in which the patentee raised the appointments issue below (IPR2017-0116). *See infra* note 14.

If the Court rules that Arthrex’s brief discussion of the Appointments Clause (Blue Br. at 59-66) preserved the issue and justifies remand, all such patentees will be able to insert the same material in their briefs and seek new hearings. There would be no principled basis for distinguishing such cases from the instant one. Indeed, Arthrex’s own opening brief itself lifted much of the Appointments Clause content from an earlier brief filed by Polaris on July 10, 2018¹⁰ in the 18-1768 appeal (set for argument on November 4th—the same day as the 18-1831 appeal). Significant sections appear to have been copied wholesale. For example, compare:

Content	Arthrex Blue Br.	Polaris Blue Br.
“[A]dministrative patent judges (“APJs”) before 1975 were so nominated and confirmed, <i>id.</i> at n.22.....” ¹¹	p. 60	p. 52

⁹ IPR2016-754, -1129, -1520; IPR2018-139, -272, -523, -585, -596, -599, -643, -653, -655, -680, -696, -697, -698, -706, -725, -726, -737, -739, -754, -755, -762, -763, -764, -766, -767, -777, -788, -802, -809, -813, -853, -864, -875, -884, -894, -921, -950, -965, -989, -998, -999, -1000, -1004, -1005, -1017, -1032, and -1066.

¹⁰ This was several weeks *after* Arthrex filed its opening brief in a different IPR appeal (18-1584). Arthrex did not raise the Appointments Clause in that brief.

¹¹ This citation is wrong; the cited case (*Buckley*) has nothing to do with the PTO. In other words, Arthrex copied and pasted the same mistake Polaris had made.

Content	Arthrex Blue Br.	Polaris Blue Br.
“[T]he only review that parties may obtain as of right is an appeal to this Court, where this Court generally [single word added by Arthrex] affords the Board broad discretion, does not reweigh evidence, and upholds all factual findings supported by substantial evidence in the record.”	p. 62	p. 55
“Under the Appointments Clause, all constitutional Officers are either ‘principal’ or ‘inferior.’ <i>Buckley</i> , 424 U.S. at 125 (citing <i>United States v. Germaine</i> , 99 U.S. 508, 509-510 (1879)).”	p. 63	pp. 53-54
“[In] <i>Ryder v. United States</i> ...the Supreme Court held that a claimant ‘is entitled to a decision on the merits’ as the effect of a violation is not prospective only, but controls the hearing and trial: the Constitution requires a new proceeding in front of a constitutionally appointed panel, with no validity given to the prior acts.”	p. 66 n.5	p. 59

In sum, Arthrex copied the Appointments Clause theory from Polaris.¹² If the Court grants Arthrex’s request to vacate, other patentees will seek the same relief even if they just reproduce the same content in their own briefs.

Such relief (i.e., remanding numerous cases) would put the PTAB in a difficult position. On the one hand, the Court would be telling APJs that they can be terminated at will. At the same time, the Court would be imposing unexpected work on top of APJs’ existing dockets—thus making it harder to prepare thorough, well-crafted decisions that facilitate judicial review. The difficulty will be even more pronounced if the Court requires new panels. *See infra* Section III.B.

¹² Multiple patentees had also raised the issue with the PTAB. *See infra* note 14.

C. Remand Would Encourage Sandbagging and Discourage Parties From Raising Challenges at the Agency Level.

Given that Arthrex never raised the Appointments Clause issue at the PTAB, remanding for a new hearing would also “disincentivize petitioners...from raising Appointments Clause challenges at the administrative level.” *Muhammad v. Berryhill*, 381 F. Supp. 3d 462, 469–70 (E.D. Pa. 2019). In other words, it “would encourage the practice of ‘sandbagging’: suggesting or permitting, for strategic reasons, that the [adjudicative entity] pursue a certain course, and later—if the outcome is unfavorable—claiming that the course followed was reversible error.” *Id.* (quoting *Freytag v. Comm’r of Internal Revenue*, 501 U.S. 868, 895 (1991) (Scalia, J., concurring in part and concurring in the judgment)).¹³ Arthrex did precisely that here. Previously, it settled related litigation—conditioned on the express understanding that the IPR would proceed. Appx0532-0533 at 52:20-53:3. Arthrex then pressed its defense on the merits—asking the PTAB panel to confirm the challenged claims. Only after the panel disagreed and found the claims unpatentable did Arthrex shift gears and argue on appeal that the panel had no business issuing any ruling on the claims.

¹³ In *Freytag*, five justices reached the merits (despite the concerns voiced by the other four, per Justice Scalia’s concurrence), but *rejected* the substance of the petitioner’s Appointments Clause arguments. Given this decision on the merits, *Freytag* never addressed what (if any) retroactive remedies would be appropriate in the “rare” cases where it is appropriate to overlook waiver.

It is no answer for Arthrex to complain that PTAB judges could not actually have ruled themselves unconstitutionally appointed. The “futility” exception is “narrow” and requires a finding that raising the issue below would have been “obviously useless.” *Corus Staal BV v. United States*, 502 F.3d 1370, 1379 (Fed. Cir. 2007). No such finding is appropriate here.

For one, other patentees *did* raise the Appointments Clause issue at the PTAB both before and after May 2, 2018, when the Board issued its decision.¹⁴ These patentees realized that raising the issue below was *not* “obviously useless.”

