No. 2020-1155

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

SOUND VIEW INNOVATIONS, LLC,

Appellant,

v.

HULU, LLC,

Appellee,

ANDREI IANCU, Director, U.S. Patent and Trademark Office,

Intervenor.

Appeal from the United States Patent and Trademark Office,
Patent Trial and Appeal Board in No. IPR2018-00864

APPELLEE HULU, LLC'S PETITION FOR REHEARING AND REHEARING EN BANC

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March 19, 2020

Attorneys for Appellee Hulu, LLC

CERTIFICATE OF INTEREST

Counsel for Appellee Hulu, LLC certifies the following:

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

Hulu, LLC

2. The names of the real party in interest represented by me is:

None.

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:

The Walt Disney Company and Comcast Corp.

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 have not or will not enter an appearance in this case) are:

WILMER CUTLER PICKERING HALE AND DORR LLP: Scott Bertulli; Jason Kipnis; Evelyn Mak (former); Nancy Lynn Schroeder (former)

5. The title and number of any case known to counsel to be pending in this or any other court or agency that will directly affect or be directly affected by this court's decision in the pending appeal:

Sound View Innovations, LLC v. HSN, Inc., No. 1:19-cv-00193 (D. Del.)

Sound View Innovations, LLC v. QVC, Inc., No. 1:19-cv-00194 (D. Del.)

Sound View Innovations, LLC v. AMC Networks, Inc. et al., No. 1:19-cv-00145 (D. Del.)

Unified Patents Inc. v. Sound View Innovations, LLC et al., IPR2018-00599 (P.T.A.B.)

Sound View Innovations, LLC v. Hulu, LLC, No. 2:17-cv-04146 (C.D. Cal.)

Dated: March 19, 2020

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STATEMENT OF COUNSEL

Based on my professional judgment, I believe the panel decision is contrary to the following decisions of the Supreme Court: *Lucia v. SEC*, 138 S. Ct. 2044 (2018); and *Edmond v. United States*, 520 U.S. 651 (1997).

Based on my professional judgment, I also believe this appeal requires an answer to one or more precedent-setting questions of exceptional importance:

1. Whether litigants who fail to timely raise an Appointments Clause challenge before the Patent Trial and Appeal Board (Board) forfeit the argument on appeal.
2. Whether the administrative patent judges (APJs) of the Board are inferior officers under the Appointments Clause, U.S. Const. art. II, § 2, cl. 2.
3. Whether any Appointments Clause violation may be remedied without remand to the Board to conduct a new hearing before a new panel of APJs.

/s/ Mark C. Fleming
MARK C. FLEMING

Attorney of Record for Appellee Hulu, LLC

INTRODUCTION

In *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), a panel of this Court held that the appointment of APJs to the Board violated the Constitution's Appointments Clause. The panel in this case vacated a Board decision and remanded for further proceedings in light of *Arthrex*. Rehearing is warranted in this case because *Arthrex*'s fate is not yet settled, and because it was incorrectly decided in any event. At a minimum, the Court should hold this petition pending final disposition of the rehearing petitions in *Arthrex* and related cases. Alternatively, the Court should grant rehearing here to reconsider the important issues decided in *Arthrex*.

BACKGROUND

In a final written decision dated September 9, 2019, the Board held unpatentable three claims of Sound View's U.S. Patent No. 9,462,074. Sound View did not raise an Appointments Clause challenge in its briefing before the Board, mentioning it only belatedly in a letter to the Patent and Trademark Office requesting an extension of time to file a notice of appeal, Dkt. 14, Ex. A. Sound View also sought leave to file an untimely request for rehearing before the Board, but did not mention *Arthrex* or the Appointments Clause in that request. Dkt. 1-2, Attachment 3. The Board denied leave, observing that Sound View "provide[d] no

reason why we should entertain its out-of-time request." *Id.* This appeal was docketed on November 14, 2019.

Five weeks after docketing—and seven weeks after this Court decided *Arthrex*—Sound View moved to vacate the Board decision and remand for a new IPR proceeding in view of *Arthrex*. Dkt. 14. Hulu and the United States opposed. Dkt. 23; Dkt. 25. A panel of this Court summarily granted Sound View's motion in a nonprecedential order issued February 3, 2020. Dkt. 27.

