No. 19-2281

IN THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

DOCUMENT SECURITY SYSTEMS, INC.,

Appellant,

v.

SEOUL SEMICONDUCTOR CO., LTD., SEOUL SEMICONDUCTOR, INC., CREE, INC.,

Appellees,

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 Nos. IPR2018-00333 and IPR2018-01205

PETITION FOR REHEARING OR REHEARING EN BANC

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

Other Authorities

STATEMENT OF COUNSEL

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

1. This case presents the same three questions presented in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), in which all parties have petitioned for en banc review:

A. Whether the administrative patent judges of the Patent Trial and Appeal Board are inferior officers of the United States under the Appointments Clause, U.S. Const. art. II, § 2, cl. 2, such that Congress permissibly vested their appointments in a department head, rather than principal officers of the United States who must be nominated by the President and confirmed by the Senate.

B. Whether this Court should entertain an Appointments Clause challenge a litigant forfeited by failing to raise it before the agency.

C. How to remedy any Appointments Clause defect in the Patent Trial and Appeal Board.

2. Whether the *Arthrex* panel's decision to excuse a challenger's forfeiture of an Appointments Clause challenge applies automatically to excuse forfeiture in future cases, or whether this Court's ordinary forfeiture rules apply.

/s/ Brian Racilla
Brian Racilla
Counsel for Intervenor

INTRODUCTION AND SUMMARY OF ARGUMENT

This appeal involves the same significant constitutional issue decided on October 31, 2019 in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019): whether the administrative patent judges (APJs) of the Patent Trial and Appeal Board (PTAB or Board) are inferior officers whose appointment Congress could vest in the Secretary of Commerce. In *Arthrex*, this Court vacated and remanded the Board's Final Written Decision for a new hearing and new Final Written Decision before a new panel of the Board. By December 16, 2019, the parties in *Arthrex* all filed petitions for rehearing en banc, which remain pending before this Court. On January 23, 2020, this Court issued a remand in this case on the basis of the panel's holding in that case.

Rehearing in this case is warranted for two reasons. First, any further review of *Arthrex* would affect the proper disposition of this case. We therefore respectfully request that this case be held for further review pending a decision on the parties' petitions for en banc review in *Arthrex* and the final disposition of that case.

Second, regardless of whether *Arthrex* is subject to further review in this Court or the Supreme Court, the panel here erred in excusing Appellant Document Security System's ("DSS") forfeiture of its Appointments Clause challenge on the basis of *Arthrex*. The *Arthrex* panel invoked the need for "[t]imely resolution" of the constitutional question in light of its "wide-ranging effect on property rights and the nation's economy" as a reason to excuse the patent owner's forfeiture. *Arthrex*, 941

F.3d at 1327. Now that the *Arthrex* panel has opined on the issue, however, no similar reasons support an exercise of this Court's discretion to excuse DSS's failure to raise this issue before the Board.

STATUTORY AND FACTUAL BACKGROUND

1. This Court is familiar with the PTAB and the inter partes review (IPR) proceedings it conducts. Here, Appellant DSS appealed the Board's decision in IPR Nos. IPR2018-00333 and IPR2018-01205.

2. On October 31, 2019, before briefing on the merits had begun in this case, a panel of this Court decided a forfeited Appointments Clause question in *Arthrex*. 941 F.3d at 1327-35. The panel concluded that APJs are principal, not inferior, officers; invalidated the removal restrictions applicable to APJs in order to remedy this perceived constitutional defect; and vacated and remanded for a new proceeding before a new panel of APJs. *Id.* at 1330-40. The panel did so over a challenge of waiver, exercising its discretion to excuse Arthrex's forfeiture of the issue before the agency in part because the Appointments Clause issue "has a wide-ranging effect on property rights and the nation's economy," and "[t]imely resolution" of the issue "is critical to providing certainty to rights holders and competitors alike." *Id.* at 1326-27.

3. On November 22, 2019, in its motion to vacate and remand (filed prior to the date on which Appellant DSS's opening brief was due in this Court), DSS raised for the first time its Appointments Clause argument that APJs are principal officers who must be appointed by the President, with the Senate's advice and consent. *See*

ECF No. 18, Mot. at 2. The Director intervened and opposed DSS's motion, arguing that DSS had never raised an Appointments clause challenge before the agency or identified that challenge as an issue for appeal prior to its motion. ECF No. 25, Opp. at 2-3. As the government has explained in its pending petition for rehearing en banc in *Arthrex*, the failure to raise an Appointments Clause challenge to the Board forfeits that challenge, and APJs have always been properly appointed inferior officers. The Director preserves these issues for further review in this case as well.

