

**NO. 19-1671**

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

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**VIRNETX INC.,**

**Appellant**

**v.**

**CISCO SYSTEMS, INC.,**

**Appellee.**

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**PETITION FOR EN BANC AND PANEL REHEARING  
OF VACATE AND REMAND ORDER**

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**From the U.S. Patent and Trademark Office  
Patent Trial and Appeal Board No. 95/001,679**

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David L. McCombs  
Debra J. McComas  
Theodore M. Foster  
**HAYNES AND BOONE, LLP**  
2323 Victory Avenue, Suite 700  
Dallas, Texas 75219  
Phone: (214) 651-5533  
Fax: (972) 692-9116  
*David.McCombs@haynesboone.com*  
*Debbie.McComas@haynesboone.com*  
*Theo.Foster@haynesboone.com*

**Attorneys for Appellee, Cisco Systems, Inc.**

**CERTIFICATE OF INTEREST FOR CISCO SYSTEMS, INC.**

Counsel for Appellee, Cisco Systems, Inc. certifies the following:

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

Cisco Systems, Inc.

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:

N/A

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

Haynes and Boone, LLP: Andrew S. Ehmke.

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. *See* Fed. Cir. R. 4 7. 4(a)(5) and 4 7.5(b).

No. 19-1043, VirnetX Inc. v. Cisco Systems, Inc.

No. 19-1725, VirnetX Inc. v. Cisco Systems, Inc.-pending

No. 18-2140, Arthrex, Inc. v. Smith & Nephew, Inc.-pending

No. 18-2082, Bedgear, LLC v. Fredman Bros. Furniture Co.-pending

No. 18-1768, Polaris Innovations Ltd. v. Kingston Tech. Co.

Dated: March 9, 2020.

/s/ Theodore M. Foster

Theodore M. Foster

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**STATEMENT SUPPORTING EN BANC REHEARING**

Based on my professional judgment, I believe this appeal requires an answer to one or more precedent-setting questions of exceptional importance: whether this Court’s decision in *Arthrex, Inc. v. Smith & Nephew, Inc.*, 941 F.3d 1320 (Fed. Cir. 2019) (“*Arthrex*”) extends to *inter partes* reexamination proceedings.

/s/ Theodore M. Foster  
Theodore M. Foster

ATTORNEY OF RECORD FOR APPELLEE, CISCO SYSTEMS, INC.

**STATEMENT SUPPORTING PANEL REHEARING: POINTS OF LAW OR FACT OVERLOOKED OR MISAPPREHENDED BY THE COURT**

In moving to remand this appeal in light of *Arthrex*, the Appellant, VirnetX Inc. (“VirnetX”) raised a novel, precedent-setting question: whether the Court’s reasoning in *Arthrex* extends to *inter partes* reexamination proceedings. The panel’s conclusion that it “see[s] no material difference in the analysis” between *inter partes* review and *inter partes* reexamination overlooks the distinctions between those two proceedings and specifically disregards the supervisory authority of the Director of the Patent Office over the Board’s reexamination appeal decisions.

## PRELIMINARY STATEMENT

This is an appeal by a patent owner (VirnetX) from an unfavorable ruling on *inter partes* reexamination. This Court has never reached the merits of the appeal because VirnetX moved to remand the case to the Board in light of this Court's holding in *Arthrex*. But, the Court's decision in *Arthrex* did not address the constitutionality of the appointments process for Board review of an examiner's decision in an *inter partes* reexamination proceeding. And, in fact, there are important distinctions between *inter partes* reexamination and *inter partes* review that require a different conclusion from the Court's decision in *Arthrex*. Indeed, the Board's review of a reexamination lacks much of the authority this Court found problematic of *inter partes* review proceedings in *Arthrex*.

Cisco urges the Court to grant rehearing to review this precedent-setting question and reverse the vacate and remand order.

