

# Federal Circuit Holds that Delegation of Director Review in PTAB Proceedings Does Not Violate the Constitution

MAY 31, 2022

*Arthrex, Inc. v. Smith & Nephew, Inc.*, Case No. 2018-2140 (Fed. Cir. May 27, 2022)

Before: Moore, Reyna, Chen

The *Arthrex v. Smith & Nephew* PTAB saga produced another precedential opinion on May 27, 2022, when the Federal Circuit held that Director review of PTAB Final Written Decisions may be delegated to the Deputy Director or the Commissioner of Patents when the PTO Director is unavailable without violating the Constitution. The Court also held that the PTAB may analyze and resolve the issue of whether a patent specification meets the written description requirement for purposes of resolving the priority date of later-filed claims.

## 1. Background

This case has an extensive history. In 2015 Arthrex sued Smith & Nephew and ArthroCare Corp. (collectively, “S&N”) for infringement of U.S. Patent No. 9,179,907 (the “907 patent”). S&N filed a petition for *inter partes* review of the 907 patent, which the PTAB instituted. The PTAB panel assigned to the IPR ultimately held in S&N’s favor, finding that numerous claims of the 907 patent were invalid as anticipated. *Smith & Nephew, Inc. v. Arthrex, Inc.*, IPR2017-00275 (PTAB May 2, 2018). On appeal to the Federal Circuit, Arthrex argued, among other things, that the make up of the PTAB panels violated the Constitution. Specifically, Arthrex argued that because the Administrative Patent Judges making up the PTAB had the power to invalidate patent claims, they acted as “principal officers” of the United States, but were not appointed by the President and confirmed by the Senate as is required of principal officers. Instead, the APJs were appointed by the Secretary of Commerce. The Federal Circuit agreed and held that the PTAB as it was currently constructed violated the Appointments Clause of the Constitution (Article II, Section 2). The Court’s solution was to render APJs “inferior officers,” which it did by severing the statutory limitations on the removal of APJs, such that the APJs could be removed by the Director without cause. Having determined that the panel of the PTAB that decided the validity of Arthrex’s patent was unconstitutionally appointed, the Federal Circuit remanded to the PTAB for rehearing by a new APJ panel. *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320, 1338, 1340 (Fed. Cir. 2019).

The next stop was the Supreme Court, which vacated and remanded the Federal Circuit’s decision. *United States v. Arthrex, Inc.*, 151 S. Ct. 1970 (2021). The Court agreed that the APJs of the PTAB could not invalidate patent claims because they were not appointed by the President and confirmed by the Senate. The Court, however, fashioned a

different solution – it held that the PTO Director must have the power to rehear PTAB final written decisions, and, upon review, issue decisions concerning validity. The Court also held that because the problem was the lack of any ability by the Director to review final written decisions and not the appointment of APJs by the Secretary of Commerce, Arthrex’s remedy was not to have the IPR decided by a new PTAB panel, but rather to have the Acting Director decide whether to rehear the final written decision.

The IPR returned to the PTAB for consideration of Arthrex’s rehearing request. At the time of the Supreme Court’s decision (June 21, 2021), there was no Director of the PTO appointed by the President, and the office of Deputy Director was likewise vacant. This made the Commissioner of Patents the Acting Director pursuant to Agency Organization Order 45-1 (stating that if both the Director and Deputy Director positions are vacant, the Commissioner of Patents will perform the duties of the Director). The Commissioner denied Arthrex’s request for rehearing and ordered that the original PTAB final written decision was the “final decision of the agency.” *Smith & Nephew, Inc. v. Arthrex, Inc.*, IPR2017-00275, Paper 40 at 2 (PTAB Oct. 15, 2021). Arthrex again appealed.

