

2016-2321

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

NIDEC MOTOR CORPORATION,

Appellant,

v.

ZHONGSHAN BROAD OCEAN MOTOR CO., LTD.,
BROAD OCEAN MOTOR, LLC, and
BROAD OCEAN TECHNOLOGIES, LLC,

Appellees.

Appeal from the United States Patent and Trademark Office
Patent Trial and Appeal Board, IPR2014-01121,
Sally C. Medley, Justin T. Arbes, Benjamin D. M. Wood, James A. Tartal,
and Patrick M. Boucher, Administrative Patent Judges

**BRIEF OF AMICUS CURIAE BIOTECHNOLOGY
INNOVATION ORGANIZATION IN SUPPORT OF APPELLANT**

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November 14, 2016

CERTIFICATE OF INTEREST

Counsel for Amicus Curiae certifies the following:

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

Biotechnology Innovation Organization

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:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party 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:

None.

/s/ David R. Marsh

David R. Marsh

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STATEMENT OF *AMICUS CURIAE*¹

The Biotechnology Innovation Organization (BIO) is the world's largest biotechnology trade association, representing over 1,000 biotechnology companies, research institutions, state biotechnology centers, and related organizations. BIO's members devote billions of dollars annually to researching and developing biotechnological healthcare, agricultural, environmental, and industrial products that cure diseases, improve food security, create alternative energy sources, and deliver many other benefits. However, these products typically require lengthy, costly, and resource-intensive development periods. Biological medicines, for instance, save countless lives by treating previously untreatable diseases, but usually require over a decade of research and an investment of over \$2 billion.

In light of these investments, BIO's members depend upon a stable, predictable, and transparent patent system that encourages patent-holders to maintain and enforce strong patents. BIO's members have a significant interest in ensuring that the America Invents Act's joinder provision, 35 U.S.C. § 315(c), is interpreted as Congress intended, and that only proper parties can join an existing IPR proceeding. BIO's members also have a substantial interest in ensuring

¹ No party's counsel authored this brief in whole or in part. No party or party's counsel made a monetary contribution intended to fund the preparation or submission of this brief, and no person other than BIO or its counsel made such a monetary contribution. Nidec consented to the filing of this brief, but Broad Ocean declined consent.

judicial oversight of the Patent Trial and Appeal Board’s increasingly common use of “expanded panels” to rehear—and typically reverse—decisions in which PTAB panels have declined to allow issue joinder.

INTRODUCTION

This case raises a critically important question about whether the Patent and Trademark Office (PTO) has the authority to use a powerful procedural device—joinder—to redefine central aspects of *inter partes* review proceedings before the Patent Trial and Appeal Board (PTAB). Section 315(c) of the America Invents Act provides that if the Director of the PTO “institutes an inter partes review, the Director, in his or her discretion, may *join as a party* to that inter partes review any person who properly files a petition . . . that the Director . . . determines warrants the institution of an inter partes review.” 35 U.S.C. § 315(c) (emphasis added).

In the proceedings below, the PTAB held that Congress used the words “join as a party” to authorize an existing party to join itself to its own case and add new issues. And, because 35 U.S.C. § 315(b) creates an exception to the one-year filing period for petitions that are joined to ongoing proceedings, the PTAB concluded that the same party could add even time-barred claims to a proceeding.

That interpretation of Section 315(c) cannot be reconciled with the statutory text. The only plausible meaning of the phrase “join as a party” is that a *new* party is being added to an existing proceeding. That is how Congress has understood the phrase in other statutes using nearly identical language. The PTAB’s contrary

reading would transform joinder into a powerful and unintended tactical weapon for petitioners and would unfairly hamper patent-holders' ability to defend themselves.

Furthermore, the method by which the PTAB came to embrace self-joinder raises serious constitutional questions. A majority of the initial three-judge panel in this case agreed that "join as a party" means that the PTAB can only add new parties to an existing proceeding. But then the PTAB added two additional judges and an "expanded panel" revisited the joinder ruling. That expanded panel then repudiated the original panel's interpretation of Section 315(c).

According to the PTAB's Standard Operating Procedures, expanded panels are rare; the Chief Judge initiates panel expansion; and the Chief Judge supervises the selection of new panel members based on their legal and technical expertise. But according to representations by the PTO's counsel in a prior case, any time a panel rejects self-joinder, the agency convenes expanded panels to change the original panel's ruling and enforce a PTO policy favoring self-joinder. Moreover, the PTO has insisted that courts have no jurisdiction to review either the PTAB's interpretation of Section 315(c) in these decisions or the PTO's use of panel-stacking.