## ARGUMENT

### **I. The AIA statutory framework relied upon in *Arthrex* is absent from the longstanding *inter partes* reexamination proceeding.**

The Remand Order concludes that this Court's decision in *Arthrex* is equally applicable and controlling for *inter partes* reexamination appeals. *See* Addendum. But *Arthrex* addressed the role of Board judges in *inter partes* reviews under, *inter alia*, 35 U.S.C. §§ 6, 314, 318 and 319, as enacted in the America Invents Act. *Arthrex*, 941 F.3d at 1329, 1331. Congress specifically provided for *inter partes*

reexaminations, such as this proceeding, to continue as if those portions of the America Invents Act “had not been enacted.” Leahy-Smith America Invents Act, Pub. L. 112-29, § 6(c)(3)(C) (Sept. 16, 2011); *see also id.*, § 7(e)(2) (“the provisions of sections 6, 134, and 141 of title 35, United States Code, as in effect on the day before the effective date of the amendments made by this section shall continue to apply to inter partes reexaminations that are requested under section 311 of such title before such effective date”). This Court’s ultimate holding in *Arthrex* is inapplicable to this case because *Arthrex* reviewed statutory text that—so far as this proceeding is concerned—*was not enacted*.

Indeed, under the Patent Act and associated regulations as they existed before the AIA, the Board lacked much of the authority that this Court found problematic in *Arthrex*. For example, the Board did not decide *inter partes* reviews, did not oversee discovery, and did not apply the Federal Rules of Evidence. *Cf. Arthrex*, 941 F.3d at 1328. Before the AIA, Board judges were utterly unlike the special trial judges of the Tax Court in *Freytag*,<sup>1</sup> in that the Board judges did *not* “take testimony, conduct trials, rule on the admissibility of evidence, and have the power to enforce compliance with discovery orders.” *See Arthrex*, 941 F.3d at 1328 (quoting *Freytag*, 501 U.S. at 881-82). And in reviewing

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<sup>1</sup> *Freytag v. Comm’r*, 501 U.S. 868 (1991).



the examiners' decisions in this *inter partes* reexamination, the Board below did not have or exercise such powers.

For this reason alone, the motion to remand should have been denied.

**II. The Director, not a Board judge, has ultimate supervisory authority over *inter partes* reexaminations, including appeals.**

*Inter partes* reexaminations are different in many ways from *inter partes* reviews considered in *Arthrex*. The Board judges who heard VirnetX's *inter partes* reexamination appeal were properly appointed inferior officers.

While there is no "exclusive criterion" separating principal officers from inferior officers, the "extent of direction or control" provided by a presidentially appointed official is "the central consideration." *Arthrex*, 941 F.3d at 1329 (citing *Edmond v. United States*, 520 U.S. 651, 663 (1997)). Specifically, courts consider: (1) the level of supervision and oversight a presidentially appointed official has over the officers and (2) whether an appointed official has the power to review and reverse the officers' decision. *Arthrex*, 941 F.3d at 1329; *Edmond*, 520 U.S. at 664-665. These factors support finding that Board judges hearing *inter partes* reexamination appeals are inferior officers.

**A. The Director supervises *inter partes* reexamination appeals.**

The Director has the authority to promulgate regulations governing the conduct of *inter partes* reexamination appeals. Pre-AIA 35 U.S.C. § 2(b)(2). He also has the power to provide policy directives and management supervision of the

Office. *Id.* § 3(a). The Director has the sole authority to designate Board opinions as precedential, which are then binding on future Board panels. Patent Trial and Appeal Board Standard Operating Procedure 2 at 1, 11.

The Director has additional powers governing the procedures applicable to individual cases. For example, the Director decides whether to institute an *inter partes* reexamination in the first instance. Pre-AIA 35 U.S.C. § 312(a). And the Director controls the selection of judges to hear each *inter partes* reexamination appeal. Pre-AIA 35 U.S.C. § 6(c).

In summary, the Director possesses authority to promulgate regulations governing *inter partes* reexamination appeals and to issue policy interpretations that the Board judges must follow. These supervisory powers weigh in favor of a conclusion that Board judges hearing *inter partes* reexamination appeals are inferior officers.

