2018-1400, -1401, -1402, -1403, -1537, -1540, -1541

United States Court of Appeals

for the

Federal Circuit

Facebook, Inc.,
Appellant,

v.

Windy City Innovations, LLC,
Cross-Appellant.

.

Appeal from the Patent and Trademark Appeal Board
Case Nos. IPR2016-01156, -01157, -01158, and -01159

CROSS-APPELLANT'S RESPONSE TO BRIEF FOR THE UNITED STATES AS AMICUS CURIAE

Alfred R. Fabricant
Peter Lambrianakos
Vincent J. Rubino, III
Enrique W. Iturralde

Attorneys for Cross-Appellant

BROWN RUDNICK LLP
Seven Times Square
New York, New York 10036
(212) 209-4800
afabricant@brownrudnick.com
plambrianakos@brownrudnick.com
vrubino@brownrudnick.com
eiturralde@brownrudnick.com

CERTIFICATE OF INTEREST

Counsel for Windy City Innovations, LLC certifies the following:

1. The full name of every party or amicus represented by me is:

   Windy City Innovations, LLC

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

   Windy City Innovations, LLC

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

   None.

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 are not already listed on the docket for the current case:

   CALDWELL CASSADY CURRY, P.C., 2101 Cedar Springs Road, Suite 1000, Dallas, Texas 75201; Bradley W. Caldwell, Jason D. Cassady, John A. Curry, and Warren J. McCarty, III

   BANYS, P.C., 1030 Duane Avenue, Santa Clara, California 95054; Christopher D. Banys and Jennifer Lu

5. The following cases are pending in a court or agency and will directly affect or be directly affected by this court's decision in the pending appeal:

   Patent & Trademark Office - Patent Trial & Appeal Board in Inter Partes Review Nos. IPR2016-01156, IPR2017-00709, IPR2017-00659, IPR2016-01157, IPR2016-01158, and IPR2016-01159.

   ***Windy City Innovations, LLC v. Facebook, Inc.*, Case No. 4:16-cv-01730-YGR, United States District Court, Northern District of California**

Dated: October 1, 2019

By: */s/ Alfred R. Fabricant*
Alfred R. Fabricant
Brown Rudnick LLP

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Cross-Appellant Windy City Innovations, LLC ("Windy City") submits this brief pursuant to the Court's Order of August 12, 2019.

I. INTRODUCTION

In order for the PTO's regulations or interpretations to carry the force of law, and thus be eligible for deference under *Chevron U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837 (1984), Congress must have delegated authority for the PTO to decide the particular issue at hand in the particular manner adopted. Congress has expressly authorized the PTO to issue regulations that are consistent with the law and that govern the proceedings of the PTO in compliance with the Administrative Procedures Act ("APA"). The Precedential Opinion Panel[1] ("POP") issues binding agency decisions through adjudication, rather than regulation, pursuant to its own procedures, rather than the APA. As the POP lacks general rulemaking authority, and the express delegation of rulemaking authority is limited to regulations in compliance with the APA, POP decisions are not entitled to *Chevron* deference. Nevertheless, *Chevron* deference applies only if the statute is ambiguous and the agency's interpretation is reasonable. Accordingly, the POP's *Proppant* decision —which interprets an unambiguous statute in a manner that is inconsistent with the statute's plain language and Congressional intent—is entitled

[1] The Director selects the members of the POP which typically consists of the Director, the Commissioner for Patents, and the Chief Judge of the PTAB. *See* Standard Operating Procedure 2 (Rev. 10), at 3, http://go.usa.gov/xVQcN.

to *no* deference.

II. BACKGROUND

These consolidated appeals arise from IPR petitions filed in response to a complaint alleging infringement of the patents-at-issue. *Windy City Innovations, LLC v. Facebook Inc.*, Case No. 4:16-cv-01730-YGR, Dkt. No. 1 (N.D. Cal. June 2, 2015). In that action, Facebook sat idle and waited ten months before unilaterally demanding that Windy City dramatically reduce the number of its asserted claims. *Windy City Innovations*, Case No. 4:16-cv-01730-YGR, Dkt. Nos. 49 & 49-3 (N.D. Cal. May 9, 2016). Although the local rules did not require an early election and Facebook had not yet filed its Answer, Windy City offered Facebook multiple mutual case-narrowing proposals, all of which Facebook rejected. *Id.* The district court denied Facebook's administrative motion seeking a unilateral reduction of asserted claims. *Windy City Innovations*, Case No. 4:16-cv-01730-YGR, Dkt. No. 50 at 5 (N.D. Cal. May 17, 2016). In the meantime, Microsoft (a similarly-situated defendant) filed IPR petitions on all of the same asserted claims.[2] Facebook did not join Microsoft as an initial petitioner, opting strategically to file its own IPR petitions on a subset of asserted claims with different prior art and to seek joinder by filing otherwise time-barred petitions,

