

2018-2140

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

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**Arthrex, Inc.,**  
*Appellant*

v.

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

**United States,**  
*Intervenor*

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

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**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.<sup>1</sup> 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*.

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<sup>1</sup> *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*.<sup>2</sup> 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.

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<sup>2</sup> *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.<sup>3</sup> 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.<sup>4</sup> "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 waived<sup>5</sup>—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.

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<sup>3</sup> 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.

<sup>4</sup> [https://www.uspto.gov/sites/default/files/documents/sop\\_9\\_%20procedure\\_for\\_decisions\\_remanded\\_from\\_the\\_federal\\_circuit.pdf](https://www.uspto.gov/sites/default/files/documents/sop_9_%20procedure_for_decisions_remanded_from_the_federal_circuit.pdf)

<sup>5</sup> 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.<sup>6</sup> 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.

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<sup>6</sup> *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);<sup>7</sup>
- **100** IPRs on appeal in which patentees have not yet filed opening briefs;<sup>8</sup>

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<sup>7</sup> 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).

<sup>8</sup> 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.<sup>9</sup>

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, 2018<sup>10</sup> 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.....” <sup>11</sup>	p. 60	p. 52

<sup>9</sup> 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.

<sup>10</sup> 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.

<sup>11</sup> 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.<sup>12</sup> 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.

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<sup>12</sup> 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)).<sup>13</sup> 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.

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<sup>13</sup> 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.<sup>14</sup> 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)

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<sup>14</sup> *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)<sup>15</sup> 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”).

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<sup>15</sup> 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).<sup>16</sup> 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.

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<sup>16</sup> 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.<sup>17</sup> Arthrex concedes that such waiver occurred and anything the Court does will be a matter of “discretion.” Dkt. No. 40 at 28.

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<sup>17</sup> 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,

Date: October 29, 2019

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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.

Date: October 29, 2019

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## CERTIFICATE OF SERVICE AND FILING

I hereby certify that a true and correct copy of the foregoing has been filed using the Court's CM/ECF system. All counsel of record were served via CM/ECF on the 29th day of October, 2019, as follows:

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