Had Arthrex and/or other patentees followed this lead, the accumulated weight of challenges could have caused a “change of policy” and at minimum would have put the PTO “on notice of the accumulating risk of wholesale reversals being incurred by its persistence.” *L.A. Tucker*, 344 U.S. at 37 (declining to remand despite argument that agency “had a predetermined policy” compelling rejection of objection); *Muhammad*, 381 F. Supp. 3d at 466 (quoting *L.A. Tucker*); *Fortin v. Comm’r of Soc. Sec.*, 372 F. Supp. 3d 558, 562–68 (E.D. Mich. 2019)

¹⁴ *E.g.*, *Mylan Pharms., Inc. v. Yeda Research & Dev. Co.*, PGR2016-00010, Paper 6 at 31 n.10 (May 24, 2016); *Coalition for Affordable Drugs VIII, LLC v. Tr. of the Univ. of Pa.*, IPR2015-01835, Paper 16 at 65 (June 7, 2016); *Kingston Tech. Co. v. Polaris Innovations Ltd.*, IPR2017-00116, Paper 17 at 64-65 (July 10, 2017); *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-00017, Paper 11 at 57-58 (January 18, 2018); *St. Jude Med., LLC v. Snyders Heart Valve LLC*, IPR2018-00106, Paper 10 at 42-43 (Feb. 6, 2018); *Unified Patents Inc. v. Bradium Techs. LLC*, IPR2018-00952, Paper 20 at 14-23 (Sept. 24, 2018).

(declining to remand—discussing *L.A. Tucker*: “The Supreme Court has offered good reasons why a seemingly rigid agency policy against a litigant’s position should not excuse the requirement to raise objections at the administrative level.”).

For example, accumulating notices of potential Appointments Clause problems could have prompted the PTAB to defer institution decisions on all IPRs (or at least any in which patentees sought stays)¹⁵ pending further study. The Executive Branch could have then championed legislation to address the alleged constitutional infirmity—for example, striking 35 U.S.C. § 3(c)’s removal-related protections for PTAB judges. The Executive Branch could even have ruled on its own initiative that PTAB judges must be removable without cause—despite the letter of 35 U.S.C. § 3. *See Myers v. United States*, 272 U.S. 52, 176 (1926) (affirming that it had been proper to demand postmaster’s resignation, and thus affirming rejection of claim for back pay while confirming the unconstitutionality of a law that purportedly denied President “the unrestricted power of removal”).

¹⁵ The PTAB has routinely granted such stays concerning a separate constitutional question—whether state sovereign immunity is applicable in IPRs. *E.g.*, *LSI Corp. v. Regents of the Univ. of Minn.*, IPR2017-01068, Paper 26 (Feb. 9, 2018); *Gilead Sci., Inc. v. Regents of the Univ. of Minn.*, IPR2017-01712, Paper 28 (Aug. 21, 2019); *Ethicon, Inc. v. Board of Regents, Univ. of Tex. Sys.*, IPR2019-00406, Paper 16 (July 25, 2019); *Taiwan Semiconductor Mfg. Co. v. STC.UNM*, IPR2019-01410, Paper 8 (Oct. 11, 2019). Those stays remain in place pending a petition for a writ of *certiorari*.

Either way, the result would have been the same: addressing the alleged constitutional infirmity while avoiding the risk of having to redo work performed before the revised (and indisputably constitutionally proper) structure was in place.

Alternatively, additional Appointments Clause challenges could have prompted the Director to constitute panels consisting of himself, the Commissioner for Patents, and the Commissioner for Trademarks. *See* 35 U.S.C. § 6(a); *see also In re DBC*, 545 F.3d at 1378-79 (citing *L.A. Tucker* and noting that “alleged constitutional infirmity” could have been addressed below). The Director is a properly-appointed principal officer. 35 U.S.C. § 3(a)(1). And the Commissioners can be removed by the Secretary of Commerce “without regard to the provisions of title 5.” 35 U.S.C. § 3(b)(2)(C).¹⁶ Under both the approach discussed during oral argument and also that proposed by the Government in briefing (Dkt. No. 37 at 35), the Commissioners would be properly-appointed inferior officers immediately upon assuming their roles—even if a problem existed for rank-and-file PTAB judges. There would have been no conceivable constitutional infirmity at any point in time with a panel consisting of the Director and the Commissioners.

¹⁶ The specific reference in § 3(b) denying Commissioners the protections of title 5 controls over the general reference in § 3(c) providing such protections to “Officers.” *See Rodgers v. United States*, 185 U.S. 83, 88-89 (1902). The express language in § 3(b) concerning Commissioners comes from the 1999 Patent and Trademark Office Efficiency Act (i.e., Subtitle G of the American Inventors Protection Act, P.L. 106-113), which reorganized the PTO and eliminated the need for Commissioners be appointed by the President and confirmed by the Senate.

At minimum, accumulating notices of Appointments Clause challenges would have encouraged the PTAB to address the “‘threshold questions’ regarding the [agency’s] rules and practices” that such challenges implicate. *In re Lucia*, SEC Release No. 4190, 2015 WL 5172953, at *21 n.94 (Sept. 3, 2015) (quoting *Elgin v. Dep’t of Treasury*, 567 U.S. 1, 22 (2012)).

All of these scenarios exemplify why raising Appointments Clause issues at the agency level is at minimum the best practice—something reviewing courts should incentivize. *Ryder* and *Lucia* provided such incentives when mandating relief following a successful “*timely* challenge” under the Appointments Clause. Numerous lower courts have reinforced these incentives by declining to remand cases to agencies when appellants waited until appeal to raise appointment-related challenges. *See supra* note 1. By contrast, undoing the PTAB’s decision here would undermine those incentives by putting Arthrex in the same place it would have been had Arthrex raised the Appointments Clause issue at the agency level. Such a remedy would encourage others to follow Arthrex’s lead (i.e., waiting until appeal to raise appointment-related issues) rather than the *Ryder* and *Lucia* petitioners, both of whom raised their arguments below. Addressing new issues on appeal would become the norm—far from the Supreme Court’s admonition that it should be a “rare” exception. *Freytag*, 501 U.S. at 881-82 (considering and rejecting Appointments Clause theory, *thus never addressing potential remedies*).

III. ALTERNATIVE OPTIONS ARE AVAILABLE WHILE STILL SEVERING AND EXCISING THE CONTEMPLATED LANGUAGE.

As detailed in Section I, Arthrex’s failure to raise the issue below means that *Lucia* does not require remand even if the Court concludes that PTAB judges previously functioned as principal officers. And as discussed in Section II, giving Arthrex a new hearing would be bad policy. Should the Court find a constitutional infirmity, there would be at least three better options. One would simply be to leave the issue for another day. Should the Court identify a problem, however, it may desire to sever and excise the offending language (i.e., concerning title 5) promptly. There are multiple ways the Court could accomplish that without forcing S&N to bear the expense of another hearing (the first of which passed without Arthrex even mentioning the Appointments Clause).