## 2. The Federal Circuit’s Decision

### a. The Constitutionality of Director-Delegated Review

Back in front of the Federal Circuit, Arthrex first argued that the PTAB again violated the Appointments Clause because the Commissioner was not appointed by the President and confirmed by the Senate. While agreeing that the Commissioner “generally cannot issue a final agency decision,” the Federal Circuit held that an inferior officer, such as the Commissioner, “may perform the functions and duties of an absent [Presidentially-appointed, Senate-confirmed] officer on a temporary, acting basis.” *Arthrex*, Slip Op. at 5. The Court relied on the Supreme Court’s decision in *United States v. Eaton*, 169 U.S. 331 (1898) that an inferior officer “charged with the duty of [a] superior for a limited time, and under special and temporary conditions,” need not be Presidentially appointed and Senate confirmed. *Id.* at 343. If it were otherwise, “the discharge of administrative duties would be seriously hindered.” *Id.* The Federal Circuit also pointed out that the Supreme Court cited *Eaton* with approval in its *Arthrex* decision as holding that “an inferior officer can perform functions of [a] principal officer on [an] acting basis. *Arthrex*, 141 S. Ct. at 1985 (citing *Eaton*, 169 U.S. at 343).

Further, the Federal Circuit relied on the fact that the Supreme Court in *Arthrex* specifically ordered a “remand to the Acting Director for him to decide whether to rehear” the IPR decision. *Arthrex*, Slip Op. at 6 (quoting *Arthrex*, 141 S. Ct. at 1987) (emphasis added by Federal Circuit). The Federal Circuit found that this language from the Supreme Court implicitly endorsed the Acting Director (the Commissioner of Patents) deciding Arthrex’s rehearing request. The Court also rejected Arthrex’s argument that the Commissioner’s open-ended assumption of the Director’s duties violated *Eaton*’s requirement that an inferior officer perform its superior’s duties for only a “limited time,” because it was undisputed that the Commissioner was only so acting until a new Director was appointed and confirmed. *Arthrex*, Slip Op. at 8. The Court noted that the Commissioner acted on Arthrex’s rehearing request on his 268<sup>th</sup> day of performing the Director’s duties, which was less than the 309 days the Supreme Court found acceptable in *Eaton*.

Next, Arthrex argued that the Commissioner’s exercise of the Director’s authority violated the Federal Vacancies Reform Act (FVRA), 5 U.S.C. § 3345 *et seq.* When a Presidentially-appointed and Senate-confirmed Officer dies, resigns, or is otherwise unable to perform their duties, the FVRA dictates who may temporarily perform their “functions and duties” in an acting capacity. 5 U.S.C. § 3345(a). Arthrex argued that the Commissioner did not meet the FVRA requirements, and therefore his decision violated the FVRA and should have been given no force or effect.

The Federal Circuit disagreed. It held that the FVRA defines “function or duty” narrowly to include only those that were “required by statute” or “required by regulation” to be performed solely by the principal officer in question. Therefore, the Court held that the FVRA does not apply to “delegable functions and duties.” *Arthrex*, Slip Op. at 10. The Court examined the legislative history of the FVRA and found it confirmed that “delegable functions of the office could still be performed by other officers or employees.” *Id.* at 11. The Federal Circuit acknowledged that this resulted in the FVRA having an “exceedingly narrow scope,” because the record showed that nearly all functions and duties of principal officers were delegable. *Id.* at 14. Nonetheless, the Court held that the plain language of the statute must control, and pointed out that other circuit courts had reached the same conclusion. *Id.*

The Court then turned to the question of whether reviewing rehearing requests is a delegable duty of the Director or a duty that the only the Director must perform. The Court found that the Patent Act bestows upon the Director a general power to delegate “such of the powers vested in the [PTO] as the Director may determine.” *Id.* at 15 (quoting 35 U.S.C. § 3(b)(3)(B)). Noting that Arthrex identified “no statute, regulation, or other law that limits the Director’s delegable duties or suggests that rehearing requests are not delegable,” the Court concluded that reviewing rehearing requests was a delegable duty, and therefore Arthrex’s FVRA argument failed. *Arthrex*, Slip Op. at 15, 17.