This Court should be skeptical of claims to such power. If agency officials can use panel reconfiguration to change and even reverse the course of ongoing agency adjudications in pursuit of a favored policy goal, the proceedings lose the

appearance of fairness and impartiality. Due process likewise forbids an agency from departing from public procedures designed to provide safeguards if and when the agency decides to expand panels. If the PTO, in its considered judgment, believes that self-joinder of time-barred claims is good policy and consistent with the intent of Congress, it should go through public notice and comment, and promulgate a rule. Doing so would ensure transparency and public accountability in setting such important agency policy. But on the question of self-joinder, the PTO took a different path: someone within the agency—it is unclear who—adopted self-joinder as a favored policy and pursued it through specially configured PTAB panels. The PTO, in turn, argues that these rulings are immune from judicial review due to the PTAB’s plenary authority over its institution decisions. This is no way to set agency policy. And there is no bar under 35 U.S.C. § 314(d) to this Court’s review, since this case raises serious constitutional and procedural concerns about joinder that are also distinct from the PTAB’s decision to institute IPR. This Court should not allow the PTO to vitiate basic due-process norms and then declare itself insulated from any accountability.

BACKGROUND

A. Broad Ocean Joins Itself As A Party To Its Own Pending *Inter Partes* Review Proceeding

Appellant Nidec, the owner of U.S. patent 7,626,349 on HVAC system improvements (the ’349 patent) served appellee Broad Ocean with a complaint

alleging infringement. Less than a year later, in July 2014, Broad Ocean petitioned for *inter partes* review (IPR) of the '349 patent before the PTAB, asserting two grounds: anticipation and obviousness. Appx0177. Broad Ocean's anticipation ground was based on the Hideji reference, which Broad Ocean had translated from Japanese into English. *Id.*; Appx0180.

Broad Ocean failed, however, to include an affidavit certifying the translation's accuracy, and under Patent and Trademark Office (PTO) regulations, that deficiency rendered the translation legally inadequate as evidence. *See* 37 C.F.R. § 42.63(b); Appx0180, Appx0184. In January 2015, the PTAB accordingly rejected Broad Ocean's anticipation ground. The PTAB, however, instituted IPR on Broad Ocean's obviousness ground. Appx0172, Appx0184, Appx0188.

One month later, Broad Ocean filed a second IPR petition seeking to invalidate the same '349 patent. Broad Ocean reasserted the same anticipation ground based on the Hideji reference, but this time included the affidavit that it had previously failed to obtain. Appx0872-0873. Broad Ocean acknowledged that this second petition would ordinarily be untimely. Under 35 U.S.C. § 315(b), IPR petitions must be filed less than one year after the petitioner receives a complaint alleging infringement, and this second petition fell outside that window. Appx0813. But, Broad Ocean argued, this petition fell under Section 315(b)'s special timeliness exception for joinder because Broad Ocean had moved to join its

second petition to the IPR proceeding that the PTAB had instituted based upon Broad Ocean's original petition. *Id.*

The PTAB's original three-judge panel disagreed. In a 2-to-1 decision, the panel held that Section 315(c) used the words "join as a party" to authorize the PTO to join to an existing IPR proceeding only new parties, *i.e.*, petitioners who were not already parties to that proceeding. Appx0859, Appx0870-0871.

Broad Ocean requested rehearing by an "expanded" PTAB panel. Appx0892, Appx0932. In October 2015, a five-judge PTAB panel issued a decision that simultaneously (i) granted rehearing, (ii) reversed the original panel decision, (iii) instituted IPR on Broad Ocean's second petition, and (iv) granted Broad Ocean's motion to join the anticipation claim in its second petition to its already instituted proceeding. Over the dissents of the two judges who comprised the original panel majority, the three-judge majority concluded that when Congress used the words "join as a party," Congress meant to allow an existing party to join new issues. Appx0936. The expanded panel thus permitted Broad Ocean to proceed on both its obviousness ground and its previously rejected anticipation ground. The expanded panel's Final Written Decision then found all challenged claims unpatentable on both grounds. Appx0027-0039, Appx0044.

