Amici and Practitioners Attempt to Read the *Arthrex* Tea Leaves

By **IPWatchdog**
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Yesterday, the Supreme Court heard oral arguments in the most closely-watched patent case of the term, *United States / Smith & Nephew v. Arthrex*. IPWatchdog reached out to some of the *amici* in the case, as well as patent practitioners and other stakeholders, to get their take on how the hearing went and what the future holds for the Administrative Patent Judges (APJs) of the U.S. Patent and Trademark Office's Patent Trial and Appeal Board (PTAB). Most agreed that it's unlikely the Court will dismantle the PTAB altogether, but that they were clearly uncomfortable with the present structure. Below, our experts weigh in on some potential outcomes.

The *Amici*

Peter J. Brann, Brann & Isaacson

"Based on the substance and tenor of the questions, I believe that the administrative state will narrowly live to fight another day."

Brann & Isaacson submitted an amicus brief on behalf of two of the leading American golf manufacturers, Acushnet and Cleveland Golf, supporting the United States on the constitutionality of the PTAB.

Jeremy C. Doerre, Tillman Wright, PLLC

"Reading tea leaves is always problematic, but if pressed to guess, I would guess that a majority of the Court will ultimately agree with the Federal Circuit that administrative patent judges are principal officers. It seems tough to escape this conclusion without backing away from the emphasis on reviewability in *Edmond*, but the Court obviously has the power to do exactly that if it wishes. Some members of the Court seemed to suggest that they would like to do so, perhaps instead focusing a bit more on policymaking ability.

However, if the argument foreshadowed anything, it is probably that Arthrex is exceedingly unlikely to get the result it was hoping for. Even if a majority of the Court decides that administrative patent judges are inferior officers, there seemed to understandably be a good bit of skepticism towards any suggestion that this would require taking down the entire system.

Some members of the Court instead seemed to lean towards stripping out from 35 U.S.C. § 6(c) the requirement for three member panels and/or the prohibition on non-board rehearing. The obvious other option would be to require appointment by the President and advice and consent.

Ultimately, the best possible outcome is probably for Congress to get involved and obviate the need for the Court to try to craft a remedy at all, but that seems unlikely to happen."

Doerre submitted an amicus brief in support of the petitioner.

David Hoyle, B.E. Technology LLC

"The questions and comments of the Justices exposed their opinions in more detail in Arthrex than what is typical. It seems as though the Justices have their minds made up and were more involved in convincing the other Justices to join their side. Having said that, my Crystal Ball says Justices Roberts, Thomas, Gorsuch, Kavanagh, and Barrett will rule in favor of Arthrex. This leaves Justices Breyer, Kagan and Sotomayor ruling against Arthrex.

The greatest question will be, what is the remedy? My perceived majority asked many questions on what the solution should be. Their discussions were about surgical remedies as opposed to major remedies pending Congressional action. That means everything is still in play; is the remedy surgical? Or do they throw the whole thing out?

I do believe Arthrex and the Justices, by their questions, have shown what many of us has said all along—the soft underbelly of the PTAB and America Invents Act is a due process violation.

Hoyle submitted an amicus brief for B.E. Technology in support of Arthrex and reversal.

Charley Macedo, Amster, Rothstein & Ebenstein

"Today's oral argument demonstrated that the Court was equally concerned with the unusual structure of the IPR system, which broke from tradition, as with the suggestion to strike down the entire system. I wouldn't be surprised to see a 5-4 split finding Patent Trial and Appeal Board Administrative Patent Judges are inferior officers. However, it seems that if the Court finds that APJs are principal officers, that there will be a different 'blue-penciling' of the statute (35 U.S.C. § 6) than that adopted by the Federal Circuit, to allow for appropriate political appointee review."

Amster, Rothstein & Ebenstein filed an amicus brief on behalf of eComp Consultants in support of the petitioner.

