

No. 2019-1671

**IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

VIRNETX INC.,

Appellant,

v.

CISCO SYSTEMS, INC.,

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 Reexamination Control No. 95/001,679

PETITION FOR REHEARING AND REHEARING EN BANC

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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. This case presents several of the same questions at issue in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), which concerned an inter partes review and in which all parties have petitioned for en banc review: (1) 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; and (2) Whether this Court should entertain an Appointments Clause challenge a litigant forfeited by failing to raise it before the agency. Further, this case involves an important question not considered in *Arthrex*: Whether any Appointments Clause defect in administrative patent judges' appointment requires vacatur and remand of Board decisions in inter partes reexaminations.

/s/ Melissa N. Patterson
MELISSA N. PATTERSON

INTRODUCTION AND SUMMARY OF ARGUMENT

This appeal involves the same significant constitutional issue decided 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. As in *Arthrex*, the patent owner here did not raise this Appointments Clause challenge before the agency, and thus this case also involves the propriety of excusing this forfeiture. Before briefing in this case, the panel vacated the agency's decision, which concluded that the appellant's patent claims are unpatentable, and remanded "to the Board for proceedings consistent with" *Arthrex*. See ECF No. 45, Order at 2.

Rehearing in this case is warranted for two independent reasons. First, the Board decision here implicates different remedial considerations than this Court addressed in *Arthrex*. There, this Court vacated a Board decision in an inter partes review, the very type of proceeding over which the *Arthrex* panel concluded that Senate-confirmed officers had insufficient control. After invalidating APJs' removal restrictions and rendering them removable at-will, the Court remanded for new inter partes review proceedings before APJs whom the court now considered sufficiently controlled by Senate-confirmed officers. In contrast, this case involves an inter partes *reexamination*, a process in which the USPTO Director has always had the ability to make unilateral decisions regarding examination of the claims. In light of the

Director's substantially greater control over inter partes reexaminations than inter partes reviews, the panel erred in extending *Arthrex*'s remedy to this case. There is no need to vacate and remand for new reexamination proceedings before at-will removable APJs where the Director already had adequate control over the reexamination process and could have accepted VirnetX's arguments in the original reexamination.

Second, this case warrants en banc attention for the same reasons that *Arthrex* itself does. And any further review of *Arthrex* would affect the proper disposition of this case. All parties in *Arthrex* have filed petitions for rehearing en banc, which remain pending before this Court. We therefore respectfully request that—at minimum—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.

STATUTORY AND FACTUAL BACKGROUND

1. This Court is familiar with the Patent Trial and Appeal Board and its administrative patent judges. In addition to conducting inter partes *review* (IPR) proceedings, the Board hears appeals from inter partes *reexaminations*, a statutory predecessor to IPRs in which third-party requesters may ask the USPTO to reconsider the validity of issued patents. *See* 35 U.S.C. §§ 311-318 (2010).¹ Unlike an

¹ Although the America Invents Act replaced inter partes reexamination with inter partes review in “chapter 31 of title 35,” Congress specified that the statutory provisions governing inter partes reexamination “shall continue to apply to requests

IPR, which by statute the Board must “conduct,” *see* 35 U.S.C. § 316(c), a reexamination is “conducted according to the procedures established for initial examination under” 35 U.S.C. §§ 132 and 133, *see id.* § 314(a) (2010). Those examination procedures do not involve the Board. *See id.* §§ 132-33. Rather, the Director alone is charged with providing notification of any rejection of the claims and the reasons therefore. *See* 35 U.S.C. § 132; *see also id.* § 131 (giving the Director authority over the “examination to be made of the application and the alleged new invention”); 35 U.S.C. §§ 312, 316 (2010) (giving the Director the authority to determine whether to initiate an inter partes reexamination and to “issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent any proposed amended or new claim determined to be patentable”). Thus, the Director has unilateral authority over patentability determinations in the first instance in a reexamination, and the unfettered power to direct a decision favorable to patentability. After such a reexamination decision, the patent owner or the third-party requester may appeal to the Board under 35 U.S.C. § 134, and then to this Court. *See* 35 U.S.C. § 315(a), (b) (2010); 35 U.S.C. §§ 141-144.

for inter partes reexamination that are filed before” the Act’s effective date, September 16, 2012, “as if subsection (a) [introducing inter partes review] had not been enacted.” Pub. L. No. 112-29 § 6(c)(3)(C), 125 Stat. 305 (2011). Unless otherwise noted, all references to the statute in this petition are to the current statute.