B. The PTO Acknowledges Its Reliance On Panel-Stacking To Guarantee That PTAB Panels Adopt a Policy Favoring Self-Joinder

This is not the first time the PTAB has convened an expanded panel to reconsider a decision involving self-joinder. In 2014, a five-member initial panel expanded into a seven-member panel after a majority of the initial panel concluded that Section 315(c) barred self-joinder. *Target Corp. v. Destiny Maternity Corp.*, Case No. IPR2014-00508, slip op. (P.T.A.B. Feb. 12, 2015) (Paper 28) (expanded panel). Like the expanded panel below, a majority of the expanded panel in *Target* concluded that Congress used the words “join as a party” to authorize the same petitioner in an existing proceeding to add new issues to that proceeding. *Id.* at 6-12. The PTAB now has one non-precedential decision rejecting self-joinder, *see SkyHawke Techs., LLC v. L&H Concepts, LLC*, Case No. IPR2014-01485, slip op. (P.T.A.B. Mar. 20, 2015) (Paper 13), and a number of non-precedential decisions embracing it. *See* Appx0936. And since non-precedential expanded-panel decisions are just as non-binding as any other non-precedential opinion, future panels can disregard them and start the cycle anew. PTAB Standard Operating Procedure 2 at 3-4 (Revision 9) (Sept. 22, 2014), *available at* <https://www.uspto.gov/sites/default/files/documents/sop2-revision-9-dated-9-22-2014.pdf>.

The PTO has not consistently explained how or why panels expand, or even who decides this. Ordinarily, the original panel conducts rehearing by reviewing the parties' briefing for and against rehearing and deciding whether the initial decision was an abuse of discretion. *See* 37 C.F.R. § 42.71(c)-(d). But this Court has held that under 35 U.S.C. § 6, the Director can initiate rehearing before an expanded panel, and can designate who sits on those panels. *In re Alappat*, 33 F.3d 1526, 1532-33 (Fed. Cir. 1994), *abrogated on other grounds by In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008). The Director, in turn, has delegated to the Chief Judge the power to order rehearing before an expanded panel in any type of PTAB proceeding at any stage. *See* PTAB Standard Operating Procedure 1 (Revision 14) at 1-2 (May 8, 2015), *available at* <https://www.uspto.gov/sites/default/files/documents/SOP1%20-%20Rev.%2014%202015-05-08.pdf>. And under the Chief Judge's direction, an "administrative panel of the Board" has the power to pick who sits on those panels, subject to the requirement that additional panel members be chosen based on "technical or legal expertise." *Id.* at 2, 4. Per the PTAB's Standard Operating Procedures, expanded panels are "not favored and ordinarily will not be used." *Id.* at 3.

The PTO elaborated the PTAB's unwritten practices concerning expanded panels—particularly in cases involving self-joinder—in *Yissum Research Dev. Co. v. Sony Corp.*, 626 F. App'x 1006 (Fed. Cir. 2015), a case in which the PTO joined

as an intervenor. In its intervenor brief, the PTO expressed its view that Section 315(c) should be interpreted to allow self-joinder, Appx0923, that the PTO has the power to expand PTAB panels to ensure reconsideration of the original decision, Appx0924, and that “[t]he USPTO thus has acted to ensure that its pronouncements remain consistent on this issue.” *Id.* During oral argument, the PTO’s counsel further explained that “it’s especially appropriate in this situation that the [D]irector be able to make sure that her policy judgments are enforced by the Board.” Appx1006. And the PTO’s counsel agreed that any time a PTAB panel diverges from “the agency’s” position on joinder, “[the PTO] ha[s] engaged the power to reconfigure the panel to get the result [it] want[s].” Appx1012; *accord* Appx1017 (“[W]hat the agency would do in that case would be . . . to exercise its authority to try to bring that panel’s decision in line with the agency’s view.”). Similarly, when asked whether panels are being “reset by adding a few members who will come out the other way,” the PTO’s counsel agreed “that’s how that falls.” Appx1013.²

² This Court summarily affirmed the judgment in *Yissum* and did not address the joinder issue. 626 F. App’x at 1006.