[2] Microsoft timely filed seven IPR petitions, IPR2016-01067 (instituted), IPR2016-01137 (denied), IPR2016-00138 (denied), IPR2016-01141 (instituted), IPR2016-01146 (denied), IPR2016-01147 (denied), and IPR2016-01155 (instituted).

which are the subject of Windy City's cross-appeal.[3]

III. POP DECISIONS DO NOT WARRANT *CHEVRON* DEFERENCE

Under *United States v. Mead Corp.*, 533 U.S. 218 (2001), *Chevron* deference requires that "Congress delegated authority to the agency generally to make rules carrying the force of law, and that the agency interpretation claiming deference was promulgated in the exercise of that authority." *Id.* at 226-27; *see also Gonzales v. Oregon*, 546 U.S. 243, 258–59 (2006). In other words, "*Chevron* deference is tied to the delegation of legislative authority and, in particular, to the indication of 'congressional intent'" with respect to the particular matter at hand. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1330 (Fed. Cir. 2017) (Moore, J., concurring) (citing *Mead*, 533 U.S. at 227); *see also id.* at 1320 (O'Malley, concurring) ("Because *Chevron* deference displaces judicial discretion to engage in statutory interpretation, it requires a relatively formal expression of administrative intent, one with the force and effect of law."). If the requisite Congressional authority is found, *Chevron* deference will apply only if (1) the statute is ambiguous and (2) the agency's interpretation is based on a permissible

[3] Windy City did not waive its right to challenge the PTAB's improper construction of § 315(c). *See In Re: Windy City Innovations, LLC*, Case 18-102, No. 19 at *3 (Fed. Cir. 2018) ("[I]t is clear that Windy City will have an opportunity in the relatively near future to address its concerns through a response or cross-appeal [to Facebook's appeal].").

construction of the statute. *Chevron*, 467 U.S. 842-43.[4]

As the Government acknowledges, the Director's express delegation of rulemaking authority is to promulgate *regulations*. There is no indication that Congress intended to delegate general rulemaking authority; indeed, this Court has long held that it did not. *See, e.g.*, *Koninklijke Philips Elecs. N.V. v. Cardiac Sci. Operating Co.*, 590 F.3d 1326, 1336 (Fed. Cir. 2010) ("The PTO lacks substantive rulemaking authority."). Nor is there evidence that Congress intended a broad delegation of authority to issue interpretations that carry the force of law to the PTO when acting through the PTAB or the POP in post-issuance adjudication, particularly without accounting for the nature of the rule at issue and its effect on other litigants. Thus, as the POP's adjudications are not within the scope of the Director's delegated rulemaking authority, they must not be entitled to *Chevron* deference. *See Aqua Prod*., 872 F.3d at 1334 (Moore, J., concurring) ("[W]hen Congress expressly delegates to the Director the ability to adopt legal standards and procedures *by prescribing regulations*, the Director can only obtain *Chevron* deference if it adopts such standards and procedures *by prescribing regulations*.") (emphasis in original); *see also Mead*, 533 U.S. at 226-27 (denying *Chevron* deference to action, by an agency with rulemaking authority, that was not carried

[4] Additionally, pure questions of law do not implicate an agency's expertise and should be left for the courts to decide. *See Aqua Prod.*, 872 F.3d at 1324 (O'Malley, J., concurring).

out in the particular manner of rulemaking authorized).[5]

POP decisions also fail to comply with the APA which is required for agency rulemaking. Notably, in 35 U.S.C. § 2(b)(2)(B), Congress *expressly* requires that the PTO's regulations "shall be made in accordance with section 553 of title 5 [of the APA]." *Aqua Prod.*, 872 F.3d at 1333 n.7 (Moore, J., concurring). POP decisions, however, are not published in the Federal Register, are not subject to notice and comment, and generally do not allow for public comment prior to the designation as precedential. Standard Operating Procedure 2 (Rev. 10), at 2-4, http://go.usa.gov/xVQcN. Congress did not authorize the Director or the POP to designate opinions as precedential, or set forth the process for doing so. *Aqua Prod.*, 872 F.3d at 1331–32 (Moore, J., concurring). Thus, "[r]egardless of whether precedential Board decisions constitute formal agency adjudication, they are not subject to the same requirements as notice and comment rulemaking through regulation," and thus do not carry the force of law. *Id.*; *see also* 35 U.S.C. § 2(b)(2)(B). The United States identifies no case that warrants deference to an adjudicative body lacking general substantive rulemaking authority. The United

[5] This conclusion does not affect the Board's ability to adopt a legal standard through a precedential decision in an individual case, "but that legal standard will not receive *Chevron* deference when Congress only authorized the agency to prescribe regulations." *Aqua Prod.*, 872 F.3d at 1334 (Moore, J., concurring). Indeed, "precedential value alone does not add up to *Chevron* entitlement; interpretive rules may sometimes function as precedents, and they enjoy no *Chevron* status as a class." *Mead*, 533 U.S. at 232 (internal citation omitted).