2. Appellant VirnetX Inc. owns U.S. Patent No. 6,502,135 (the '135 Patent). Appellee Cisco Systems, Inc. successfully sought inter partes reexamination of all claims in the '135 patent. On reexamination, the examiner rejected the challenged claims as unpatentable. *See* Right of Appeal Notice, mailed Sept. 15, 2015, at 7-10.² On appeal, the Board affirmed the examiner's decision. *See* Board of Appeals Decision—Examiner Affirmed, mailed Feb. 6, 2018 (P.T.A.B), at 28-29. VirnetX requested reconsideration, which the Board denied. *See* Decision on Reconsideration—Denied, mailed Jan. 18, 2019 (P.T.A.B.). VirnetX appealed to this Court. *See* Notice of Appeal filed March 18, 2019.

3. After VirnetX filed its notice of appeal, a panel of this Court decided a forfeited Appointments Clause question in *Arthrex*. 941 F.3d at 1327-35. *Arthrex* was an appeal from an inter partes review, and the Court examined at length the means that Senate-confirmed officers had to control the Board's decision in an inter partes review. *See id.* at 1329-31. In light of perceived limits on such control, the *Arthrex* 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.

² Documents in connection with Reexamination Control No. 95/001,679 may be accessed via the USPTO's Public PAIR website at <https://portal.uspto.gov/pair/PublicPair>.

VirnetX then filed a motion to vacate the Board’s decision and remand for further proceedings consistent with the Court’s decision in *Arthrex*. ECF No. 23, Remand Motion at 1. The Court certified VirnetX’s constitutional challenge to the government, which filed an intervention notice. The government opposed VirnetX’s motion, arguing that any action based on *Arthrex* was premature. ECF No. 37, USPTO Opp’n at 1-2. The government further explained that “the question whether *Arthrex* even applies to inter partes reexamination proceedings requires further consideration,” and requested that “[i]f the en banc Court chooses not to reverse or overrule *Arthrex*, the Director requests the opportunity for further briefing of the issues raised by VirnetX’s motion to remand.” ECF No. 37, USPTO Opp’n at 2.

4. Without permitting further filings, this Court added the government to the case as a party and granted VirnetX’s motion in a single, brief order, remanding “to the Board for proceedings consistent with this court’s decision in *Arthrex*.” ECF No. 45, Order at 2. The Court noted that it did not see any “material difference” in the “relevant analysis” between inter partes reexamination and IPR. ECF No. 45, Order at 2. Less than two weeks later, this Court issued an order in an appeal from an examination, directing the government to “address[] whether *Arthrex* should be extended to *ex parte* examination cases.” See Order, *In re Boloro Global Limited*, Nos. 19-2349, 19-2351, 19-2353 (Fed. Cir. Feb. 5, 2020).

ARGUMENT

The panel erred in extending the vacatur remedy announced in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019), to this case. The inter partes reexamination proceeding at issue in this appeal was not addressed in *Arthrex*, and it presents distinct remedial issues that warrant the Court’s considered analysis after fuller briefing, as the *Boloro* panel has recognized—not summary vacatur and remand without briefing, as the panel has done here. And even presuming that *Arthrex*’s remedy does apply in this context, remand is premature before it is clear whether *Arthrex* itself will undergo further review in this Court or the Supreme Court. Accordingly, this Court should grant panel rehearing or rehearing en banc, or in the alternative, hold this case pending further review of the panel’s constitutional ruling in *Arthrex*.