A. Given Arthrex’s Waiver, the Court Could Elect to Render a Decision With Retroactive Effect Only to the Extent Patentees Raised Appointments Clause Issues Below.

For one, the Court could sever the relevant language, but leave the PTAB’s decision in place given that Arthrex waived the constitutional issue and the Court would only be reaching it by exercising discretion under *Freytag*—a case having nothing to do with remedies.¹⁷ Arthrex concedes that such waiver occurred and anything the Court does will be a matter of “discretion.” Dkt. No. 40 at 28.

¹⁷ See *supra* note 13. By contrast, *Lucia* and *Ryder* are unrelated to waiver, and numerous courts have declined to extend them in such regard. See *supra* Section I.

While case law normally applies retroactively, it does not if there is an “independent legal basis (having nothing to do with retroactivity) for denying relief.” *Reynoldsville Casket Co. v. Hyde*, 514 U.S. 749, 759 (1995). “[W]aiver” is such “an independent ground for denying retroactive application of [case law].” *FEC v. Legi-Tech, Inc.* 75 F.3d 704, 706 n.3 (D.C. Cir. 1996) (citing *Reynoldsville*). *Malouf* is an example. The Tenth Circuit ruled that the appellant had forfeited his Appointments Clause challenge by not raising it with the SEC—even though the Supreme Court’s *later Lucia* decision held that the SEC’s ALJs were officers who had not been properly appointed. *Malouf*, 933 F.3d at 1255-58.

In the criminal context, the Supreme Court has even reversed a Circuit Court for *not* finding waiver—notwithstanding that the case was on direct review and the intervening change in case law had been constitutional in nature. *United States v. Cotton*, 535 U.S. 625, 628–29, 634 (2002) (holding that defendant had no right to resentencing because he had not raised relevant constitutional issues at the time of sentencing); *see also United States v. Booker*, 543 U.S. 220, 267-68 (2005) (striking mandatory sentencing guidelines under the Sixth Amendment, but stressing that this did not mean “every appeal will lead to a new sentencing hearing....[W]e expect reviewing courts to apply ordinary prudential doctrines, determining, for example, whether the issue was raised below....”).

Further, the Court’s ruling would be binding precedent (thus aiding other patentees—particularly those that raised appointments issues below and would be entitled to a *Lucia*-type remedy) regardless of whether it impacted the ’907 patent in practice. Arthrex holds many other patents and has faced fifteen other IPRs to date. This Court would have jurisdiction to issue declaratory relief concerning the Appointments Clause even if Arthrex did not identify *any* particular patent at issue. *See Free Enter. Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 490 (2010) (addressing Appointments Clause issue not tied to any particular agency “sanction”); *Elec. Power Supply Ass’n v. Fed. Energy Regulatory Comm’n*, 391 F.3d 1255, 1262 (D.C. Cir. 2004) (“regular participants” in the relevant hearings had standing to “enforce procedural requirements”); *Int’l Bhd. of Elec. Workers v. ICC*, 862 F.2d 330, 334 (D.C. Cir. 1988) (reaching merits, as plaintiff would likely “be forced to litigate *future* arbitration awards before the ICC”) (emphasis added).

B. Even if the Court Vacates and Remands, It Need Not Order a New Hearing Handled By New APJs.

Even if the Court elects to vacate and remand, the prudent course would be to send the case back to the existing panel and clarify that the APJs need not hold a new hearing. Instead, the APJs could review the existing decision and consider whether they are comfortable ratifying it while knowing (per the Court’s contemplated approach) that they could be fired without cause if the outcome displeases their supervisors—including ultimately the Secretary and the Director.

To be sure, this would not be a “*Lucia* remedy.” But no such remedy is necessary given that Arthrex did not raise a “timely challenge” below. *See supra* Section I. Instead, the nature of the relief (if any) is committed to this Court’s discretion—just like the decision whether to hear Arthrex’s untimely argument at all (per *Freytag*). While any sort of remand based on the Appointments Clause—an issue Arthrex never even raised below—would unfairly prejudice S&N (*see supra* Section II.A), create challenges for the PTAB (*see supra* Section II.B), and warp the incentives the Supreme Court has established to encourage timely Appointments Clause challenges (*see supra* Section II.C), those problems would be less profound if the Court sent the case back to the original panel and clarified that those APJs may act on the existing papers. The prejudice to S&N would be reduced given that it would not need to spend money preparing for a new hearing or otherwise working with new APJs coming into the case cold. The workload-related challenges for the PTAB likewise would be lessened for similar reasons. And the incentives to raise *timely* challenges would be preserved to some extent. Patentees who raised appointments challenges at the agency would be getting more significant relief (i.e., a full *Lucia* remedy) than those that waited until appeal.

CONCLUSION

Even if the Court finds a constitutional problem with the Patent Act today, vacating and remanding the PTAB's final written decision is neither mandated by *Lucia* nor warranted under the Court's equitable powers. Undoing the decision would unfairly prejudice S&N, unnecessarily burden the PTAB, and undermine the structures that *Lucia* and *Ryder* established to incentivize Appointments Clause challenges at the agency level.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

The brief complies with the Court's supplemental briefing order because it does not exceed 20 double-spaced pages. See Dkt. No. 65 at 2. This brief also complies with Federal Rule of Appellate Procedure 32(a)(5)-(6) because it was prepared using Microsoft Word 2013 in Times New Roman 14-point font—a proportionally spaced typeface.

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IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

ARTHREX, INC.,

Appellant,

v.

SMITH & NEPHEW, INC., ARTHROCARE CORP.,

Appellees,

UNITED STATES,

Intervenor.