ARGUMENT

I. THE EXPANDED PANEL’S JOINDER DECISION IS UNLAWFUL

A. The PTO Has No Authority Under Section 315(c) To Allow Self-Joinder

The expanded panel below, some other PTAB panels, and the PTO in litigation have interpreted Section 315(c) to allow the PTAB to join to an existing IPR proceeding new issues that the existing petitioner raises in a separate petition. That interpretation exceeds the bounds of the PTO’s authority, and would transform IPR proceedings into an invitation for prejudicial, time-consuming gamesmanship by petitioners. This Court should vacate the decision below, which was irrevocably tainted by the improper joinder decision. *See City of Arlington v. F.C.C.*, 133 S. Ct. 1863, 1869-70 (2013).

1. Only Someone Who Is Not Already A Party Can “Join As A Party”

“The starting point for statutory interpretation is the language of the statute,” and “[w]here the statutory language provides a clear answer [to the question at issue], it ends there as well.” *Bull v. United States*, 479 F.3d 1365, 1376 (Fed. Cir. 2007) (quotation marks and citations omitted). This case begins and ends with Section 315(c)’s unambiguous text: “the Director, in his or her discretion, may *join as a party* . . . any person who properly files a petition . . . that the Director . . .

determines warrants the institution of an inter partes review.” (emphasis added).³ The phrase “join as a party” describes how someone who is not already a party to the proceeding is added alongside the existing parties. That is the only plausible reading of that phrase, and it necessarily rules out “join[ing]” either the petitioner or the patent owner, since those two entities are already “a party” to all IPR proceedings. *See* 37 C.F.R. § 42.2.

Dictionaries—the source that courts consult to establish “the ordinary or common meaning” of a term, *Taniguchi v. Kan Pacific Saipan, Ltd.*, 132 S. Ct. 1997, 2003 (2012)—overwhelmingly confirm this commonsense reading. Black’s Law Dictionary, for instance, distinguishes between “joinder of issue” and “joinder of parties” and defines the latter term to mean “[t]he combination of two or more persons or entities as plaintiffs or defendants in a civil lawsuit.” *Black’s Law Dictionary* 965 (10th ed. 2014); *accord Webster’s New Int’l Dictionary* 1339 (2d ed. 1945) (defining the verb “join” as “[t]o unite, connect, or associate physically so as to make, act, work, appear, hold together, or the like, as one”).

Interpreting Section 315(c) to allow only new parties to join an existing proceeding preserves a non-superfluous role for Section 315(d), the consolidation

³ The Director has delegated the authority to institute and join IPR proceedings to the PTAB. Whether that delegation is permissible is the subject of a pending petition for certiorari before the U.S. Supreme Court. *See* Petition for a Writ of Certiorari, *Ethicon Endo-Surgery, Inc. v. Covidien LP*, No. 16-366 (U.S. Sept. 20, 2016).

provision. Section 315(c) sets forth the only way for a *new* petitioner to be added as a party to an ongoing IPR proceeding, and makes the joinder of such new parties a narrow exception to Section 315(b)'s one-year time bar. Section 315(d), in turn, governs the PTO's authority to consolidate an existing IPR proceeding with any other "proceeding or matter involving the patent." The distinction between these two sections makes sense. Congress wanted IPR proceedings to proceed efficiently and without repetitive filings intended to harass a patent owner. So Congress chose narrow joinder language in Section 315(c) that allows only new parties with a similar interest in a given patent to participate in an existing IPR proceeding once the one-year filing deadline for IPR petitions has elapsed.

But Congress also wanted to ensure that the PTO had broader authority to address how an instituted IPR proceeding might be affected by parallel proceedings or other matters already before the PTO, and accordingly granted the Director broader powers in Section 315(d) ("providing for stay, transfer, consolidation, or termination of any such matter"). Thus, to the extent that the AIA allows existing petitioners to bring multiple challenges in different petitions, those petitioners should rely on Section 315(d)'s consolidation provision—not Section 315(c)—to consolidate that petitioner's proceedings if and when the PTO institutes IPR in more than one proceeding. And a petitioner would only be in a position to consolidate multiple petitions if all were timely under Section 315(b).

Furthermore, Congress has employed the same “join as a party” language (or the functionally identical “joined as a party”) in other statutes to signify adding a new and different party, confirming that Congress intended Section 315(c) to carry the same meaning. When the Securities and Exchange Commission brings an enforcement action against registered investment companies for buying securities on margin or engaging in short-selling, the Commission “may *join as a party* the issuer” of certain securities. 15 U.S.C. § 80a-12(a), (d)(1)(I) (emphasis added). Likewise, “[a] person interested in or affected by a matter under consideration in a proceeding before the Secretary of Transportation . . . may be joined as a party . . . in the proceeding.” 49 U.S.C. § 46109. So too has Congress allowed “[a] person interested in or affected by” an aviation proceeding to “be joined as a party.” 49 U.S.C. § 1152.