ARGUMENT

I. THIS CASE SHOULD BE HELD PENDING FINAL RESOLUTION OF *ARTHREX*

The fate of *Arthrex* remains uncertain. Petitions for rehearing en banc and invited responses thereto have been filed by all the parties in *Arthrex*—the government, the private appellant, and the private appellees. *Arthrex*, No. 18-2140 (Fed. Cir. Dec. 16, 2019); *id.* (Fed. Cir. Jan. 17, 2020). Other pending petitions also seek rehearing of *Arthrex*-related issues.[1]

[1] *See, e.g.*, *Bedgear, LLC v. Fredman Bros. Furniture Co.*, Nos. 18-2082, 18-2083, 18-2084 (Fed. Cir. Jan. 8, 2020); *Uniloc 2017 LLC v. Facebook, Inc.*, No. 18-2251 (Fed. Cir. Dec. 2, 2019); *Polaris Innovations Ltd. v. Kingston Tech. Co.*, No. 18-1768 (Fed. Cir. Feb. 28, 2020 and Mar. 16, 2020); *Polaris Innovations Ltd. v. Kingston Tech. Co.*, No. 19-1202 (Fed. Cir. Feb. 28, 2020 and Mar. 12, 2020); *Pfizer Inc. v. Merck Sharp & Dohme Corp.*, Nos. 19-1871, -1873, -1875, -1876, -2224 (Fed. Cir. Mar. 6, 2020); *Stuart v. Rust-Oleum Corp.*, Nos. 19-1994, -2238 (Fed. Cir. Feb. 20, 2020 and Mar. 6, 2020); *Vilox Techs., LLC v. Unified Patents Inc.*, No. 19-2057 (Fed. Cir. Mar. 6, 2020); *Concert Pharms., Inc. v. Incyte Corp.*, No. 19-2011 (Fed. Cir. Mar. 9, 2020); *Vaporstream Inc. v. Snap Inc.*, Nos. 19-

Remanding this case based on *Arthrex* before final resolution of the issues raised in *Arthrex* itself would impose potentially unnecessary, significant burdens on the Board and on the private litigants. Thus, at a minimum, the Court should hold this petition until it has finally resolved the issues raised in *Arthrex* and related pending rehearing petitions.

II. THE COURT SHOULD GRANT REHEARING BECAUSE *ARTHREX* AND THIS CASE WERE WRONGLY DECIDED

Rehearing is also warranted because *Arthrex*'s holding—which, again, was the sole basis for the remand order in this case—was incorrect as to three issues: (a) forfeiture; (b) the constitutional merits; and (c) the remedy imposed. The questions presented in that case (and, by extension, this one) are, as the *Arthrex* panel itself acknowledged, "issue[s] of exceptional importance." 941 F.3d at 1327. They merit the full Court's consideration, whether in *Arthrex* itself or in this case.

a. The *Arthrex* panel improperly excused the forfeiture of an appellant who—like Sound View in this case—did not timely raise its constitutional challenge before the Board. Although the panel acknowledged the forfeiture, it reasoned that *Arthrex* was "one of the 'rare cases in which we should exercise our discretion to hear petitioners' challenge.'" 941 F.3d at 1326 (quoting *Freytag v.*

2231, 19-2237, 20-1030 (Fed. Cir. Mar. 9, 2020); *Vaporstream Inc. v. Snap Inc.*, No. 19-2339 (Fed. Cir. Mar. 9, 2020); *AgroFresh, Inc. v. UPL Ltd.*, No. 19-2243 (Fed. Cir. Mar. 9, 2020); *Document Sec. Sys., Inc v. Seoul Semiconductor Co.*, No. 19-2281 (Fed. Cir. Mar. 9, 2020).

CIR, 501 U.S. 868, 879 (1991)). But that view rested largely on the assumption that "the Board was not capable of providing any meaningful relief to this type of Constitutional challenge and it would therefore have been futile for Arthrex to have made the challenge there," *id.* at 1339. In fact, the Board could have resolved any constitutional difficulty by determining that the Director has always had the power to remove APJs—either from judicial service or from federal employment more broadly—at will. *See Bedgear, LLC v. Fredman Bros. Furniture Co.*, 783 F. App'x 1029, 1032 (Fed. Cir. 2019) (Dyk, J., concurring) (under established retroactivity principles, "the statute here must be read as though the PTAB judges had always been constitutionally appointed"); U.S. Pet'n for Reh'g En Banc 15, *Arthrex*, No. 18-2140 (Fed. Cir. Dec. 16, 2019) (hereinafter "*Arthrex* U.S. Reh'g Pet'n") (explaining that "Congress had *already* granted the Director" the authority to remove APJs from their judicial assignment). Instead, the panel's approach "afford[s] a windfall to litigants" engaged in "sandbagging"—that is, those who "may have remained silent before the agency in the hopes that [they] would prevail and obtain the resultant estoppel benefits vis-à-vis appellees." *Arthrex* U.S. Reh'g Pet'n at 12.