Appeal from the United States Patent and Trademark Office
Patent Trial and Appeal Board in No. IPR2017-00275

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INTRODUCTION

This Court has directed the parties to address several questions related to the appropriate remedy for any Appointments Clause violation in the statutes governing the administrative patent judges (APJs) of the Patent Trial and Appeal Board (PTAB or Board). First, the Court has invited further explanation regarding one of the remedies the government proposed in its brief. *See* Order, Oct. 23, 2019, at 1-2. Next, the Court has granted the parties permission to address a possible revision to 35 U.S.C. § 3(c) identified by the Court at argument. *See id.* at 1. Finally, the Court has directed the parties to address whether this case should “be vacated and remanded for a new hearing before the Board pursuant to *Lucia v. SEC*, 138 S. Ct. 2044 (2018),” if the Court concludes that the relevant statutes may be cured of any constitutional infirmity. Order, Oct. 15, 2019, at 2.

As detailed in the government’s principal brief, the USPTO Director’s means of controlling the Board’s members and work product are many and robust, at every stage of administrative proceedings. *See* Gov’t Br. 36-42. But if the Court nonetheless holds that APJs’ appointments as inferior officers are inconsistent with the degree of control Senate-confirmed officers may currently exercise over them, that constitutional defect could be cured by eliminating the existing statutory strictures on removing APJs from federal service. The Court could achieve this result by partially invalidating the statutes relating to such removal or announcing an interpretation of those statutes that obviates the constitutional problem, but it should avoid any remedy

that does more than render APJs removable at will. Whatever the remedy, the Court need not vacate the Board's decision here and remand for a new merits proceeding. Arthrex failed to timely raise its Appointments Clause challenge, and it is therefore not entitled to vacatur and remand of the Board's decision under *Lucia*, which by its terms provides relief only for "a timely challenge." *See* 138 S. Ct. at 2055. If the Court nonetheless orders a remand, it should make clear the remand's limited scope.

DISCUSSION

I. If The Court Concludes That The Statutes Governing The PTAB Are Unconstitutional, It Can Invalidate Any Restrictions On Removing APJs From Federal Service.

The power of Senate-confirmed officers to remove an inferior officer "is a powerful tool for control." *Edmond v. United States*, 520 U.S. 651, 664 (1997). With respect to Executive Branch adjudicators, the Supreme Court has specified that the constitutionally relevant authority turns on superior officers' ability to remove a judge "from his judicial assignment," not from federal service entirely. *Id.* The USPTO Director has entirely unfettered authority to decline to select an APJ to serve on Board panels, thus effecting a removal from "judicial assignment." *See* Gov't Br. 32-33. This authority in itself gives a Senate-confirmed officer all the necessary removal power over an inferior officer.

If, however, the Court concludes that the Constitution requires a Senate-confirmed officer to have unconstrained authority to remove APJs from federal service *entirely*, there are several ways the Court could eliminate APJs' modest removal

protections without disturbing the remainder of the PTAB statutory scheme. As the Supreme Court has explained, “when confronting a constitutional flaw in a statute,” courts should “try to limit the solution to the problem.” *Ayotte v. Planned Parenthood of N. New England*, 546 U.S. 320, 328 (2006). The Court “prefer[s] ... to enjoin only the unconstitutional applications of a statute while leaving other applications in force, or to sever its problematic portions while leaving the remainder intact.” *Id.* at 328-29 (citation omitted). Although courts may not “rewrit[e]” statutes, they can and do “devise a judicial remedy that does not entail quintessentially legislative work” where courts have already clearly “articulated the background constitutional rules at issue” and the court can “easily ... articulate the remedy.” *Id.* If necessary, the Court has several options to eliminate APJs’ removal protections in a targeted fashion that minimizes any collateral effects on Congress’s handiwork.

A. This Court Can Partially Invalidate, Or Adopt Alternate Constructions Of, Statutory Provisions To Permit At-Will Removal Of APJs.

1. The government currently interprets the relevant provisions of Titles 5 and 35 to give APJs some protection from at-will removal from federal service. *See* Gov’t Br. 2-3, 34.¹ If the Court concludes that such protections unconstitutionally insulate

¹ In its brief, the United States identified the relevant removal restriction as the basic “efficiency of the service” standard found in 5 U.S.C. § 7513. *See* Gov’t Br. 34. That is true of the vast majority of APJs, including those who issued the decision in this case. However, upon further review, the government has determined that the USPTO has designated seven APJ positions for inclusion in the Senior Executive

APJs from the control of Senate-confirmed officers, it may hold that these provisions “cannot constitutionally be applied to Board members with respect to that Title’s removal restrictions, and thus must be severed to that extent.” Gov’t Br. 35; *see also* Order, Oct. 23, 2019, at 1-2 (directing explanations of this proposal).

When some applications of a statute would be unconstitutional, courts routinely confine relief to the statute’s unconstitutional applications while leaving its constitutional applications undisturbed. For example, in *United States v. Grace*, 461 U.S. 171 (1983), the Supreme Court declared unconstitutional some applications of a statute providing that “[i]t shall be unlawful to parade, stand, or move in processions or assemblages in the Supreme Court Building or grounds, or to display therein any flag, banner, or device designed or adapted to bring into public notice any party, organization, or movement.” *Id.* at 173 n.1 (quoting 40 U.S.C. § 13k (now codified with minor alteration at 40 U.S.C. § 6135)). The Court noted that this “statute cannot

Service (SES). *See SES Positions That Were Career Reserved During CY 2017*, 83 Fed. Reg. 29,312, 29-324 (June 22, 2018) (noting SES classification of the Chief APJ, Deputy Chief APJ, and five Vice Chief APJs). These seven APJs would thus be governed by the SES-specific provisions that permit removal from the SES “for less than fully successful executive performance,” or removal from the civil service for “misconduct, neglect of duty, malfeasance, or failure to accept a directed reassignment or to accompany a position in a transfer of function.” 5 U.S.C. §§ 3592(a)(2), 4314(b)(3), (4), 7542, 7543. This latter standard has been construed to permit removal under an even wider set of circumstances than Section 7513 allows. *See Shenwick v. Department of State*, 92 M.S.P.R. 289, 295 (M.S.P.B. 2002) (discussing legislative intent that “members of the Senior Executive Service be subject to fewer protections than non-SES members in order to add management flexibility to the top echelons of the federal government”). If the Court concluded that all APJs must be removable at will, the remedies the government has proposed would apply equally to these SES officials.