Were there any doubts remaining as to Section 315(c)’s meaning, the legislative history removes them. The Committee Report on the America Invents Act stated that under Section 315(c), the “Director may allow other petitioners to join the inter partes or post-grant review.” H. R. Rep. No. 112-98, pt.1, at 76 (2011), *reprinted in* 2011 U.S.C.C.A.N. 67, 100. Nothing in the AIA’s legislative history suggests that a petitioner may engraft new arguments onto *its own* pending IPR proceeding by filing a second petition and invoking Section 315(c).

2. The PTO's Contrary Interpretation Encourages Destabilizing Gamesmanship

a. Following the lead of some other panel decisions and a prior PTO brief, the expanded panel instead interpreted the phrase “join as a party” to allow an existing party to join new issues to its ongoing proceeding. *See* Appx0935-0936. This Court should reject that reading, which would give petitioners an unfair and unintended tactical advantage. Petitioners could assert only one ground of invalidity in their initial petition. Then, after receiving the patent-holder's responses and statements, and using the PTAB's institution decision as a how-to guide, the petitioner could join a second petition asserting new grounds that sidestep or exploit weaknesses in the patent-holder's position.

Petitioners already have more than enough opportunity for such gamesmanship given that petitioners can submit multiple petitions raising many grounds for invalidity within Section 315(b)'s one-year time limit. But the PTO's interpretation would also allow petitioners to smuggle otherwise time-barred grounds into existing IPR proceedings. Section 315(b) states that its one-year time bar “shall not apply to a request for joinder under [Section 315(c)].” The PTO's interpretation paves the way for petitioners to file an initial petition raising some grounds, take their time to explore other possible grounds, then file a late second petition raising those new theories. That interpretation would allow petitioners to blatantly circumvent Section 315(b)'s one-year time limit; most of grounds that the

PTAB ultimately addressed in IPR might be raised after that time limit elapsed. Congress cannot have intended Section 315(c) to unfairly stack the decks against patent-holders this way.

The PTO's interpretation of Section 315(c) would also thwart Congress's goal of resolving challenges to patent validity through expedited proceedings. The PTAB typically issues an institution decision six months after a petitioner files an IPR petition. That is because the patent-holder has three months from receipt of the petition to file a preliminary response, 37 C.F.R. § 42.107(b), and the PTAB must decide whether to institute review by three months later, *see* Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,757 (Aug. 14, 2012). Under the PTO's interpretation, however, the petitioner could file a second petition adding new grounds or theories within a month of receiving the PTAB's institution decision. 37 C.F.R. § 42.122(b) (requiring parties to request joinder within one month of the institution of the IPR proceeding they seek to join). The petitioner would thereby expand the one-year statutory time bar for filing into nineteen months.⁴ And that expansion would give petitioners further tactical advantages,

⁴ Patent-holders also have the right to respond to such a petition by filing a preliminary response. If the patent-holder does not waive this right, the Director may not decide the motion for joinder until the time for filing the preliminary response has elapsed, extending the time for joining new issues potentially to 22 months or more from the date when the patent-holder brought an infringement suit in federal district court. Thus, under the PTO's interpretation, parties could have

Footnote continued on next page

especially when there is parallel federal-court patent litigation. By nineteen months, federal courts often will have concluded fact discovery or even expert discovery, and claim construction may have been proposed or decided—all of which petitioners could leverage in a second IPR petition. The PTO’s interpretation would also create perverse incentives for petitioners to assert an invalidity argument first in the district court and then, if that argument failed, use self-joinder to add that argument to an IPR proceeding. Such tactics would inevitably increase inconsistent judgments and foster forum-shopping.

b. The expanded panel held that the phrase “join as a party” permits an existing party to join new issues. But none of the arguments advanced by PTAB panels and the PTO’s lawyers in prior litigation justify interpreting Section 315(c) to allow self-joinder.