Josh Malone, Inventor of Bunch O Balloons and Volunteer with US Inventor

"The most likely outcome is 5-4 that the USPTO is a 'strange bird' agency whose employees can make final agency decisions without being Senate confirmed. The majority views patents as regulatory matters – public franchises – like toll bridges or veterans' benefits, and will attempt to sidestep their precedent on property rights and administrative adjudications. I count Roberts, Gorsuch, Kavanaugh, and Barrett in the minority.

Alternatively, Alito or Sotomayor could swing to our side to hold that APJs are not inferior officers. At that point there is no majority on the remedy. I was surprised that Kavanaugh and Barrett were hesitant to "take down the whole system" if it is unlawful. Their pragmatism could trigger a second ballot with Kavanaugh joined by Barrett, Thomas, Sotomayor, and Kagan on the remedy. This would be a travesty for inventors and the United States justice system.

For inventors to prevail, Alito or Sotomayor must swing to our side with Kavanaugh and Barrett resisting the temptation to judicial activism."

Malone filed an amicus brief in support of Arthrex.

Jared McClain, New Civil Liberties Alliance

"The Chief Justice's questions today highlighted a major concern with the positions of Smith & Nephew and the Solicitor General in this case: to allow the Director, in the name of supervision and control, to opaquely affect the outcome of individual patent determinations because he lacks plenary review power would not only undermine the transparency in government that the Appointments Clause exists to promote—doing so would also undermine the due process of law. The Court must craft a decision that accounts for structural integrity and transparency required by the Appointments Clause without depriving litigants of their due-process rights during agency adjudications."

The New Civil Liberties Alliance filed an amicus brief urging reversal-in-part and supporting respondents.

Ilya Shapiro, Director, Robert A. Levy Center for Constitutional Studies and Publisher, *Cato Supreme Court Review*, Cato Institute

"The justices were clearly uncomfortable with the power given to officials not subject to presidential vetting and Senate confirmation, but were also unprepared to throw out the entire structure of administrative patent review. That question of remedy is key—and the Court should leave it to Congress to figure out rather than judicially crafting a new statute."

Shapiro filed an amicus brief on behalf of the Cato Institute supporting the respondents.

Bridget Smith and Kenneth Weatherwax, Lowenstein & Weatherwax LLP

"We count three votes for reversing the 'principal officer' finding, and there may well be more given the surprisingly small number of questions about what remedy is appropriate if that finding is affirmed. We count no votes for the patent owner's proposed 'dismiss without severing' remedy. There was a surprising amount of discussion of the possibility of construing section 318(b) to, as far as we could tell, give the Director discretion to not cancel claims found unpatentable by the Board—which we think would be an adventurous, to say the least, interpretation of this provision's 'shall issue and publish' language. Beyond that, we think the tea leaves were not easy to quickly read."

Smith and Weatherwax filed an amicus brief on behalf of Amici 39 Aggrieved Inventors in support of Arthrex.

Jonathan Stroud, Unified Patents

"The Court seems predisposed to finding that the statute as written and implemented means that the APJs are Principal Officers under the Appointments Clause and thus need to be answerable to the President; on the other hand, a majority of the Justices seemed unlikely to throw out the entire PTAB scheme. The most interesting comments came from Justices Kavanaugh and Barrett, both of whom are a bit of a question mark on patent and (to a much lesser extent) administrative law issues. Their comments suggested that they both might be predisposed (along with what seemed like a clear majority of the Justices) to find the statute flawed. But their comments were equally illuminating on the subsidiary question of whether they could issue some form of Constitutional fix. Justices Alito, Kavanaugh, and Barrett, from their

comments, seemed predisposed to saying that the Constitutional defect was limited to section 6(c), and seemed to contemplate a limited severance (or, in the case of Justice Alito, just a Constitutional recognition that the director has authority to review final decisions). That may end up being as simple as changing the understanding of "shall" to a permissive "may" in the language of 6(c), which would preserve the system; it's unclear what effect that will have on the thousands of pending cases, if any. Justices Thomas and Alito had interesting questions about remedy—wondering if this wasn't just an advisory opinion and asking what the patent owner hoped to achieve here—and Chief Justice Roberts was measured and thoughtful, as always."