1. In *Arthrex*, a panel of this Court considered the status of the Board’s administrative patent judges under the Appointments Clause in the context of an inter partes review proceeding. The court concluded “the control and supervision of the APJs” by superior, Senate-confirmed officers “is not sufficient to render them inferior officers,” because the “lack of control over APJ decisions does not allow the President to ensure the laws are faithfully executed.” 941 F.3d at 1335. That determination was based solely on the court’s assessment of APJs’ role under the inter partes review statute. *Id.* at 1329-31. In view of perceived limits on the ability of the Director and the Secretary to control the inter partes review process, the panel

decided that under the “current structure of the Board,” APJs were principal officers who “must be appointed by the President and confirmed by the Senate.” *See id.* at 1335.

To remedy this perceived constitutional defect, the Court did not invalidate the statutory requirement that APJs be appointed by the Secretary of Commerce, *see* 35 U.S.C. § 6(a), or otherwise require that APJs be appointed as principal officers. Rather, the Court invalidated APJs’ statutory removal protections, rendering them removable at will by the Secretary of Commerce. *See Arthrex*, 941 F.3d at 1337-38. Doing so, the panel reasoned, “renders [APJs] inferior rather than principal officers,” because “[a]lthough the Director still does not have independent authority to review decisions rendered by APJs, his provision of policy and regulation to guide the outcomes of those decisions, coupled with the power of removal by the Secretary without cause provides significant constraint on issued decisions.” *Id.* at 1338. The Court then vacated the Board’s final written decision and “h[eld] that a new panel of APJs must be designated to hear the *inter partes* review anew on remand.” *Id.* at 1340.

A judicial order requiring an agency to undertake a new proceeding is a form of injunctive relief that requires the exercise of the court’s equitable discretion—including in constitutional separation-of-powers cases. *See generally Ford Motor Co. v. National Labor Relations Bd.*, 305 U.S. 364, 373 (1939) (“[W]hile the court [reviewing an agency decision] must act within the bounds of the statute and without intruding upon the administrative province, it may adjust its relief to the exigencies of the case

in accordance with the equitable principles governing judicial action.”); *John Doe Co. v. CFPB*, 849 F.3d 1129, 1133 (D.C. Cir. 2017) (recognizing “traditional constraints on separation-of-powers remedies” and noting “vacatur of past actions is not routine”). Thus, courts must consider whether vacatur and remand are warranted in light of the particular constitutional violation and circumstances before them.

In extending *Arthrex*'s remedy beyond the IPR context, the panel here failed to engage in that essential inquiry. *Arthrex* itself does not address whether vacatur and remand is the appropriate remedy in an inter partes *reexamination*. The *Arthrex* court did not consider any USPTO proceeding except inter partes review, nor did it in any way examine the level of supervision and control that Senate-confirmed officers have over other USPTO proceedings. That level of superior-officer authority over a particular proceeding is key in determining whether vacatur and remand is warranted in light of any Appointments Clause defect under *Arthrex*.

In *Arthrex*, having invalidated and severed Title 5's removal protections for APJs in order to provide a more “significant constraint on issued decisions” in inter partes reviews, 941 F.3d at 1338, the court vacated and remanded for a new hearing before judges who were now subject to the requisite supervision and control. *Id.* at 1341. But where a Senate-confirmed officer such as the Director has *always* been able to unilaterally make decisions during examination of the claims, there is no need for such a remand. And that is the case in inter partes reexaminations.

In an inter partes reexamination, the Director acting alone has authority to make a decision favorable to a patent owner. Unlike an inter partes review, which a three-member Board is statutorily tasked with conducting, *see* 35 U.S.C. §§ 6(c), 316(c), reexaminations are conducted “according to the procedures established for initial examination under” 35 U.S.C. §§ 132 and 133, *see* 35 U.S.C. § 314(a) (2010). In an initial examination, the *Director* decides whether to issue any rejections of the claims. *See* 35 U.S.C. § 132; *see also id.* § 131 (making the Director the only USPTO official tasked with “caus[ing] an examination to be made”). Thus, acting by himself, the Director could have issued a decision during the reexamination proceeding—or directed an examiner to issue a decision—favorable to VirnetX. The Director, of course, did not do so here, permitting the examiner’s decision rejecting all of VirnetX’s claims. *See* Right of Appeal Notice mailed Sept. 15, 2015, at 7-10. Absent appeal, that decision would have become the final decision of the agency. *See* 37 C.F.R. § 1.953(c). And even after VirnetX’s appeal to the Board, the Director-controlled conclusion that all the challenged claims were unpatentable remained the outcome of agency proceedings. *See* Board of Appeals Decision—Examiner Affirmed, mailed Feb. 6, 2018, at 28-29. An *Arthrex*-style remand to APJs whose