PTAB panels and the PTO’s lawyers have deemed the phrase “join as a party” ambiguous because it mentions parties, but says nothing about claims. *See* Appx0923. But that is the opposite of ambiguity. The fact that joinder can refer to parties or claims shows that Congress’s decision to allow joinder of parties but not claims was deliberate. *See Barnhart v. Peabody Coal Co.*, 537 U.S. 149, 168

Footnote continued from previous page

been litigating an issue for two years in district court before that issue is first taken up by the PTAB for parallel adjudication. And in practice, the PTAB’s concern over the potential compression of IPR timelines caused by joinder motions may pressure patent-holders to waive their right to a preliminary response to the second IPR petition.

(2003). And Congress is clearly familiar with the distinction between joinder of parties and joinder of claims. Both the Federal Rules of Civil Procedure and the Federal Rules of Bankruptcy Procedure distinguish between them and provide for different procedures depending on the type of joinder. *Compare* Fed. R. Civ. P. 19-20 (joinder of parties) *with* Fed. R. Civ. P. 18 (joinder of claims); *compare* Fed. R. Bankr. P. 7019-7020 (joinder of parties) *with* Fed. R. Bankr. P. 7018 (joinder of claims and remedies).

Nor is Section 315(c) ambiguous because Congress specified that “any person” who files a qualifying petition can be “join[ed] as a party,” instead of using the phrase “any non-party.” *Cf. Target*, Case No. IPR2014-00508, at 7-8. The ordinary meaning of the verb “join” already requires the addition of something new to an existing whole. Expecting Congress to spell out that a “non-party” should be requesting “join[der] as a party” would just force pointless redundancy.⁵

Given the lack of statutory ambiguity, this Court cannot defer to the PTO’s interpretation under *Chevron, U.S.A. Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837 (1984). *See* Appx0923-0924. But even were there ambiguity, *Chevron* deference is inappropriate absent some indication that Congress delegated to the agency officials in question the authority to make binding rules in the area they are

⁵ Snippets of legislative history from an unenacted prior version of the AIA do not support interpreting Section 315(c) to allow self-joinder, either. *See* Nidec Br. 52-53.

trying to regulate. *United States v. Mead Corp.*, 533 U.S. 218, 230-31 (2001); *Cathedral Candle Co. v. U.S. Int'l Trade Comm'n*, 400 F.3d 1352, 1361, 1365 (Fed. Cir. 2005). Such delegation is absent here. Congress could not have plausibly delegated significant power to authoritatively interpret ambiguous statutory language to any random three-person combination of the PTAB's multimember body. And these PTAB panels do not make binding rules; rather, they have issued non-precedential opinions on self-joinder that any other PTAB panel can disregard at will. And if all those opinions somehow merited *Chevron* deference, it is hard to see why the *SkyHawke* decision rejecting self-joinder would not also warrant deference.

Finally, PTAB panels and the PTO's lawyers reason that the PTO will allow petitioners to join time-barred new issues to their existing case only when the PTO sees no prejudice to the patent-holder. Appx0927-0928. But that is no check at all—especially if, as the PTO has contended, courts are powerless to review the PTAB's Section 315(c) joinder decisions. Appx0913-0920. The facts of this case further cut against letting the fox guard the henhouse. The PTAB saw no unfairness in allowing a petitioner to use self-joinder to resurrect an anticipation challenge that a prior panel dismissed due to the petitioner's negligence, which suggests that the PTAB's promise to conduct a case-by-case prejudice analysis is a meaningless safeguard.

B. PTAB’s Panel-Stacking Violates Due Process

The PTAB’s adjudications must comply with basic due-process norms, but the PTO’s practice of stacking panels to enforce the agency’s policy preferences defies those norms at every turn. “A fair trial in a fair tribunal is a basic requirement of due process,” and that requirement “applies to administrative agencies which adjudicate as well as to courts.” *Withrow v. Larkin*, 421 U.S. 35, 46-47 (1975) (internal quotation marks and citations omitted). The PTAB’s decisions in the course of IPR proceedings reflect purely “adjudicatory function[s],” not prosecutorial ones, so bedrock due-process constraints apply with full force. *See Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1030 (Fed. Cir. 2016), *petition for cert. filed* (U.S. Sept. 22, 2016) (No. 16-366); *accord Marshall v. Jerrico, Inc.*, 446 U.S. 238, 243, 247-49 (1980).