**B. The Director has review authority over *inter partes* reexamination appeal decisions.**

The Director also has extensive authority to control the outcome of an individual *inter partes* reexamination appeal. That authority begins before a case even reaches the Board. *Inter partes* reexaminations are primarily conducted by the examining corps under procedures that are substantially similar to ordinary patent prosecution. Pre-AIA 35 U.S.C. § 314(a). Only after a team of examiners has reviewed the prior art, made findings of fact, and provided written patentability

determinations does the Board take up the case as an appeal. Pre-AIA 35 U.S.C. § 314(a); MPEP 2671.03 (“A panel review will be conducted at each stage of the examiner’s examination in an *inter partes* reexamination proceeding.”). Since the examiners act under the delegated authority of the Director, the Director has absolute authority to determine what findings of fact and conclusions of law are present in the reexamination at the start of the appeal process. *See* Pre-AIA 35 U.S.C. § 132(a) (“...the Director shall notify the applicant thereof, stating the reasons for such rejection...”). The Director can change any part of the examiners’ decisions to reject or confirm a claim under reexamination. Doing so could obviate an appeal entirely—if, for example, the Director ordered the examiners to withdraw a rejection of a claim—or it could alter the posture of the case later presented to the Board.

The Director’s supervision of *inter partes* reexamination proceedings does not end when a case passes to the Board’s jurisdiction for an appeal. In stark contrast to *inter partes* reviews, *inter partes* reexamination appeals allow for the Director’s direct involvement through a petition process. *See* 37 C.F.R. §§ 41.3 & 1.181(a)(3). Specifically, a party to an appeal before the Board can invoke the supervisory authority of the Director. *See* 37 C.F.R. §§ 41.3 & 1.181(a)(3). The Director also retains the authority to act *sua sponte*. *See* 37 C.F.R. § 1.183. The Director’s petition powers continue through the entirety of the Board’s jurisdiction,

including a period following issuance of a decision on appeal. *See* 37 C.F.R. § 41.81 (Board retains jurisdiction “until all parties’ rights to request rehearing have been exhausted”). The Director can therefore exercise his supervisory powers in an appeal even after the Board’s decision issues, providing the Director with a mechanism to directly review Board decisions. This supports a conclusion that Board judges hearing *inter partes* reexamination appeals are principal officers.

**C. Board judges in *inter partes* reexamination appeals are inferior officers.**

In summary, the Director has near-complete control over the appellate work of the Board. By controlling the proceedings before the examining corps, the Director determines how a case will be presented to the Board, including the evidence, findings of fact, and conclusions of law to be reviewed. The Director’s rules determine how the Board will hear the case. The Director chooses which specific judges will be assigned to the case. And the Director retains the authority to act in the case, either on petition from a party or *sua sponte*, throughout the appeal and subsequent rehearing period.

Because an *inter partes* reexamination is conducted subject to the Director’s supervision, both before the examining corps and on appeal before the Board, Board judges hearing *inter partes* reexamination appeals are “officers whose work is directed and supervised at some level by others [i.e., the Director] who were

appointed by Presidential nomination with the advice and consent of the Senate.”

*Edmond*, 520 U.S. at 662-63.

\* \* \* \*

Thus, Board judges are properly appointed inferior officers. The reasoning of *Arthrex* does not apply to this *inter partes* reexamination proceeding. And the remand order was erroneous.

**III. A Board panel in an *inter partes* reexamination appeal acts with the Director’s delegated authority.**

Similarly, the Director’s delegation of authority to a Board panel is a proper exercise of the Director’s delegated authority. The Director has delegated his supervisory authority over appeals (based on the petition process) to the Chief Administrative Patent Judge. 37 C.F.R. § 41.3(a). The Chief Administrative Patent Judge can further delegate this supervisory authority, for example, to Board judges. *Id.* This line of delegation is mirrored in the process for assigning cases to Board panels. *See* PTAB Standard Operating Procedure 1 (Rev. 15) (“The Director’s authority under 35 U.S.C. § 6(c) to designate panels has been delegated to the Chief Judge. The Chief Judge may further delegate the authority delegated by the Director...”). Thus, the authority vested in a Board panel hearing an appeal includes not only the statutory authority to hear the appeal under 35 U.S.C. § 6, *but also* the Director’s supervisory authority to oversee the actions of the panel. In other words, the Director has delegated to Board panels hearing reexamination

appeals the authority to oversee their own decisions. In rendering a decision in a reexamination appeal, therefore, the Board acts with both the authority given to it by Congress and with the authority delegated to it by the Director. As this Court stated in *Arthrex*, the Board's actions are immune to an Appointments Clause challenge when they are undertaken with the delegated authority of the Director. *See Arthrex*, 941 F.3d at 1340 (“the decision to institute is not suspect”). The Board's decision on appeal was, therefore, properly issued under both the Board judges' powers as inferior officers and under delegation of the Director's authority as a principal officer. Rehearing should be granted and the Remand Order reversed.

