

## Replying on Arthrex, the Smith & Nephew Reply Brief

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Smith & Nephew and the United States filed their reply briefs on January 22. Smith & Nephew's [reply brief](#), which we review here, critiques the arguments Arthrex made in its [initial merits brief](#), addresses some issues raised in [amicus briefs](#), and shores up its own positions.

In the *Arthrex* cases (docketed as [19-1434](#)), Arthrex has previously argued that the powers given to administrative patent judges (APJs) under the AIA were a serious departure from the traditional powers vested in these officers.<sup>1</sup> These increased powers, coupled with the lack of reviewability of APJ decisions, means that APJs must be principal officers and that they must be appointed by the President with the advice and consent of the Senate. Additionally, Arthrex has argued that the remedy created by the lower court, which struck the removal protections from APJs, is insufficient and that a final remedy should be left to Congress to determine.

### Was the AIA a Substantial Departure?

In its reply brief, Smith & Nephew takes issue with the version of history that Arthrex presented in its initial brief. Smith & Nephew states that the AIA “built on deep foundations from the history of administrative patentability determinations and continues an unbroken tradition of nearly 100 years.”<sup>2</sup> It briefly recounts how “second look” proceedings (e.g., reexaminations) have been handled by Congress since their creation nearly 40 years ago, and concludes that the powers granted to APJs in the AIA are similar to those wielded by other inferior patent officers in the past.<sup>3</sup>

Regarding the analysis of an officer's status, Arthrex previously took the position that reviewability of an officer's decisions is the key consideration in determining whether the officer is inferior or principal.<sup>4</sup> Smith & Nephew, however, criticizes this approach as being an inflexible bright-line rule that is not supported by precedent, and suggests that the Court instead follow its jurisprudence in *Edmona*, which focused on a balance of three criteria for determining officer status, but expressly rejected any “exclusive criterion for distinguishing between principal and inferior officers.” Smith & Nephew urges the Court to favor this holistic approach, which it argues is in line with the Court's repeated refusal to adopt bright-line rules in the Appointments Clause context. A bright-line test, it

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argues, would impermissibly restrain the ability of Congress to structure administrative agencies and could lead to constant challenges to administrative authority.<sup>5</sup>

## What Remedy is Appropriate?

Arthrex, in its initial brief, asked the Court both to dismiss the IPR proceeding against it and to hold the entire IPR regime unconstitutional.<sup>6</sup> Smith & Nephew argues that, should the Court reach the remedy question, dismissal of the IPR would be inappropriate and any change to the IPR regime should be limited to fixing a specific constitutional problem.

### Remedy specific to the Arthrex IPR

Smith & Nephew argues that the most that Arthrex should get is a declaratory judgment and that dismissal of the IPR would be inappropriate for three reasons.

First, Smith & Nephew relies on *Ryder* and *Lucia* to argue that for the Court to overturn an adjudication based on an Appointments Clause challenge, the challenge must have been timely made before the adjudicatory body.<sup>7</sup> Smith & Nephew notes that the Court has previously said 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.”<sup>8</sup> In other words, Arthrex should have raised the issue before the PTAB, which it did not do, and so dismissal is inappropriate.<sup>9</sup> This is an issue that Smith & Nephew included in its petition for certiorari and was also one of the questions presented by the United States.<sup>10</sup> However the Court declined to take it up in this case. Smith & Nephew notes that the Court has agreed to hear a case presenting a similar question, *Carr v. Saul*,<sup>11</sup> and clarifies that it is not seeking a “generally applicable rule” on forfeiture of Appointments Clause challenges. But it is arguing that, in this narrow circumstance, Arthrex’s failure to timely raise the issue makes dismissal of the IPR, or indeed any remedy other than a declaration, an inappropriate remedy.<sup>12</sup>

Second, Smith & Nephew argues that dismissing the IPR is not available to the Court under the AIA. While a final decision on the merits in an IPR proceeding is subject to judicial review, the Court has previously held that the decision to institute the IPR is not reviewable.<sup>13</sup> Smith & Nephew argues that to dismiss the IPR would be to “second-guess the Director’s institution decision,” and so is not available to the Court.<sup>14</sup>

Finally, Smith & Nephew argues that dismissal would be inappropriate because Arthrex is estopped from seeking that remedy. Specifically, says Smith & Nephew, Arthrex forfeited its ability to seek dismissal when it signed a settlement agreement that was contingent on the IPR continuing. Dismissing the IPR would, according to Smith & Nephew, unfairly permit Arthrex to get around its contractual promise to allow the IPR to proceed.