be construed to exclude the sidewalks” and that “Congress’ extension of § 13k’s prohibitions to the sidewalks” around the Supreme Court must be considered “a reasoned choice.” *Grace*, 461 U.S. at 180 n.9. The Court held “that under the First Amendment the section is unconstitutional as applied to those sidewalks,” while leaving the statute in effect with regard to its remaining applications. *Id.* at 183-84. The Court has engaged in such partial invalidation—sometimes involving an “implied severability” analysis, *United States v. National Treasury Emps. Union*, 513 U.S. 454, 488 (1995) (O’Connor, J., concurring in part and dissenting in part)—to cure a variety of constitutional infirmities.²

The language of the statute in *Grace* did not provide any textual basis for distinguishing between sidewalks and the remainder of the Court’s grounds, but the Court did not find it necessary to identify specific words within the statute to excise in order to confine relief to the statute’s invalid applications. Nor did the Court consider its partial invalidation tantamount to an impermissible rewriting of the statute. *Cf.*

² See, e.g., *Treasury Emps.*, 513 U.S. at 487-88 (O’Connor, J., concurring in part and dissenting in part) (collecting examples in which the Court “declared a statute invalid as to a particular application without striking the entire provision that appears to encompass it” in First and Fourth Amendment cases); *Ayotte*, 546 U.S. at 331 (remanding for consideration of narrower injunction rather than total invalidation of abortion-related statute); see also *United States v. Raines*, 362 U.S. 17, 21 (1960) (addressing contention that a statute was outside Congress’s Fifteenth Amendment authority, and concluding that “one to whom application of a statute is constitutional will not be heard to attack the statute on the ground that impliedly it might also be taken as applying to other persons or other situations in which its application might be unconstitutional”).

Treasury Emps., 513 U.S. at 479 n.26 (noting that in *Grace*, the Court “had no difficulty striking down the statute only as it applied to the public sidewalks,” but declining to “rewrite” a different statute that involved “inconsistent [congressional] signals as to where the new line or lines should be drawn”). Thus, where there is a clear and easily identifiable set of circumstances in which a statute may not constitutionally be applied, courts need not expunge specific words in a statute to craft a judicial remedy.

Here, if the Court concluded that APJs must be removable at will, it would be a “relatively simple matter” to invalidate the application of any removal protections as applied to APJs. *Treasury Emps.*, 513 U.S. at 479 n.26. Jurisprudence regarding the Appointments Clause and separation-of-powers issues has “previously distinguished,” *Ayotte*, 546 U.S. at 329-30, between at-will removal and other removal regimes. See, e.g., *Free Enter. Fund v. Public Co. Accounting Oversight Bd.*, 561 U.S. 477, 510 (2010); *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 684 F.3d 1332, 1340-41 (D.C. Cir. 2012). This Court would not need to “mak[e] distinctions in a murky constitutional context,” nor is this a situation “where line-drawing is inherently complex.” *Ayotte*, 546 U.S. at 330. Invalidating the application of removal protections to APJs, even without striking specific statutory language, would therefore not be the type of “serious invasion of the legislative domain” courts avoid. *Id.*

This remedy is appropriate because it is apparent that “the legislature [would] have preferred what is left of its statute” after eliminating APJs’ removal protections “to no statute at all.” *Ayotte*, 546 at 330; see *Buckley v. Valeo*, 424 U.S. 1, 108 (1976)

(per curiam) (“Unless it is evident that the legislature would not have enacted those provisions which are within its power, independently of that which is not, the invalid part may be dropped if what is left is fully operative as a law.”) (quotation marks omitted). The creation of the PTAB and the many functions Congress assigned to it were part of a significant patent-law reform “designed to establish a more efficient and streamlined patent system.” H.R. Rep. No. 112-98, at 40, 2011 U.S.C.C.A.N. 67, 69 (2011). And in similar circumstances, even where Congress has specified a removal standard, courts have severed and invalidated such legislative choices. *See, e.g., Intercollegiate Broad.*, 684 F.3d at 1340-41. The lack of a removal provision specific to APJs means the Court cannot structure partial invalidation in precisely the same way as these courts—but the very absence of such a provision indicates that Congress did not consider such protections a critical feature of the PTAB.

2. There is another means by which the Court could effectuate the government’s proposal to effectively sever the removal restrictions that the government currently understands APJs to enjoy while leaving the remainder of the statute intact. The Patent Act establishes a number of specific USPTO offices. *See* 35 U.S.C. §§ 3(a), (b) (establishing the Director, Deputy Director, and Commissioners for Patents and for Trademarks), 6(a) (establishing APJs). Of these, only the Deputy Director and the APJs do not have specific removal provisions attached to their offices. *Compare* 35 U.S.C. § 3(a)(4) (President may remove Director), *and* (b)(2)(C)

(providing conditions for removal of Commissioners by the Secretary of Commerce), *with id.* § 3(b)(1), 6(a) (establishing offices without removal regime).³

Where Congress has provided specific removal regimes for some offices, but remained silent with respect to others, the statute could be fairly interpreted to leave occupants of the latter subject to at-will removal. The Supreme Court has held that an agency head’s authority to remove a subordinate is plenary absent statutory language to the contrary because “the power of removal of executive officers [is] incident to the power of appointment.” *Myers v. United States*, 272 U.S. 52, 119 (1926). Although 35 U.S.C. § 3(c) generally incorporates the many civil-service provisions of Title 5, the statute’s omission of particular rules regarding APJ removal could be understood as preserving the “traditional default rule” of at-will removability. *Free Enter.*, 561 U.S. at 509. On this view of the Patent Act, Congress would have left undisturbed the presumption that the Secretary has at-will removal power over any officer he appoints in the absence of an office-specific provision to the contrary—*i.e.*, APJs and the Deputy Director. This interpretation would be consistent with the rule that, absent a “clear intention otherwise, a specific statute,” like that governing APJs in particular, “will not be controlled or nullified by a general one.” *Hernandez v.*

³ The statute also contemplates the existence of administrative trademark judges. *See* 35 U.S.C. § 3(b)(6). Congress established, and has periodically altered features of, that office by amending the Trademark Act of 1946. *See* 15 U.S.C. § 1067(b); *see, e.g.*, Pub. L. No. 110-313, § 4716 (Aug. 12, 2008) (amending the Trademark Act of 1946). Any removal restrictions that apply to these judges are beyond the scope of this litigation.