By December 16, 2019, all parties in *Arthrex* filed petitions for rehearing en banc, and those petitions remain pending before this Court. On January 23, 2020, after those petitions for rehearing en banc were filed, the panel in this case issued an order granting DSS's motion to vacate and remand, stating that "the case is remanded to the Board for proceedings consistent with this court's decision in *Arthrex*." ECF No. 26, Order at 2.

ARGUMENT

This case presents the same Appointments Clause challenge that was addressed in *Arthrex*, and the panel's decision here rested entirely on *Arthrex*. In light of the potential for further review in *Arthrex* in either en banc proceedings or the Supreme Court, we respectfully request that this case be held pending any such further review, and then decided in a manner consistent with the final disposition of that case. In any event, rehearing is warranted because the panel erred in applying *Arthrex* to excuse DSS's forfeiture.

I. This Case Should Be Held Pending A Final Decision In *Arthrex*.

The panel here, in its January 23, 2020 Order, relied solely on the *Arthrex* decision in vacating and remanding the Board's decision "for proceedings consistent with this court's decision in *Arthrex*." ECF No. 26, Order at 2. Prior to that Order, all parties, including the government, had petitioned for en banc review in *Arthrex*, and those petitions remain pending. *See* U.S. En Banc Pet., No. 2018-2140, ECF No. 77 (Fed. Cir. Dec. 16, 2019) (U.S. *Arthrex* Pet.); Arthrex En Banc Pet., No. 2018-2140, ECF No. 78 (Fed. Cir. Dec. 16, 2019); Appellees' En Banc Pet., No. 2018-2140, ECF No. 79 (Fed. Cir. Dec. 16, 2019). As the government's en banc petition explains, the *Arthrex* panel's decision rested on several significant errors, and en banc review is warranted to address (1) whether APJs are inferior officers under the Appointments Clause; (2) whether the panel abused its discretion in entertaining Arthrex's challenge despite its failure to raise it before the agency; and (3) whether the panel erred in vacating and remanding for a new proceeding before a new panel of APJs. *See generally* U.S. *Arthrex* Pet., *supra*. This Court's own recent decisions demonstrate that the *Arthrex* panel's analysis is open to fair question. *See Polaris Innovations Limited v. Kingston Tech. Co.*, 792 F. App'x 820, 820-21 (Fed. Cir. 2020) (Hughes, J., concurring) (two judges concurring in a remand because "bound by the prior panel decision in *Arthrex*" but explaining their view that "in light of the Director's significant control over the activities of the Patent Trial and Appeal Board and Administrative Patent Judges, APJs are inferior officers already properly appointed by the Secretary of

Commerce"); *Bedgear, LLC v. Fredman Bros Furniture Co.*, 783 F. App'x 1029, 1030 (Fed. Cir. 2019) (Dyk, J., concurring) (questioning *Arthrex*'s decision to vacate and remand for new Board proceedings).

In the event that *Arthrex* is subject to further review, the panel's vacatur and remand here could prove unwarranted, and would impose a needless burden on the agency and Appellees in this case. In light of the possibility of further review in *Arthrex*, we respectfully request that this case be held pending the final disposition of *Arthrex*, and then be decided consistent with that final disposition.

II. The Panel Erred In Excusing DSS's Forfeiture On The Basis Of *Arthrex*.

The panel's decision independently warrants rehearing because the panel erred in applying *Arthrex* to excuse DSS's forfeiture. As this Court has explained, a panel must "proceed on a case-by-case basis" to determine whether a case warrants the "exceptional measure" of excusing a party's failure to raise a constitutional challenge before the agency. *In re DBC*, 545 F.3d 1373, 1380 (Fed. Cir. 2008). The *Arthrex* panel concluded that that case "was one of the 'rare cases'" warranting "use of [the panel's] discretion to decide the issue over a challenge of waiver." *Arthrex*, 941 F.3d at 1326-27 (quoting *Freytag v. Commissioner*, 501 U.S. 868, 879 (1991)). In explaining its use of that discretion, the *Arthrex* panel asserted that the Appointments Clause issue "has a wide-ranging effect on property rights and the nation's economy" and that "[t]imely resolution is critical to providing certainty to rights holders and competitors

alike who rely upon the inter partes review scheme to resolve concerns over patent rights." *Id.*

As explained in the government's rehearing petition in *Arthrex*, the need for timely resolution of the Appointments Clause challenges to administrative patent judges was not enough to justify excusing the forfeiture in *Arthrex* itself. *See* U.S. *Arthrex* Pet. 12. But even if it were, no similar reason supports excusing DSS's forfeiture in this case or similar appeals. Once the *Arthrex* panel decided the constitutional issue, there was no need for the panel to excuse forfeiture in order to provide "[t]imely resolution" of the Appointments Clause question. *Arthrex*, 941 F.3d at 1327. The panel therefore erred in reflexively applying *Arthrex*, without determining, "on a case-by-case basis, whether the circumstances of" *this* case warrant the extraordinary step of excusing DSS's forfeiture. *DBC*, 545 F.3d at 1380. Indeed, DSS did not attempt to argue that this case is "exceptional" under *DBC*, 545 F.3d at 1379, 1380. *See* ECF No. 18. The panel should have applied this Court's usual forfeiture rule that a party who fails to "timely raise[]" an Appointments Clause challenge before the agency has forfeited that challenge. *DBC*, 545 F.3d at 1380.