### Altering the IPR regime

While the issue of IPR dismissal is interesting, the larger issue here may be Arthrex’s request that the Court declare the IPR regime unconstitutional, a request that Smith & Nephew likens to “a letter to Santa Claus.”<sup>15</sup> As Smith & Nephew states in its brief, the remedy sought by Arthrex is akin to using “a bulldozer” when “a scalpel” is appropriate.<sup>16</sup> Citing the Court’s “decisive preference for surgical severance, rather than wholesale destruction,” Smith and Nephew urges the Court to refuse

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to “let a challenger ride a discrete constitutional flaw . . . to take down [a] whole, otherwise constitutional system.”<sup>17</sup> Smith & Nephew accentuates Arthrex’s lack of legal authority to support its request by citing cases such as *Selia Law* and *Free Enterprise Fund*, where the court opted to invalidate small parts of a statute rather than eliminate the underlying administration.<sup>18</sup>

Smith & Nephew also rebuffs Arthrex’s suggestion that the Court should leave the decision to Congress simply due to the number of possible remedies.<sup>19</sup> “Even where there are a number of statutory provisions that, working together, produce a constitutional violation, this Court can sever just one of those provisions as an appropriate remedy.”<sup>20</sup>

Having pushed back against Arthrex’s suggested remedies, Smith & Nephew makes two suggestions in the event that the Court does find APJs are principal officers. First, the Court could solve the appointment issue by striking 35 U.S.C. § 6(a), which requires APJs to be appointed by the Secretary of Commerce.<sup>21</sup> Second, the Court could solve an issue with the lack of review by striking 35 U.S.C. § 6(c), which limits granting rehearings to the PTAB. The statute would then be silent on the issue of who can grant a rehearing, which, Smith & Nephew suggests, would allow the Director via inherent authority to fully review APJ decisions.<sup>22</sup> Either way, should the Court wish to give Congress an opportunity to amend the statutory scheme, Smith & Nephew suggests the Court should make a decision regarding the remedy and then stay the judgment to give Congress the necessary time to act.<sup>23</sup>

## Next Steps

Next week, we will review the reply brief submitted by the United States. Afterward, Arthrex will submit its own reply brief before February 21, 2021. [Oral argument](#) for the case is scheduled for Monday, March 1, 2021. Continue checking the [PTAB Trial Insights Blog](#) for analysis on these and future developments in the upcoming weeks.

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<sup>1</sup> Arthrex Br. at 34.

<sup>2</sup> Smith & Nephew Reply Br. at 11.

<sup>3</sup> Smith & Nephew Reply Br. at 9-11.

<sup>4</sup> Arthrex Br. at 20.

<sup>5</sup> Smith & Nephew Reply Br. at 22-23.

<sup>6</sup> Arthrex Br. at 59.

<sup>7</sup> Smith & Nephew Reply Br. at 37; *Ryder v. United States*, 515 U.S. 177 (1995); *Lucia v. SEC*, 138 S. Ct. 2044 (2018).

<sup>8</sup> Smith & Nephew Reply Br. at 38; *Woodford v. Ngo*, 548 U.S. 81, 90 (2006) (quoting *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37 (1952)).

<sup>9</sup> Smith & Nephew Reply Br. at 37.

<sup>10</sup> United States Pet. at 4; Smith & Nephew Pet. 32–33.

<sup>11</sup> *Carr v. Saul*, No. 19-1442.

<sup>12</sup> See Smith & Nephew Reply Br. at 37 n. 5.

<sup>13</sup> *Thryv Inc. v. Click-To-Call Techs.* 140 S. Ct. at 1370 (citing 35 U.S.C. § 314(d)); See also *Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, 839 F.3d 1382, 1386 (Fed. Cir. 2016).

<sup>14</sup> Smith & Nephew Reply Br. at 40.

<sup>15</sup> Smith & Nephew Reply Br. at 36.

<sup>16</sup> Smith & Nephew Reply Br. at 44.

<sup>17</sup> Smith & Nephew Reply Br. at 45 (quoting *Barr v. Am. Ass’n of Political Consultants, Inc.*, 140 S. Ct. 2335, 2350–51 (2020));

<sup>18</sup> Smith & Nephew Reply Br. at 45 (citing *Seila Law LLC v. Consumer Financial Protection Bureau*, 140 S. Ct. 2183, 2211 (2020); *Free Enter. Fund v. Pub. Co. Accounting Oversight Board*, 561 U.S. 477, 509–10 (2010)).

<sup>19</sup> Smith & Nephew Reply Br. at 45-46.

<sup>20</sup> Smith & Nephew Reply Br. at 46 (citing *Free Enter. Fund*, 561 U.S. at 509–10) (internal quotation marks omitted).

<sup>21</sup> Smith & Nephew Reply Br. at 47.

<sup>22</sup> Smith & Nephew Reply Br. at 48.

<sup>23</sup> Smith & Nephew Reply Br. at 46.