Department of Air Force, 498 F.3d 1328, 1332 (Fed. Cir. 2007) (quotation marks omitted). Although not “the most natural interpretation” of the statute—and thus not the one adopted by the agency to date—it would be “a fairly possible one” if necessary to avoid any constitutional defect the Court might otherwise perceive. *National Fed’n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 563 (2012).

B. Striking The Words “Officers And” From 35 U.S.C. § 3(c) Would Be Either Ineffective Or Overbroad.

At argument, the Court asked whether the removal protections in 5 U.S.C. § 7513 could be made inapplicable to APJs by simply striking the words “Officers and” from 35 U.S.C. § 3(c). That provision would then read: “[E]mployees of the Office shall be subject to the provisions of title 5, relating to Federal employees.” This remedy, however, is neither necessary nor appropriate.

First, as discussed above, it is unnecessary to excise particular words from the statute in order to eliminate the statute’s unconstitutional applications. *See supra* I.A. Although some statutes lend themselves to this form of remedy, where the relevant provisions are not amenable to such “blue-pencilling,” *Free Enter.*, 561 U.S. at 509, courts may still craft appropriate relief by invalidating the statute’s unconstitutional applications while leaving the statute otherwise undisturbed.

Next, it is unclear that this remedy would be effective. Title 5 itself defines the “employees” to whom Section 7513 applies, and that definition includes most APJs. *See* 5 U.S.C. § 7511(a)(1)(C) (making the subchapter applicable to “an individual in the

excepted service”); 5 C.F.R. § 213.3102(d); *see also* 5 U.S.C. §§ 2104, 2105 (providing default definition of “employee” for purposes of Title 5). Thus, Section 7513 and much of Title 5 appear to apply to APJs of their own force, independently of 35 U.S.C. § 3(c)’s specification regarding the “continued applicability” of Title 5’s employment provisions to USPTO’s officers and employees. To the extent that the Court crafts a remedy that *only* severs and strikes down particular words within § 3(c), it is unclear whether Title 5’s removal and other provisions would continue to apply to the agency’s officers by virtue of Title 5’s independent definitions. The better course would be to fashion relief specifying that APJ removal protections, wherever found in the U.S. Code, cannot constitutionally apply to APJs. *See supra* I.A.

Assuming *arguendo* that Section 3(c)’s specification regarding the “[c]ontinued applicability of Title 5” were necessary to extend the employee provisions of that title to USPTO officers and employees, the Court’s hypothesized remedy would be overbroad. On this assumption, eliminating “officers” from Section 3(c) could place APJs outside the scope of Title 5’s many employment-related provisions, not just that title’s removal provisions. Such provisions govern, *e.g.*, retirement benefits and health insurance. *See* 5 U.S.C. chs. 83, 84, 89. Such consequences would sweep far beyond those authorized by other courts. *Cf., e.g., Intercollegiate Broad.*, 684 F.3d at 1340-41 (invalidating part of 17 U.S.C. § 802(i)). This remedy would appear, moreover, to extend to USPTO officers other than APJs, even absent a determination that such officials could not constitutionally enjoy some form of removal restriction given their

particular duties and other means of principal-officer control. Thus, this remedy would run afoul of the Supreme Court’s directive that courts “should refrain from invalidating more of the statute than is necessary.” *Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 684 (1987).

II. This Court Should Tailor Any Relief To Account For Arthrex’s Failure To Raise A Timely Appointments Clause Challenge.

A. No Remand Is Required Given That Arthrex First Raised Its Challenge To APJs’ Appointment On Appeal.

If the Court concludes that any Appointments Clause violation can be cured judicially, the Board’s decision should not be vacated and remanded for a new merits proceeding. That result follows from the Supreme Court’s treatment of past Appointments Clause violations and traditional equitable principles.

1. In *Lucia v. SEC*, 138 S. Ct. 2044 (2018), the Supreme Court held that the Administrative Law Judges (ALJs) of the Securities and Exchange Commission (Commission) were “inferior officers” rather than employees, and thus had not been constitutionally appointed. *Id.* at 2054. In addressing the appropriate remedy, the Supreme Court explained “that ‘one who makes a *timely* challenge to the constitutional validity of the appointment of an officer who adjudicates his case is entitled to relief.’” *Id.* at 2055 (quoting *Ryder v. United States*, 515 U.S. 177, 182-83 (1995)) (emphasis added). The Court specifically noted that *Lucia* had “made just such a timely challenge” by “contest[ing] the validity of [the ALJ’s] appointment before the Commission.” *Id.*; see also *id.* at 2050 (recounting how before the Commission, “Lucia

argued that the administrative proceeding was invalid because [the ALJ] had not been constitutionally appointed”).

The relief provided in *Lucia* was thus explicitly premised on the petitioner having raised a “timely challenge” before the agency. 138 S. Ct. at 2055. In addressing the remedy to which *Lucia* was entitled, the Supreme Court relied on its earlier opinion in *Ryder*, in which the Court underscored the importance of preserving Appointments Clause challenges before the officer in question. The Court concluded that *Ryder* was entitled to relief on his Appointments Clause claim because he—unlike other litigants—“raised his objection to the judges’ titles before those very judges and prior to their action on his case.” *Ryder*, 515 U.S. at 181-83. “Any other rule,” the Court explained, “would create a disincentive to raise Appointments Clause challenges with respect to questionable judicial appointments.” *Id.* at 183. But even where a court opts to reach the merits of a forfeited challenge, there is no corresponding need to create an incentive to *belatedly* raise Appointments Clause challenges or to encourage deliberate gamesmanship in such challenges’ timing. *See In re DBC*, 545 F.3d 1373, 1380 (Fed. Cir. 2008) (discussing the possibility that a litigant could strategically permit a lower tribunal to “pursue a certain course, and later—if the outcome is unfavorable—claim[] that the course followed was reversible error”).

