Paper No. _______
Filed: November 22, 2019

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE PATENT TRIAL AND APPEAL BOARD

THE MANGROVE PARTNERS MASTER FUND, LTD., and APPLE INC., AND BLACK SWAMP, LLC,

Petitioner

v.

VIRNETX INC.,
Patent Owner

Case IPR2015-01047[1]
Patent No. 7,490,151

Reply in Support of Patent Owner's Request for Rehearing

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[1] Apple Inc. and Black Swamp, LLC, who filed petitions in IPR2016-00063 and IPR2016-00167, respectively, have been joined as Petitioners in the instant proceeding.

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Petitioners ask the Board to deny Patent Owner VirnetX Inc.'s ("VirnetX's") request for rehearing with respect to the issues VirnetX raised under *Arthrex, Inc. v. Smith & Nephew, Inc.*, No. 18-2140, 2019 WL 5616010 (Fed. Cir. Oct. 31, 2019). Petitioners raise two arguments. First, Petitioners analogize the Board's discovery orders to institution decisions, and argue they do not raise the same constitutional concerns as final written decisions. Second, Petitioners contend that because *Arthrex* left undisturbed other non-final orders, it does not require vacatur of discovery order here. Both arguments miss the mark.

First, discovery orders are not analogous to institution decisions from the standpoint of the Appointments Clause. The Federal Circuit in *Arthrex* found "no constitutional infirmity" in the institution decisions because "the statute clearly bestows such authority *on the Director*," who is properly appointed as a principal officer. 2019 WL 5616010, at *12 (citing 35 U.S.C. § 314) (emphasis added). While the Director has "delegated that authority to the Board," *Arthrex*, 2019 WL 5616010, at *1 n.1, the statute explicitly vests the authority to institute *inter partes* reviews with the Director. *See* 35 U.S.C. § 314(a) ("The Director may not authorize an inter partes review to be instituted unless … ."). Congress did not vest the Director with similar authority with respect to orders governing discovery. These orders are entered by the Board pursuant to *its* statutorily conferred authority to "conduct inter partes reviews." 35 U.S.C. § 6(b)(4); *see also* 35 U.S.C. § 316(c) ("The Patent Trial

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and Appeal Board shall, in accordance with section 6, conduct each inter partes review instituted under this chapter."). The Board does not enter discovery orders pursuant to any delegation from the Director (who lacks any statutory authority over such orders in the first place).

Implicitly conceding this fact, Petitioners contend that the Director could theoretically grant to himself "the authority to review Board discovery orders" by virtue of his ability to "promulgate regulations governing discovery in an *inter partes* review." Opp'n 3 (citing 35 U.S.C. § 316(a)(5)). But Section 316(a)(5) only authorizes the Director to issue regulations on the "standards and procedures for discovery." 35 U.S.C. § 316(a)(5). Nothing in this provision permits the Director to arrogate to himself authority to review the Board's discovery decisions.

Petitioners' argument, moreover, is contrary to *Arthrex*. There, the Federal Circuit considered the Director's analogous "authority to promulgate regulations governing the conduct of *inter partes* review." 2019 WL 5616010, at *5 (citing 35 U.S.C. § 316); *see also* 35 U.S.C. § 316(a)(4) ("The Director shall prescribe regulations … establishing and governing inter partes review under this chapter … ."). The Federal Circuit nevertheless concluded that this supervisory authority did not outweigh the other factors—such as the absence of review or removal power—that counseled towards finding that the APJs were principal officers under the Appointments Clause. 2019 WL 5616010, at *8. Under Petitioners' logic, the

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Director could issue a regulation allowing him to review the Board's final written decisions. But *Arthrex* held that the statute does *not* allow him to do so. *Id.* at *5.

Second, *Arthrex*'s observation that the new Board panel may proceed "on the existing written record," 2019 WL 5616010, at *12, in no way suggests that discovery orders are immune from an Appointments Clause challenge. As an initial matter, Petitioners offer no response to VirnetX's explanation (Reh'g Request 6) that, even if a principal officer "on occasion performs duties that may be performed by" an inferior officer, that "does not transform his status under the Constitution." *Freytag v. Comm'r*, 501 U.S. 868, 882 (1991). Under *Freytag*, *any action* by a principal officer whose appointment does not comport with the Appointments Clause is constitutionally infirm. *See* Reh'g Request 6.

Nor are the ministerial orders in *Arthrex*—a scheduling order, an order granting *pro hac vice* motion, and an order on the scope of the hearing, Opp'n 4—analogous to discovery orders. As *Arthrex* observed, the Board's ability to "oversee discovery" goes to the very heart of what gives APJs "significant discretion." 2019 WL 5616010, at *3. Moreover, nothing in *Arthrex* precluded the parties from seeking *reconsideration* of these orders by the newly constituted panel. And at least two of those orders—the scheduling order and the order on the scope of the hearing—*were* effectively vacated given *Arthrex*'s instruction for the Board to hold "a new hearing" on remand. 2019 WL 5616010, at *12.

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Respectfully submitted,

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