Moreover, excusing the forfeiture in *Arthrex* does not justify excusing Sound View's forfeiture here. Even accepting that "[t]imely resolution" of the Appointments Clause issue was important, *Arthrex*, 941 F.3d at 1327, that

resolution has now occurred, and no reason remains to abandon the usual forfeiture rules in dozens, if not hundreds, of follow-on cases. Accordingly, the Court should reject Sound View's effort to raise an unpreserved constitutional challenge that was not timely presented to the Board.

b. On the merits, the Board's APJs are not "principal" officers under the Appointments Clause, as both the *Arthrex* appellees and the United States have demonstrated. *See Arthrex* U.S. Reh'g Pet'n at 6-11; Appellees' Pet'n for Reh'g En Banc 8-18, *Arthrex*, No. 18-2140 (Fed. Cir. Dec. 16, 2019) (hereinafter "*Arthrex* Appellees' Reh'g Pet'n"). The Supreme Court "ha[s] not set forth an exclusive criterion for distinguishing between principal and inferior officers for Appointments Clause purposes." *Edmond v. United States*, 520 U.S. 651, 661 (1997); *see also Morrison v. Olson*, 487 U.S. 654, 671 (1988) (declining "to decide exactly where the line falls between the two types of officers"). It has instead emphasized that whether officers are "inferior" hinges on the context-specific question whether their work "is directed and supervised at some level by others who were appointed by Presidential nomination with the advice and consent of the Senate." *Edmond*, 520 U.S. at 663. That is, "[w]hether one is an 'inferior' officer depends on whether he has a superior." *Id.* at 662. This requirement of supervisory control by a principal officer, the Supreme Court has explained,

ensures "political accountability relative to important Government assignments." *Id.* at 663.

The *Arthrex* panel acknowledged that "[t]he Director exercises a broad policy-direction and supervisory authority over the APJs," but the panel nevertheless concluded that APJs are principal officers because—despite that supervision—no presidentially appointed, Senate-confirmed officer could singlehandedly terminate an APJ's employment at will or reverse an APJ's decisions. 941 F.3d at 1329-1334. In so holding, the panel improperly recast the Supreme Court's flexible, context-specific analysis as a rigid test that elevates those two criteria (removal and reversal) above all else and casts the determinative question—the extent to which a principal officer supervises and directs an individual's work—as merely one "factor[]" in the analysis. *Id.* at 1331. But "the Supreme Court would have announced such a simple test if it were proper." *Polaris Innovations Ltd. v. Kingston Tech. Co.*, 792 F. App'x 820, 821 (Fed. Cir. 2020) (Hughes, J., concurring), *reh'g denied* (Fed. Cir. Mar. 16, 2020).

Moreover, the panel underestimated the Director's authority even as to those criteria it viewed as controlling. The Director has substantial authority to sway the substance of the Board's decisions. The Director promulgates regulations governing IPR procedures and "provid[es] policy direction and management supervision," 35 U.S.C. § 3(a)(2)(A); *see id.* § 316. Exercising that authority, the

Director can issue binding policy guidance interpreting and applying the law, which would "prospectively bind all APJs to decide cases in conformity with his understanding of the law." *Arthrex* U.S. Reh'g Pet'n at 10; *see Patent Trial and Appeal Board Standard Operating Procedure 2*, at 1-2 (Rev. 10, Sept. 2018) (explaining that such policy directives are "binding on any and all USPTO employees"). As the United States explained, this even allows the Director to drive the outcome of rehearing proceedings: he could unilaterally issue binding policy guidance based on the facts of a given case, which APJs rehearing the case would be obligated to follow. *Arthrex* U.S. Reh'g Pet'n at 10.