The panel's error in reflexively applying *Arthrex* to this case warrants rehearing or rehearing en banc. As this Court has explained, permitting litigants "to raise [constitutional] issues for the first time on appeal would encourage what Justice Scalia has referred to as sandbagging, *i.e.*, 'suggesting or permitting, for strategic reasons, that the trial court pursue a certain course, and later—if the outcome is unfavorable—

claiming that the course followed was reversible error.'" *DBC*, 545 F.3d at 1380 (quoting *Freytag*, 501 U.S. at 895 (Scalia, J., concurring in part and concurring in the judgment)). The panel's forfeiture ruling here encourages such gamesmanship, with no concomitant public benefit. To the contrary, vacating and remanding to the agency for a new proceeding before new APJs, *see Arthrex*, 941 F.3d at 1339, threatens to place a significant burden on the USPTO and the cross-appellant, who had no reason to anticipate a remand on constitutional grounds. That burden will prove particularly serious if the panel's error regarding forfeiture here is repeated in the many pending cases involving forfeited Appointments Clause challenges.[1] Rehearing is therefore warranted to make clear that excusing forfeiture is a "rare" and "exceptional measure" that must be exercised "on a case-by-case basis," not automatically where unwarranted. *DBC*, 545 F.3d at 1380.

[1] To date, this Court has vacated Board decisions and remanded for new hearings before a different panel of APJs in more than fifty appeals of which the government is aware. En banc petitions on the issues raised by *Arthrex* have been filed in *e.g.*, *Bedgear, LLC v. Fredman Bros. Furniture Co., Inc.*, No. 18-2170; *Uniloc 2017 LLC v. Facebook, Inc.*, No. 18-2251; *Bedgear, LLC v. Fredman Bros. Furniture Co., Inc.*, No. 18-2082, 18-2083, 18-2084; *Polaris Innovations Ltd. v. Kingston Tech. Co., Inc.*, No. 18-1831; *VirnetX Inc. v. Cisco Sys., Inc.*, No. 19- 1725; *Uniloc 2017 LLC v. Cisco Sys., Inc.*, No. 18-2431; *Uniloc 2017 LLC v. Cisco Sys., Inc.*, No. 19-1064; *Luoma v. GT Water Prods., Inc.*, No. 19-2315; *Mirror Imaging, LLC v. Fidelity Info. Servs., LLC*, Nos. 19-2026, 19-2027, 19-2028, 19-2029. Additional en banc petitions may be filed in other pending cases.

CONCLUSION

For the foregoing reasons, this Court should rehear this case en banc.

Respectfully submitted,

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ADDENDUM

NOTE: This order is nonprecedential.

United States Court of Appeals for the Federal Circuit

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ANDREI IANCU, Director, U. S. Patent and Trademark Office,
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2019-2281

Appeal from the United States Patent and Trademark Office, Patent Trial and Appeal Board in Nos. IPR2018-00333 and IPR2018-01205.

ON MOTION

Before O'MALLEY, CHEN, and STOLL, *Circuit Judges*.

O'MALLEY, *Circuit Judge*.

O R D E R

Document Security Systems, Inc. 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). The appellees oppose. 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

January 23, 2020
Date

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

s24

CERTIFICATE OF COMPLIANCE WITH
FEDERAL RULES OF APPELLATE PROCEDURE 32 AND 35

I hereby certify that this petition complies with the requirements of Fed. R. App. P. 32(a)(5) and (6) because it has been prepared in 14-point Garamond, a proportionally spaced font. I further certify that this petition complies with the page limitation of Fed. R. App. P. 35(b)(2) because it is 2076 words excluding the parts exempted under Rule 32(a)(7)(B)(iii).

/s/Brian Racilla

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CERTIFICATE OF SERVICE

I hereby certify that on March 9, 2020, I electronically filed this petition with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system. I further certify that I will cause 18 paper copies to be filed with the Court within two days unless another time is specified by the Court.

The participants in the case are represented by registered CM/ECF users and service will be accomplished by the appellate CM/ECF system.

*/s/*Brian Racilla

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