States identifies only agencies with non-analogous delegations of specific rulemaking authority that have not been given to the PTO.

Accordingly, POP interpretations created through adjudication in accordance with the POP's own procedures are not within the scope of the congressionally authorized rulemaking power, and should not be eligible for *Chevron* deference. *Cf. Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1337 (Fed. Cir. 2008) (deference may, however, be owed to the PTO's interpretations within the scope of its delegated rulemaking authority, *i.e.* those concerning the conduct of proceedings in the PTO, instituted after notice and comment proceedings, and published in the Federal Register).

The Government acknowledges that there are situations in which POP decisions will not be entitled to *Chevron* deference, but it nonetheless argues that Congress expected the PTO to "fill gaps" through adjudication. Brief for the United States as Amicus Curiae, at 5-11 & n.2 (hereinafter "Gov. Br.").[6] But gap-filling through adjudication cannot be squared with *Mead*, or the requirement that the PTO's regulations must comply with the APA. *See Mead*, 533 U.S. at 226-27;

[6] The Government's suggestion that the broad delegation of authority "to adjudicate IPRs, *see* 35 U.S.C. §§ 311-319," provides the POP with the authorization to create rules with the force of law through adjudication" Gov. Br. at 6) is unsupported by the statute, and improperly conflates the broad authority provided to the Patent Trial and Appeal Board's ("PTAB") with the narrow authority to promulgate regulations relevant to a particular issue at hand that may ultimately carry the force of law. *See Aqua Prod.*, 872 F.3d at 1320 (Moore, J., concurring).

35 U.S.C. § 2(b)(2)(B). Indeed, where, like here, "Congress has delegated to the executive specific gap-filling functions and the precise means by which the agency may promulgate such rules, we cannot and should not expand the executive's gap-filling or rulemaking authority beyond the delegation by Congress." *Aqua Prod.*, 872 F.3d at 1331 (Moore, J., concurring); *see also id.* at 1330 ("*Chevron* deference ought [not] be expanded to encompass other means by which the agency may offer its 'rules.'"). Thus, "while in some circumstances, formal adjudication may suffice to entitle an agency to *Chevron* deference, *see Mead*, 533 U.S. at 230, this is not true here where Congress' delegation expressly articulates the means by which the agency is permitted to gap fill." *Id.*

IV. PROPPANT IS NOT ENTITLED TO CHEVRON OR SKIDMORE DEFERENCE

The POP's decision in *Proppant*, which interpreted 35 U.S.C. § 315(c) as authorizing same-petitioner joinder and joinder of new issues to an instituted IPR, even if otherwise time-barred, is not entitled to *Chevron* deference.

First, Congress expressly limited the Director's authority to "prescribe regulations. . . establishing and governing *inter partes* review" and, as relevant here, "prescribe regulations . . . setting a time period for requesting joinder under section 315(c)," pursuant to 35 U.S.C. § 316(a)(12). To the extent the Director has authority to fill gaps under section 315(c), such authority begins and ends with time period for requesting joinder. The Director has no authority to issue rules

through the POP that carry the force and effect of law (particularly without complying with the APA). *See Aqua Prod.*, 872 F.3d at 1330. The United States provides no authority or case law to support the proposition that an agency may fill gaps of an unambiguous statute through adjudication. *See* Gov. Br. at 9.

Second, *Proppant* is not entitled to deference because the language of § 315(c) is unambiguous and at odds with *Proppant's* interpretation of the statute. *Chevron*, 467 U.S. at 842-43 ("If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress.").[7] The statute is clear: joinder is authorized ***as a party to that inter partes review*** only. The statute does not authorize same-petitioner joinder or joinder of new issues to the instituted IPR. This interpretation of the statute is supported by the legislative history for § 315(c). *See* H.R. Rep. No. 112-98, pt. 1, at 76 (2011) (explaining that under § 315(c), "[t]he Director may allow ***other petitioners*** to join an *inter partes* or post-grant review.") (emphasis added).[8] Section 315(c)'s language is "clear, unambiguous,

[7] Although the Government argues that *Proppant*'s interpretation of §315(c) is not "foreclosed by the text," neither the Government nor the POP in *Proppant* expressly contend that §315(c) is ambiguous.