The Director further controls whether IPRs are instituted at all, which panel will hear a given case, whether instituted IPRs proceed to final written decisions, and whether panel decisions are designated as precedential. *See Arthrex*, 941 U.S. at 1331-1332; *BioDelivery Scis. Int'l, Inc. v. Aquestive Therapeutics, Inc.*, 935 F.3d 1362, 1366-1367 (Fed. Cir. 2019); 35 U.S.C. §§ 6(c), 314. As the United States and the appellees in *Arthrex* explained in detail, these powers of the Director—among others—ensure that APJs' decisions are subject to significant oversight by a presidentially appointed, Senate-confirmed officer. *See Arthrex* U.S. Reh'g Pet'n at 9-11; *Arthrex* Appellees' Reh'g Pet'n at 9-13. Indeed, the Director has the authority throughout any given IPR proceeding (either at institution or afterward) to prevent a decision from issuing at all. *See Arthrex* Appellees' Reh'g Pet'n at

12-13 (suggesting that the Director could require APJs to circulate draft decisions for review, per his "management supervision" authority, and then dismiss IPRs with "disfavored proposed results"). And he has the authority to shape that decision—not only by issuing binding policy guidance (as just discussed) but also by choosing the panel and controlling which prior opinions bind future panels. APJs, in other words, "have no power to render a final decision on behalf of the United States unless permitted to do so by other Executive officers." *Edmond*, 520 U.S. at 665. That is the "significant" factor in evaluating whether an adjudicator's work is meaningfully reviewed by a principal officer, *id.*, and thus it matters little that the Director cannot singlehandedly reverse a panel decision outright.

As for removal—the other factor the panel found dispositive—the Director's control over panel selection translates into unlimited authority to remove an APJ from a given assignment. *See* 35 U.S.C. § 6(c); *Myers v. United States*, 272 U.S. 52, 119 (1926) (power to appoint carries incidental power to remove). Indeed, the Director could choose to assign a particular APJ to no panels at all, thus "effectively removing that judge from Board service." *Arthrex* U.S. Reh'g Pet'n at 7. The Supreme Court has called the authority to "remove a … judge from his judicial assignment without cause" a "powerful tool for control" in the Appointments Clause context. *Edmond*, 520 U.S. at 664 (considering whether

executive-branch judges could be removed from their judicial assignment, not whether they could be removed at will from federal employment more broadly).

Moreover, APJs can be removed from federal employment altogether under the default federal-employee standard—*i.e.*, for any reason that "promote[s] the efficiency of the service." 5 U.S.C. § 7513(a); *see* 35 U.S.C. § 3(c). That standard is neither onerous nor "incompatible with discipline or removal for failing to follow the Director's binding guidance." *Polaris*, 792 F. App'x at 823 (Hughes, J., concurring); *see Einboden v. Department of Navy*, 802 F.3d 1325, 1325-1326 (Fed. Cir. 2015) ("We give wide berth to agency decisions as to what type of adverse action is necessary to 'promote the efficiency of the service[.]'"); *Nguyen v. Department of Homeland Sec.*, 737 F.3d 711, 712-716 (Fed. Cir. 2013) (demotion under efficiency-of-the-service standard affirmed on the basis that the official lacked "credibility"). Indeed, the flexible efficiency-of-the-service standard permits an APJ's removal for failure to comply with the Director's policy directives. *Arthrex* U.S. Reh'g Pet'n at 8-9. And were there any doubt about that, constitutional-avoidance principles suggest that the efficiency-of-the-service standard ***must*** be interpreted broadly to save the statute from invalidation. *See id.* at 10 n.1 (urging the Court to consider saving constructions to avoid any constitutional problem).

Finally, "neither the Supreme Court nor this Court has required that a civil servant be removable at will to qualify as an inferior officer." *Polaris*, 792 F. App'x at 826 (Hughes, J., concurring). Rather, both Courts have deemed officers to be "inferior" even though restrictions on their removal were arguably more stringent than the efficiency-of-the-service standard applicable here. *See, e.g.*, *Morrison*, 487 U.S. at 692-693 ("good cause" restriction on removal of independent counsel); *Masias v. Secretary of Health & Human Servs.*, 634 F.3d 1283, 1294 (Fed. Cir. 2011) (removal of special masters for "incompetency, misconduct, or neglect of duty or for physical or mental disability or for other good cause shown").

Viewing the Director's authority through an appropriately context-specific and holistic lens, there can be little doubt that APJs are meaningfully "directed and supervised" by a principal officer, *Edmond*, 520 U.S. at 663. The *Arthrex* panel's conclusion to the contrary merits the full Court's review.

c. The remedy crafted by the *Arthrex* panel similarly warrants en banc reconsideration. The panel chose to sever the default federal-employee removal provision from the remainder of the statute. *Arthrex*, 941 F.3d at 1325. The panel then vacated and remanded for a new hearing before a new panel of APJs, *id.* at 1339-1340, relying heavily on the Supreme Court's decision in *Lucia v. SEC*, 138 S. Ct. 2044 (2018).