Arthrex’s final Constitutional argument was that the Commissioner violated the Constitution’s separation of powers by exercising the Director’s authority. The crux of Arthrex’s argument was that the President has the unfettered power to remove executive officials, see *Seila Law LLC v. Consumer Fin. Prot. Bureau*, 140 S. Ct. 2183, 2197 (2020), and Congress cannot restrict that removal power. The Commissioner, however, may be removed only for misconduct or non- satisfactory performance pursuant to 35 U.S.C. § 3(b)(2)(C). Arthrex thus argued that the separation of powers prevented the Commissioner from performing the Director’s duties.

The Federal Circuit again disagreed. It held that while the President must have cause to remove the Commissioner from performing the duties of the Commissioner, no such restriction prevented the President from removing the Commissioner from performing the duties of the Director. The Court found that the FVRA provides a mechanism for the President to name an Acting Director “with the stroke of a pen,” and as such the President has unfettered power to strip the Commissioner of his temporary Director authority. *Arthrex*, Slip Op. at 18. As such, Arthrex’s separation of powers argument also failed.

The Federal Circuit’s decision thus confirms that the PTO Director may permissibly delegate the authority to review rehearing requests of PTAB final written decisions to an inferior officer (i.e., the Deputy Director or the Commissioner of Patents) without violating either the Constitution or the FVRA. This would include instances when the Director is not able to review a rehearing request, such as when the Director has a conflict with respect to one of the parties or is otherwise unavailable.

#### **b. The PTAB May Analyze the Written Description Requirement When Necessary to Resolve an Invalidity Challenge**

The Court then turned to Arthrex’s arguments on the merits regarding the invalidity finding. The PTAB found that claims 1, 4, 8, 10–12, 16, 18, and 25–28 of the 907 patent, directed to a flexible eyelet suture device, were anticipated by an earlier published Arthrex patent application (“EIAttrache”). Arthrex conceded that if EIAttrache qualified as prior art it anticipated the claims, but argued that the effective filing date of the 907 patent claims predated the filing date of EIAttrache. The PTAB disagreed, finding that one of the applications on which Arthrex relied in its chain of priority applications lacked any written description of a flexible eyelet. See *Lockwood v. Am. Airlines, Inc.*, 107 F.3d 1565, 1571 (Fed. Cir. 1997) (“[T]o gain the benefit of the filing date of an earlier application under 35 U.S.C. § 120, each application in the chain leading back to the earlier application must comply with the written description requirement of 35 U.S.C. § 112.”).

Arthrex first argued that the PTAB’s determination that the intervening application lacked a written description of the eyelet embodiment was erroneous, but the Federal Circuit dismissed that argument, finding that substantial evidence supported the PTAB’s determination. More interestingly, Arthrex also argued that because 35 U.S.C. § 311(b) limits the scope of an IPR to “ground[s] that could be raised under section 102 or 103” the PTAB went beyond its statutory authority in addressing whether the application in its chain of priority complied with the written description requirement of § 112. *Arthrex*, Slip Op. at 25-26.

The Federal Circuit rejected this argument. It found that § 311(b) only dictates the grounds on which an IPR petition may be based, not the issues that the PTAB may consider when resolving those grounds. S&N complied with § 311(b) by asserting invalidity grounds under § 102. Because Arthrex argued that the claims of the 907 patent properly claimed priority to the earlier application and as such EIAttrache was not prior art, the PTAB needed to determine whether the intervening application satisfied the written description requirement. *Arthrex*, Slip Op. at 26. Further, the Court held that precedent confirmed that the PTAB may consider priority issues when raised during PTO proceedings. *Id.*, citing *In re NTP, Inc.*, 654 F.3d 1268, 1279 (Fed. Cir. 2011) (holding that “priority can be considered and determined during reexamination proceedings,” which are governed by statutory language similar to the IPR

statutory language). Accordingly, the Federal Circuit held that the PTAB did not exceed its authority in determining and resolving the priority question during the IPR.

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