[8] The Government's argument regarding § 315(d) (Gov. Br. at 13) is unavailing because "consolidation" is different than "joinder." Furthermore, if § 315(c) was construed to authorize issue joinder, allow for the narrow exception of § 315(c) to swallow the time-bar of § 315(b). The time-bar, which "is not merely about preliminary procedural requirements that may be corrected if they fail to reflect real-world facts, but about real-world facts that limit the agency's authority to act

and intolerant" of *Proppant's* interpretation. *See Wyeth v. Kappos*, 591 F.3d 1364, 1372 (Fed. Cir. 2010). Thus, *Proppant* is entitled to no deference. *See id.*; *see also PhotoCure ASA v. Kappos*, 603 F.3d 1372, 1376 (Fed. Cir. 2010) ("Even if some level of deference were owed to the PTO's interpretation, neither Chevron nor Skidmore permits a court to defer to an incorrect agency interpretation."); *Smith v. City of Jackson, Miss.*, 544 U.S. 228, 267 (2005) ("Of course, it is elementary that 'no deference is due to agency interpretations at odds with the plain language of the statute itself.'') (citation omitted).

Third, the interpretation of Section 315(c) requires no agency expertise. The *Proppant* decision neither describes nor relies on specialized expertise that informed its construction of Section 315(c). The *Proppant* decision analyzes the statutory text, legislative history, and case materials in weighing Patent Owner's arguments against joinder and provides no specialized guidance to this Court.

Nevertheless, *Proppant's* interpretation is not a permissible construction of the statute. *Chevron*, 467 U.S. at 843. In *Nidec Motor Corp. v. Zhongshan Broad Ocean Motor Co.*, this Court explained that the § 315(c) exception to the IPR time-bar statute, "was plainly designed to apply where time-barred Party A seeks to join an existing IPR timely commenced by Party B when this would not introduce any new patentability issues," and "does not explicitly allow . . . a time-barred

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under the IPR scheme," should not be eroded. *See Wi-Fi One, LLC v. Broadcom Corp.*, 878 F.3d 1364, 1374 (Fed. Cir. 2018).

petitioner to add new issues." 868 F.3d 1013, 1020 (Fed. Cir. 2017) (concurring). It is "unlikely that Congress intended that petitioners could employ the joinder provision to circumvent the time bar by adding time-barred issues to an otherwise timely proceeding"— the very result of *Proppant*. *Id*. Thus, *Chevron* deference is not warranted. 467 U.S. at 842-43.[9] Finally, the Government's policy argument that *Proppant* is reasonable (Gov. Br. at 14-15) is also unavailing. *See SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1358–59 (2018) ("[P]olicy considerations cannot create an ambiguity when the words on the page are clear.").

Deference under *Skidmore v. Swift & Co.*, 323 U.S. 134, is also inapplicable because *Proppant*'s interpretation is contravened by the plain language of § 315(c). *See PhotoCure ASA*, 603 F.3d at 1376. None of the other considerations favoring deference are present here. The PTO has never established a "consistent" construction of § 315(c), and *Proppant* does not constitute a "valid" and reasonable construction. *See VirnetX Inc. v. Apple Inc.*, 931 F.3d 1363, 1377 (Fed. Cir. 2019).

V. CONCLUSION

Windy City respectfully submits that POP decisions, including the *Proppant* decision, are entitled to no deference.

[9] *See also Fed. Election Comm'n v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27, 32 (1981) ("[T]he courts are the final authorities on issues of statutory construction. They must reject administrative constructions of the statute, whether reached by adjudication or by rule-making, that are inconsistent with the statutory mandate or that frustrate the policy that Congress sought to implement.").

Dated: October 1, 2019

Respectfully submitted,

/s/ Alfred R. Fabricant

Alfred R. Fabricant
Peter Lambrianakos
Vincent J. Rubino, III
Enrique W. Iturralde

BROWN RUDNICK LLP
Seven Times Square
New York, New York 10036
Telephone: 212-209-4800
Facsimile: 212-209-4801

Attorneys for Cross-Appellant
Windy City Innovations, LLC

CERTIFICATE OF SERVICE

I hereby certify that on October 1, 2019, the foregoing brief filed was filed Court's CM/ECF system and thereby served electronically on all counsel of record, per Fed. R. App. P. 25(e)(1).

Dated: October 1, 2019

/s/ Alfred R. Fabricant
Alfred R. Fabricant
Brown Rudnick LLP

CERTIFICATE OF COMPLIANCE

I certify that this brief complies with the Court's order of August 12, 2019, because its body contains 10 pages. This brief also complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6). This brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font.

Dated: October 1, 2019

/s/ Alfred R. Fabricant
Alfred R. Fabricant
Brown Rudnick LLP