But *Lucia*, as the United States has pointed out, ordered such a new hearing for a litigant who "ma[de] a ***timely*** challenge to the constitutional validity of the appointment of an officer who adjudicate[d] his case." 138 S. Ct. at 2055 (emphasis added); *see Arthrex* U.S. Reh'g Pet'n at 14-15. The Supreme Court emphasized that a timely challenge is one that "contest[s] the validity of [an administrative law judge's] appointment before the Commission," not just before an Article III court. *Lucia*, 138 S. Ct. at 2055; *see also Ryder v. United States*, 515 U.S. 177, 181-183, 188 (1995) (defendant who "raised his objection to the judges' titles before those very judges" was "entitled to a hearing before a properly appointed panel"). That approach makes sense: it not only permits the agency to consider options for avoiding or remedying any constitutional issue, but it also prevents gamesmanship, as discussed above. Thus, even if the *Arthrex* panel were correct to overlook the appellant's forfeiture of the issue, it should have declined to order a new hearing where the challenge was not timely raised. (The same principle applies in this case, as Sound View failed to raise any timely Appointments Clause challenge before the Board.)

The *Arthrex* panel's contrary ruling—which provides for a new hearing before a new panel of APJs in every case in which an Appointments Clause challenge is raised on ***appeal***, regardless whether it was timely raised below—has wide-ranging and unnecessarily disruptive consequences. The United States has

reported that "[h]undreds of Board decisions issued before the panel opinion are on appeal or still appealable." *Arthrex* U.S. Reh'g Pet'n at 12. Requiring new hearings in those cases will impose significant burdens on the Board (and accordingly the public fisc) as well as on private parties.

Forfeiture aside, post-*Arthrex* developments have made clear that the remedial questions presented by the case are complex and merit the full Court's attention. For example, some Members of this Court have argued that the panel's prescribed remedy runs afoul of the "general rule of retrospective effect for the constitutional decisions of this Court," and that the "statute here must be read as though the PTAB judges had always been constitutionally appointed, 'disregarding' the unconstitutional removal provisions." *Bedgear*, 783 F. App'x at 1031-1032 (Dyk, J., concurring). That approach would eliminate the need for a vast number of new hearings before the Board. In light of such important arguments, the remedial aspects of *Arthrex*—like the opinion's holdings on the Appointments Clause and forfeiture issues—plainly warrant attention from the full Court.

CONCLUSION

The Court should grant rehearing or rehearing en banc to address the important constitutional and remedial issues raised in *Arthrex*. At the very least,

the Court should hold this petition pending disposition of the rehearing petitions in *Arthrex* and related cases.

Respectfully submitted,

/s/ Mark C. Fleming

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March 19, 2020

ADDENDUM

NOTE: This order is nonprecedential.

United States Court of Appeals for the Federal Circuit

SOUND VIEW INNOVATIONS, LLC,
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ANDREI IANCU, Director, U. S. Patent and Trademark Office,
Intervenor

2020-1155

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in No. IPR2018-00864.

ON MOTION

Before REYNA, BRYSON, and TARANTO, *Circuit Judges*.

TARANTO, *Circuit Judge*.

O R D E R

Sound View Innovations, LLC moves to vacate the decision of the Patent Trial and Appeal Board and remand

for further proceedings in light of *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019). Hulu, LLC opposes. The Director of the United States Patent and Trademark Office intervenes and opposes.

Upon consideration thereof,

IT IS ORDERED THAT:

(1) The Director is added as intervenor. The revised official caption is reflected above.

(2) The motion to vacate and remand is granted. The Patent Trial and Appeal Board's decision is vacated, and the case is remanded to the Board for proceedings consistent with this court's decision in *Arthrex*.

(3) Each side shall bear its own costs.

FOR THE COURT

February 03, 2020
Date

/s/ Peter R. Marksteiner
Peter R. Marksteiner
Clerk of Court

s35

CERTIFICATE OF SERVICE

I hereby certify that, on this 19th day of March, 2020, I filed the foregoing with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users.

/s/ Mark C. Fleming
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CERTIFICATE OF COMPLIANCE

Pursuant to Fed. R. App. P. 32(g), the undersigned hereby certifies that this petition complies with the type-volume limitation of Fed. R. App. P. 35(b)(2).

1. Exclusive of the exempted portions of the petition, as provided in Fed. Cir. Rule 35(c)(2), the petition contains 2,975 words.

2. The petition has been prepared in proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(g), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

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March 19, 2020