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Arthrex: Where Are We Now?

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<u>CLE Materials</u>

Arthrex, Inc. v. Smith & Nephew, Inc., 941 F.3d 1320 (Fed. Cir. 2019)

George Quillin and Jeanne Gills, *Justices Appear Conflicted About Status of Administrative Patent Judges*, SCOTUSblog (Mar. 3, 2021)

John F. Duffy, *Are Administrative Patent Judges Unconstitutional?*, 77 Geo. Wash. L. Rev. 904 (2009)

1603, that the statute provides for a grant payment for property that is "an electricity producing facility." H.R. Rep. No. 111-16, at 620–21 (Feb. 12, 2009) (Conf. Rep.). It further states that:

> An income tax credit is allowed for the *production of electricity* from qualified energy resources at qualified facilities (the "renewable electricity production credit"). Qualified energy resources comprise ... open-loop biomass .... Qualified facilities are, generally, facilities that *generate electricity* using qualified energy resources.

Id. at 620 (emphasis added). These statements from the legislative history illuminate Congress's intent when enacting the statute. Specifically, they demonstrate that Congress intended to promote the use of clean energy resources *for the production of electricity*. This is consistent with the plain text of the statute and lends further support to the government's reading.

WestRock argues that, while the statute establishes that a qualified facility must use open-loop biomass to produce electricity, it does not allow Treasury to allocate cost based on the percentage of steam used to actually produce electricity. According to WestRock, once it has been established that the qualified property uses biomass to produce electricity, Treasury must blindly reimburse WestRock for 30 percent of the total cost of that property. We disagree. Not only does this read out the phrase "integral part" from the Internal Revenue Code, it also produces an absurd result. Under WestRock's reading of the statute, any owner that uses its property to produce even a small amount of electricity would be reimbursed for 30 percent of the cost of that property even if the property is in large part used for purposes entirely unrelated to the production of electricity. This is not the result Congress intended when it enacted Section 1603. *See Griffin v. Oceanic Contractors, Inc.*, 458 U.S. 564, 575, 102 S.Ct. 3245, 73 L.Ed.2d 973 (1982) ("[I]nterpretations of a statute which would produce absurd results are to be avoided if alternative interpretations consistent with the legislative purpose are available.").

Finally, WestRock contends that the Claims Court erred when it relied on Treasury guidance and *Skidmore* deference to uphold Treasury's grant amount. Because we conclude that Treasury's grant amount is consistent with Section 1603 based on an unambiguous reading of the statute, we need not resort to agency deference, and thus, need not reach WestRock's argument.

CONCLUSION

For the reasons stated above, we affirm the Claims Court's conclusion that the amount of Treasury's grant award was consistent with Section 1603.

AFFIRMED

COSTS

No costs.

ARTHREX, INC., Appellant

v.

SMITH & NEPHEW, INC., Arthrocare Corp., Appellees

United States, Intervenor

2018-2140

United States Court of Appeals, Federal Circuit.

Decided: October 31, 2019

Background: The Patent Trial and Appeal Board, 2018 WL 2084866, held that claims in patent directed to knotless suture securing assembly were unpatentable as anticipated. Owner appealed.

Holdings: The Court of Appeals, Moore, Circuit Judge, held that:

(1) Court of Appeals would exercise its discretion to review patent owner's Appointments Clause challenge on appeal that had not been raised before Patent Trial and Appeal Board on inter partes review;

(2) Administrative Patent Judges (APJs) exercised significant authority, rendering them "Officers of the United States" under Appointments Clause;

(3) ability of panels of APJs to issue final decisions on behalf of Patent and Trademark Office (PTO), at times revoking patent rights, without any principal officers having right to review those decisions favored conclusion that APJs were principal officers;

(4) supervisory powers of Director of PTO weighed in favor of conclusion that APJs were inferior officers;

(5) lack of unfettered authority by Secretary of Commerce and Director to remove APJs or review their work weighed in favor of conclusion that APJs were principal officers;

(6) APJs were principal officers within meaning of Appointments Clause; and

(7) severing portion of Patent Act restricting removal of APJs was sufficient to render APJs inferior officers and remedy violation of Appointments Clause.

Vacated and remanded.

1. Federal Courts ⚷3391

Although, as a general rule, a federal appellate court does not consider an issue not passed upon below, it has discretion to decide when to deviate from that general rule.

2. Patents ⚷1131

Court of Appeals exercised its discretion to review patent owner's Appointments Clause challenge on appeal that had not been raised before Patent Trial and Appeal Board on inter partes review, since case implicated important structural interests and separation of powers concerns protected by Appointments Clause, issue had wide-ranging effect on property rights and nation's economy and timely resolution was critical to providing certainty to rights of holders and competitors alike who relied upon inter partes review scheme to resolve concerns over patent rights, and remedial action had not been taken and Board could not have corrected the problem. U.S. Const. art. 2, § 2, cl. 2.

3. Constitutional Law ⚷2330

Patents ⚷1262

Separation of powers is a fundamental constitutional safeguard and an exceptionally important consideration in the context of inter partes review proceedings.

4. Patents ⚷1009

Public Employment ⚷64

United States ⚷1325

Administrative Patent Judges (APJs) exercised significant authority, rendering them "Officers of the United States" under Appointments Clause, since APJs, in conducting adversarial inquiries, took testimony, conducted trials, ruled on admissibility

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16th Annual Advanced Patent Law Institute session
"*Arthrex*: Where Are We Now?"