The Supreme Court’s emphasis on the timely presentation of Appointments Clause challenges before the agency in *Ryder* and *Lucia* accords with the Court’s longstanding and more general refusal to afford relief to those who do not timely

challenge the validity of agency adjudicators. In *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33 (1952), a litigant argued for the first time in court that the agency’s hearing examiner had not been properly appointed under the Administrative Procedure Act. The district court invalidated the agency’s order based on the improper appointment, but the Supreme Court reversed. *Id.* at 35-37. The Court emphasized the “general rule that courts should not topple over administrative decisions unless the administrative body not only has erred but has erred against objection made at the time appropriate under its practice.” *Id.* at 37. Thus, even with respect to an agency order that would be a “nullity” “if the [agency] had overruled an appropriate objection,” the Court has refused to vacate and remand. *Id.* at 38.⁴

Consistent with these principles, this Court should decline to vacate the Board’s decision here and remand. It is uncontested that Arthrex did not raise its challenge to the APJs’ appointment before the agency. *See* Reply Br. 28. And this Court has held that such challenges are untimely if not raised before the Board. *See*

⁴ *Freytag v. Commissioner*, 501 U.S. 868 (1991), is not to the contrary. The Supreme Court there excused the petitioner’s forfeiture and addressed the merits of his Appointments Clause challenge. *See id.* at 878-80. But because the Court concluded the appointments there were constitutional, *id.* at 890-92, the question of an appropriate remedy for a forfeited Appointments Clause claim did not arise. And in *Nguyen v. United States*, 539 U.S. 69 (2003), the Court’s decision to remedy a belated challenge to a non-Article III judge sitting on a Ninth Circuit panel was rooted in the “fundamental” “question of judicial authority” raised by the subversion there of “Congress’ decision to preserve the Article III character of the courts of appeals.” *See id.* at 73, 79-80; *see also id.* at 76 n.9 (making clear the Court’s decision did not rest on the Appointments Clause).

DBC, 545 F.3d at 1378-80. The Supreme Court has never before granted retrospective relief for an Appointments Clause challenge a litigant has raised belatedly, and this Court should deny Arthrex's request to do so here. Far from creating an appropriate incentive to raise timely Appointments Clause challenges, such relief would create an opportunity for litigants to "sandbag[]" the agency, the Court, and the opposing parties. *Id.* at 1380.

Although not regularly exercised, courts may have discretion to afford a litigant who has forfeited an Appointments Clause challenge vacatur and remand. *See Jones Brothers, Inc. v. Secretary of Labor*, 898 F.3d 669, 679 (6th Cir. 2018). But in *Jones Brothers*, the challenger at least "chose to identify the issue" before the agency, although it also decided "not to press it." *Id.* at 677. Arthrex, in contrast, did not raise this issue until its opening brief in this Court. And even if the Court *may* grant relief despite forfeiture, it is certainly not obliged to do so. Arthrex has not even attempted to distinguish itself from the hundreds of parties aggrieved by Board decisions who could still file an opening brief in this Court on appeal. *Cf. Ryder*, 515 U.S. at 185 (noting the lack of "grave disruption or inequity involved in awarding retrospective relief to this petitioner," where "the defective appointments of the civilian judges affect only between 7 to 10 cases pending on direct review"). In such circumstances, the Court should decline to afford Arthrex relief.

2. The Supreme Court's emphasis on timely challenges in shaping remedies for defective appointments is consistent with the equitable nature of the remedial

endeavor. A court order requiring an agency to undertake a new proceeding of any kind is indisputably a form of injunctive relief, and thus is subject to well-established equitable principles. *See generally Ford Motor Co. v. NLRB*, 305 U.S. 364, 373 (1939) (“[W]hile the court [reviewing an agency decision] must act within the bounds of the statute and without intruding upon the administrative province, it may adjust its relief to the exigencies of the case in accordance with the equitable principles governing judicial action.”). Separation-of-power claims—such as those concerning the unconstitutional insulation of a removal restriction—are subject to general equitable rules. *See, e.g., John Doe Co. v. CFPB*, 849 F.3d 1129, 1133 (D.C. Cir. 2017) (recognizing “traditional constraints on separation-of-powers remedies” and noting “vacatur of past actions is not routine”).

Where litigants delay in making their objections, they are less entitled to equitable remedies. *See, e.g., Cornetta v. United States*, 851 F.2d 1372, 1375 (Fed. Cir. 1988) (noting the maxim that “equity aids the vigilant not those who slumber on their rights”). And where a party could have intentionally delayed for strategic reasons, a court may decline to grant equitable relief. *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1361 (Fed. Cir. 2001) (noting the principle that one “who seeks equity must do equity”); *see also DBC*, 545 F.3d at 1380 (noting the concern that litigants could “sandbag[]” by delaying raising Appointments Clause challenges).

Here, by waiting for a final written decision of the Board before invoking the Appointments Clause, Arthrex put itself in position to see if it would prevail, and to

avail itself of the statute's estoppel provisions if the Board's decision were favorable. *See* 35 U.S.C. § 315(e). And Arthrex itself has previously invoked the PTAB's authority and received the benefit of favorable APJ decisions cancelling others' patent claims. *See, e.g., Arthrex, Inc. v. KFX Medical, LLC*, Case No. IPR2016-01698, Paper 28 (P.T.A.B. Feb. 26, 2018). These considerations make this a particularly unsuitable case in which to exercise equitable power to vacate the Board's decision and remand.