“issued decisions” are subject to more “significant constraint” at their superiors’ behest makes no sense in this context. *Arthrex*, 941 F.3d at 1338.³

Indeed, denying a remand here accords with *Arthrex*’s recognition that not every matter in which an unconstitutionally appointed Board participated need be revisited. The *Arthrex* panel made clear it saw “no constitutional infirmity in the institution decision” rendered by the Board because “the statute clearly bestows such authority [to make an institution decision] on the Director pursuant to 35 U.S.C. § 314.” 941 F.3d at 1340; *see also* 37 C.F.R. § 42.4(a) (delegating the Director’s institution authority to the Board). As discussed, in an inter partes reexamination, as in IPR institution, the Director has the unilateral authority to make decisions during the examination of the claims. In this circumstance, the Board’s participation in a

³ It is questionable whether the Board’s decision in an appeal from an inter partes reexamination controls the Director’s ultimate action on the patent. In the examination context, a plurality of this Court opined that the Director’s statutory control over the examination and patent-issuance process means that the Board’s decision does not control the Director’s ultimate patentability determination. *See In re Alappat*, 33 F.3d 1526, 1535 (Fed. Cir. 1994) (en banc) (Rich, J., joined by Newman, Lourie, Rader, JJ.) (opining that even “if the Board approves an application, the [head of the USPTO] has the option of refusing to sign a patent” and “has an obligation to refuse to grant a patent if he believes that doing so would be contrary to law”). Given the statute’s instruction to conduct reexaminations “according to the procedures established for initial examination,” 35 U.S.C. § 314(a) (2010), the Director may have similar freedom in the reexamination context to decline to sign a certificate entrenching an incorrect application of patent law, *see* 35 U.S.C. § 316(a) (2010). Here, where it is clear that the examination performed under the Director’s authority yielded the same outcome as the Board decision—rejection of all claims—there is no need to address this question.

matter while its APJs were—under *Arthrex*—unconstitutionally appointed does not necessarily create any “constitutional infirmity” in the resultant decision. *Arthrex*, 941 F.3d at 1340.

Nor does *Lucia v. SEC*, 138 S. Ct. 2044 (2018), require or support vacatur and remand here. There, the Court concluded that administrative law judges’ (ALJ) duties were of the kind that had to be performed by an officer of the United States. *See id.* at 2052-54. The ALJ who “heard and decided Lucia’s case” had not at the time been appointed as any kind of constitutional officer, and in that circumstance, the Court decided that “the ‘appropriate’ remedy for an adjudication tainted with an appointments violation is a new ‘hearing before a properly appointed’ official.” *Id.* at 2050, 2055 (quoting *Ryder v. United States*, 515 U.S. 177, 183 (1995)). This Court in *Arthrex*, in contrast, did not suggest that the functions performed by APJs could not be performed by inferior officers or that the APJs had not already been appointed as inferior officers. *See* 35 U.S.C. § 6(a) (providing for APJ appointment by a Department head). Rather, by invalidating APJs’ removal protections, the *Arthrex* panel indicated that the constitutional defect lay in the perceived lack of control over APJs’ functions. *Arthrex*, unlike *Lucia*, therefore does not require a remedy involving “properly appoint[ing]” the official, but rather merely increasing superior officers’ control over APJs’ conduct of their duties. A remand could be an appropriate remedy for this particular Appointments Clause violation only if Senate-confirmed officers

lacked sufficient control in the first place, as the panel found to be the case in IPRs.⁴ But there is no need to redo an administrative proceeding in which the Director already had greater control and could have used his sole authority to opine that VirnetX is entitled to its patent claims.