**IV. At a minimum, the remand should be stayed pending resolution of the en banc rehearing in *Arthrex*.**

The panel vacated and remanded the Final Written Decision in this case for further consideration in light of *Arthrex*. The parties in *Arthrex* filed petitions for panel and *en banc* rehearing on December 16, 2019. *See* Appeal 18-2140 [Dkts. 77-79]. On January 3, 2020, the Court issued an order inviting responses to the petitions for rehearing. *Id.* [Dkt. 102]. The parties filed their responses on January 17, 2020. *Id.* [Dkts. 105-107]. As of the date of this filing, the Court has not ruled on the pending petitions. Because *Arthrex* should not apply to this appeal from an *inter partes* reexamination proceeding, the rehearing should be granted notwithstanding the outcome of *Arthrex*. To the extent the Court disagrees and

concludes instead that *Arthrex* applies equally to *ex parte* reexamination proceedings, then any modification or reversal of *Arthrex* on rehearing would have a direct impact on the vacatur and remand issued in this case. For this reason, Cisco urges the Court at least to hold the remand in abeyance pending the outcome of the *Arthrex* rehearing.

### **PRAYER**

For these reasons, Cisco respectfully requests that the Court grant this petition for rehearing and, after rehearing the matter, reverse the order vacating and remanding the Final Written Decision, and allow the parties to proceed on appeal. Alternatively, and at a minimum, Cisco urges the Court to abate its remand order pending rehearing in *Arthrex*. Cisco further requests all such other relief to which it may be justly entitled.

Respectfully Submitted,

**HAYNES AND BOONE, LLP**

*/s/ David L. McCombs*

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David L. McCombs

Debra J. McComas

Theodore M. Foster

2323 Victory Avenue, Suite 700

Dallas, Texas 75219

Phone: (214) 651-5533

Fax: (972) 692-9116

*David.McCombs@haynesboone.com*

*Debbie.McComas@haynesboone.com*

*Theo.Foster@haynesboone.com*

**Attorneys for Appellee,  
Cisco Systems, Inc.**



### ECF CERTIFICATION

I hereby certify that (i) the required privacy redactions have been made pursuant to Federal Rule of Civil Procedure 5.2; (ii) the electronic submission is an exact copy of the paper document; (iii) the document has been scanned for viruses with the most recent version of a commercial virus scanning program and is free of viruses; and (iv) the paper document will be maintained for three years after the mandate or order closing the case issues.

*/s/ Debra J. McComas*

Debra J. McComas

**ADDENDUM**

NOTE: This order is nonprecedential.

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

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**VIRNETX INC.,**  
*Appellant*

v.

**CISCO SYSTEMS, INC.,**  
*Appellee*

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

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2019-1671

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

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**ON MOTION**

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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 SERVICE**

I hereby certify that I served a copy on counsel of record on March 9, 2020, by:

U.S. Mail

Fax

Hand

X Electronic Means (by E-mail or CM/ECF)

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*David L. McCombs*  
Name of Counsel

*/s/ David L. McCombs*  
Signature of Counsel

---

Law Firm: Haynes and Boone, LLP

Address: 2323 Victory Avenue, Suite 700

City, State, Zip: Dallas, Texas 75219

Telephone No.: (214) 651-5533

Fax No.: (972) 692-9116

E-Mail Address: David.McCombs@haynesboone.com

## CERTIFICATE OF COMPLIANCE

1. This petition complies with the type-volume limitation of Fed. R. App. P. 35(c)(2) and 40(b) because:

■ this petition contains 2,147 words, excluding the parts of the motion exempted by Fed. Cir. R. 40(c).

2. This petition complies with the typeface and type style requirements of Fed. R. App. P. 27(d)(1)(E) because:

■ this petition has been prepared in a proportionally spaced typeface using Microsoft Word 2016 in 14-point Times New Roman font.

*/s/ Debra J. McComas*

Debra J. McComas

4833-1179-3334