B. There Is No Basis For A Broad Remand.

1. Even if the Court decides to grant Arthrex retrospective relief notwithstanding its forfeiture, this Court at minimum should apply the above principles to limit the scope of any remand. As discussed above, Arthrex's equitable entitlement to relief is minimal. Moreover, the appropriate remedy may be circumscribed where a court invalidates a removal restriction protecting an otherwise properly appointed officer. *See Collins v. Mnuchin*, 938 F.3d 553, 593-94 (5th Cir. 2019) (en banc), *petition for cert. filed* No. 19-422 (U.S. Sept. 25, 2019); *see also id.* at 596 (Duncan, J., concurring) (drawing distinction between “an unconstitutionally *insulated* officer” and “an unconstitutionally *appointed* officer”). Such a decision here would not render APJs' appointment by the Secretary of Commerce invalid or require a new appointment, as was necessary in *Lucia*. Instead, it would at most require that APJs—who would remain properly appointed as inferior officers—revisit their prior decisions while operating under increased “direct[ion] and supervis[ion]” by Senate-confirmed officers. *Edmond*, 520 U.S. at 661-63. Absent a timely challenge and the

type of fundamental appointment defect at issue in *Lucia*, the extraordinary remedy the Court ordered there—an entirely new hearing before a different officer after a proper appointment—would be inappropriate. *See Lucia*, 138 S. Ct. at 2055; *see also id.* at 2055 n.5 (stating that such a remedy was not “required for every Appointments Clause violation”).

Rather, this Court should make clear that a new proceeding before a different Board panel is not required. A remand would involve “properly appointed official[s],” acting under whatever revised statutory regime the Court orders, “conduct[ing] an independent evaluation of the merits” de novo, such that they are “free to reach completely different conclusions in their new final determination.” *Intercollegiate Broad. Sys., Inc. v. Copyright Royalty Bd.*, 796 F.3d 111, 117, 120-21 (D.C. Cir. 2015). But any Board panel, including the original, could make that de novo determination. And, as the D.C. Circuit has held, that review can occur on the existing written record. *See id.* at 119; *see also id.* at 116 (noting concerns with fairness, efficiency, and cost if it allowed “additional submissions, discovery, and evidentiary hearings”). Thus, if the Court here concludes that APJs are insufficiently controlled in some respect under the current understanding of the relevant statutes, the Court should specify that on remand, any panel of APJs operating under the reformed statute may conduct a de novo review of the existing written record and issue a new

final decision.⁵

Importantly, any holding of this Court with respect to the constitutionality of APJs' appointments would have no bearing on the validity of prior agency decisions to institute inter partes review. The statute specifically provides that the authority to authorize institution, as distinct from the authority to conduct an instituted proceeding, belongs to the Director. *See* 35 U.S.C. § 314(a), (d). The Director, a President-appointed and Senate-confirmed officer, unquestionably exercises authority pursuant to a proper appointment. *See* 35 U.S.C. § 3(a)(1), (4). The Director has chosen to delegate his institution authority to the Board. *See* 37 C.F.R. § 42.4(a). But APJs have all been appointed as inferior officers—and thus in a manner that allows them to exercise significant authority—and the Director remains accountable for the institution decisions made pursuant to his delegation, which he may revoke through appropriate procedures at any time. *See Edmond*, 520 U.S. at 662-63 (noting that inferior officers may exercise “significant authority pursuant to the laws of the United States,” and that the Appointments Clause was “designed to preserve political

⁵ The Copyright Royalty Board's process on remand accounted for the possibility that the circumstances of an individual proceeding might dictate a more comprehensive process on remand. *See Intercollegiate Broad.*, 796 F.3d at 116-17 (permitting parties to object to a “paper proceeding” and “identify ... *specific* examples where it believes the outcome of the original proceeding turned on elements, such as witness demeanor, that are not readily determined from a review of the written record”). Such a feature on any remand here would amply account for any case-specific objections to review on the existing record, while respecting all parties' interest in minimizing delay and expense.

accountability”) (quotation marks omitted). Indeed, the Director could have delegated his authority to many other agency officials. *See* 35 U.S.C. § 3(b)(3)(B) (Director may “define the title, authority, and duties of [the USPTO’s] officers and employees and delegate to them such of the powers vested in the Office as the Director may determine.”). Thus, the challenge here is irrelevant to decisions issued under the Director’s sole, delegated authority.

2. If this Court excuses Arthrex’s forfeiture and both addresses the constitutional question and grants vacatur and remand, it should make clear that the same result should not obtain in subsequent cases involving forfeited Appointments Clause challenges. The Supreme Court in *Freytag* explained that courts have discretion to consider “Appointments Clause objections to judicial officers ... whether or not they were ruled upon below.” 501 U.S. at 878-79. But the Court highlighted that cases warranting an exercise of this discretion are “rare.” *Id.* at 879. And it opined that “the strong interest of the federal judiciary in maintaining the constitutional plan of separation of powers” can overcome the “disruption to sound appellate process entailed by entertaining objections not raised below.” *Id.* (quotation marks omitted).

Were this Court to identify any Appointments Clause problem in the statutes governing APJs, the judiciary’s interest in “maintaining the constitutional plan” would be satisfied. There would be no similar need in future cases to excuse forfeiture. At that point, the usual rules of forfeiture should preclude relief for any other litigant with the same unpreserved Appointments Clause challenge. Thus, even if the Court

reaches the merits and grants Arthrex's request for a remand, it should specify that there is no such basis for granting relief to similarly situated challengers in the future.

CONCLUSION

For the foregoing reasons, if the Court concludes there is an Appointments Clause defect in APJ-related statutes, it should craft a remedy that renders APJs removable at will and decline to vacate and remand the Board's decision here.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

This brief complies with the Court's supplemental briefing order because it does not exceed 20 double-spaced pages. *See* Federal Circuit Rule 27(d). This brief also complies with Federal Rule of Appellate Procedure 32(a)(5)-(6) because it was prepared using Microsoft Word 2016 in Garamond 14-point font, a proportionally spaced typeface.

/s/ Melissa N. Patterson

MELISSA N. PATTERSON

CERTIFICATE OF SERVICE

I hereby certify that on October 29, 2019, I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. Participants in the case are registered CM/ECF users, and service will be accomplished by the appellate CM/ECF system.

/s/ Melissa N. Patterson

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