Given these considerations, the panel erred in extending *Arthrex's* vacatur and remand remedy to this different context. It was particularly inappropriate for the panel to do so without giving the parties an opportunity to fully brief this important issue. The need for such briefing is reflected in the Court's subsequent order in *Boloro*, which has called for supplemental briefs specifically regarding the applicability of *Arthrex* in the examination context. See Order of Feb. 5, 2020, *In re Boloro Global Limited*, Nos. 19-2349, 19-2351, 19-2353 (Fed. Cir.).⁵ Accordingly, the panel or the en banc court should grant rehearing and entertain full briefing by the parties—or at minimum, briefing on the applicability of *Arthrex's* remedy to inter partes reexamination proceedings—and enter a new decision declining to vacate and remand the agency's decision here.

2. Even apart from the panel's unwarranted and unbriefed extension of *Arthrex's* remedial holding to the inter partes reexamination context, this case

⁴ As the Government has argued, the Appointments Clause issue would also have to be properly preserved in order for a remand to be appropriate.

⁵ As the government will explain in *Boloro*, the Director enjoys even greater control over the examination and patent-issuance processes than he does in the inter partes reexamination context.

warrants rehearing en banc for the same reasons *Arthrex* itself merits the full Court's attention. This case presents the same Appointments Clause challenge that was addressed in *Arthrex*, on which the panel here relied in vacating and remanding the Board's decision. ECF No. 45, Order at 2. All parties, including the government, have petitioned for en banc review in *Arthrex*, and those petitions remain pending. *See* U.S. En Banc Pet., No. 2018-2140, Doc. 77 (Fed. Cir. Dec. 16, 2019) (U.S. *Arthrex* Pet.); *Arthrex* En Banc Pet., No. 2018-2140, Doc. 78 (Fed. Cir. Dec. 16, 2019). Appellees' En Banc Pet., No. 2018-2140, Doc. 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 in that case to address those errors, including (1) whether APJs are inferior officers under the Appointments Clause; and (2) whether the panel abused its discretion in entertaining *Arthrex*'s challenge despite its failure to raise it before the agency. *See generally* U.S. *Arthrex* Pet., *supra*. En banc review of the Appointments Clause issue here is warranted in this case for the same reasons as in *Arthrex*. And at minimum, the Court should hold this case pending any further review of *Arthrex* by this Court sitting en banc or the Supreme Court.

CONCLUSION

For the foregoing reasons, the panel or the en banc Court should rehear this case, or in the alternative, hold this case pending resolution of any further review in *Arthrex*.

Respectfully submitted,

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ADDENDUM

NOTE: This order is nonprecedential.

**United States Court of Appeals
for the Federal Circuit**

VIRNETX INC.,
Appellant

v.

CISCO SYSTEMS, INC.,
Appellee

**ANDREI IANCU, Director, U.S. Patent and Trade-
mark Office,**
Intervenor

2019-1671

Appeal from the United States Patent and Trademark
Office, Patent Trial and Appeal Board in No. 95/001,679.

ON MOTION

Before MOORE, O'MALLEY, and CHEN, *Circuit Judges*.
O'MALLEY, *Circuit Judge*.

ORDER

VirnetX 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). Cisco Systems, Inc. opposes the motion. The Director of the United States Patent and Trademark Office intervenes and opposes.

Although this appeal arises out of an *inter partes* reexamination and not an *inter partes* review as was at issue in *Arthrex*, we see no material difference in the relevant analysis. We therefore grant VirnetX's motion.

Accordingly,

IT IS ORDERED THAT:

(1) The Director of the United States Patent and Trademark Office is added as an intervenor. The revised official caption is reflected above.

(2) VirnetX's 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 24, 2020

Date

/s/ Peter R. Marksteiner

Peter R. Marksteiner

Clerk of Court

CERTIFICATE OF COMPLIANCE

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 3,512 words excluding the parts exempted under Federal Circuit Rule 35(c)(2).

/s/Melissa N. Patterson
MELISSA N. PATTERSON

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 16 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/ Melissa N. Patterson
MELISSA N. PATTERSON