Unified Patents filed an amicus brief supporting no party and reversal.

Patent Practitioners

Case Collard, Dorsey & Whitney

"During oral argument, some Justices seemed interested in potentially reigning in the executive department by requiring a more reliable, bright-line test for when an officer is principal v. inferior. However, the Justices recognized that the varied function of the executive branch could benefit from a 'totality of the circumstances' approach. The Justices were concerned about the variety of 'severability' remedies available to court to correct the problem. Arthrex argued that any correction must be left to Congress and was not the proper role of the Court. Any discussion of the remedy is positive for Arthrex, because implementing a remedy would require a finding that the PTAB Judges are inferior. Guessing an outcome based on oral argument is a tricky, but this appears to be a very close question after today's argument."

William Milliken, Sterne Kessler, Goldstein & Fox

"One of the primary issues the Justices appeared to be grappling with is how to articulate a legal test to distinguish between principal and inferior officers that (i) is concrete enough to be administrable but also (ii) is flexible enough to account for the wide variety of institutional structures that may be desirable in our government. Arthrex's test—an adjudicative officer is a principal officer if no one else in the executive branch can directly review his or her decisions—is concrete, but less flexible. The test proposed by the United States and Smith & Nephew—an officer is an inferior officer if, considering the totality of the circumstances, the officer's work is supervised 'at some level' by other officers—is flexible, but less concrete. Many of this morning's questions illuminated the tradeoffs inherent in those two approaches."

Naveen Modi, Paul Hastings

"The PTAB continues to be under the Supreme Court's scrutiny. The Court heard another historic argument today. Specifically, the argument today in Arthrex may have substantial consequences for the PTAB, the parties before it, and hundreds of proceedings pending before the PTAB (and perhaps even other tribunals). It is unclear where the Supreme Court will end up, but the Court asked tough questions to counsel for all three parties. The Court was trying to figure out where to draw the line on the question of whether for purposes of the Appointments Clause, the APJs are principal officers or inferior officers, and on the question of the appropriate remedy if it finds there is an Appointment Clause violation."

Bradley J. Olson, Barnes & Thornburg

"In this long-awaited appeal, the line of argument advancing that APJs are a form of 'inferior officer' under the Appointments Clause is likely to win the day. This was clearly apparent when U.S. Deputy Solicitor General Malcolm Stewart delivered convincing arguments to the initial inquiries of Chief Justice Roberts regarding APJs as inferior officers. The main point of the Deputy Solicitor General was that APJs, while not under the plenary control of the Director, are still subject to 'substantial' supervisory control, emphasizing the point that the Board's decision would be the decision of the Executive Branch unless reheard. Justice Thomas, who often does not pose questions during oral arguments, was compelled to ask the Deputy Solicitor General, 'How would we discern what is substantial?' Justice Thomas, and the other Justices, seemed satisfied with the response given and no further questions on that point ensued. My impression after listening to the oral arguments is that while the Court may not be in agreement with the PTAB's enablement and operation, there have been sufficient corrections by Congress over the years to permit APJs to meet the definition of 'inferior officers.' In all likelihood, the Court will find some way of disagreeing with the Federal Circuit's line of reasoning but will avoid a wholesale reformation of the PTAB."

George E. Quillin, Foley & Lardner LLP

"A decision with the least immediate impact would be one in which the Court agrees with the government and Smith & Nephew that Administrative Patent Judges (APJ) have been inferior officers all along. Hence, there would be no need to for a judicial fix to anything, and the APJs and the PTAB would continue to operate just as contemplated in the American Invents Act. Yet such a decision could have very significant long-term implications on for the country beyond patent law. As Justice Kavanaugh explained during oral argument, 'What I'm worried about is this gives a model for Congress to eliminate agency review of ALJ decisions . . . that would allow Congress to give extraordinary power to inferior officers, which is not how our government is ordinarily structured.'"