Panel-stacking violates the most basic tenet of due process: “The Due Process Clause entitles a person to an impartial and disinterested tribunal.” *Marshall*, 446 U.S. at 242. That means that an adjudicatory body must render its decisions based on the neutral and impartial judgment of individual adjudicators, not as a vehicle for advancing the agency’s policy preferences. *Cf. Butz v. Economou*, 438 U.S. 478, 513–14 (1978) (interpreting the APA as prohibiting agency adjudicators from being subject to political influence from inside or outside the agency). And that guarantee of an impartial, neutral tribunal likewise bars

agency officials from dictating—or even appearing to dictate—rulings to agency adjudicators.

Thus, the Sixth Circuit found an obvious due-process violation when Department of Agriculture political appointees removed a Judicial Officer for rendering a decision with which they disagreed and then installed a new adjudicator in his stead “to improve the Department’s chances of winning a petition for reconsideration.” *Utica Packing Co. v. Block*, 781 F.2d 71, 75, 78 (6th Cir. 1986). The court refused to accept the argument that the Secretary of Agriculture, having delegated to the Judicial Officer the original authority to resolve certain matters, could reappropriate that power at will based on disagreement with the Judicial Officer’s conclusions. *See id.* at 76. Instead, the court held, “[t]here is no guarantee of fairness when the one who appoints a judge has the power to remove the judge before the end of proceedings for rendering a decision which displeases the appointer.” *Id.* at 78. The court concluded: “All notions of judicial impartiality would be abandoned if such a procedure were permitted.” *Id.*

The PTO’s use of panel-stacking raises even worse due-process problems. As in *Utica Packing*, agency officials are apparently exercising the power to appoint panel members in order to eradicate objectionable rulings. Appx1012-1013, Appx1017. As in *Utica Packing*, the agency’s manifest reason for these

machinations is to eliminate a decision that displeased the Director or her designees. *Id.*

Additional features of this case aggravate the due-process problem. *Utica Packing* concerned an isolated instance of judicial manipulation, but panel-stacking is apparently a recurrent practice the PTO follows any time a PTAB panel disagrees with the Director's policy. Appx1012, Appx1017. In *Utica Packing*, the Department's machinations were at least outwardly obvious; here, no one knows whether the Director, her designees, or unknown elements of the Administrative Patent Judge corps are making the actual decisions to institute expanded panels and to select favorable judges. In *Utica Packing*, the Department of Agriculture could at least claim to have the ultimate authority to appoint and remove the Judicial Officer, who also had adjudicatory authority only to the extent the Secretary delegated it. *See* 781 F.2d at 72-73, 76. Not so here: under the PTO's statutory scheme, the PTAB "is not the alter ego or agent of the [Director]," and "derives its adjudicatory authority from a statutory source independent of the [Director's] rulemaking authority." *In re Alappat*, 33 F.3d at 1535; *accord Brenner v. Manson*, 383 U.S. 519, 523 n.6 (1966) ("the Commissioner [now Director] may be appropriately considered as bound by Board determinations.").⁶

⁶ To be sure, *Alappat* also concluded as a matter solely of statutory interpretation that the predecessor version of 35 U.S.C. § 6(c) allowed the Director to select

Footnote continued on next page

Moreover, when an agency adopts procedures to safeguard individuals against the possibility of arbitrary proceedings, the agency's failure to follow its own rules independently raises due-process concerns.⁷ Here, the PTAB established internal rules governing expanded panels to protect parties from arbitrary decision-making. The PTAB's rules, revised in May 2015, advise that the agency would use expanded panels rarely, not routinely every time a particular issue arises. *See* SOP 1 (rev. 14) at 3. The rules required the Chief Judge, not the Director, to decide when expanded panels are necessary. *Id.* at 2, 4. And the

Footnote continued from previous page

panels that “he knows or hopes will render the decision he desires.” 33 F.3d at 1535. But this Court reserved whether exercising panel-selection authority in this manner would violate due process. *Id.* at 1536. Moreover, while *Alappat* suggested that the “principles respecting the independence of judges or other concepts associated with the judicial process are not necessarily applicable to Board members,” *id.* at 1535 n.10, this Court has since indicated otherwise, *see Ethicon*, 812 F.3d at 1030.

⁷ *See United States ex rel. Accardi v. Shaughnessy*, 347 U.S. 260, 266–68 (1954) (vacating Board of Immigration Appeals decision because the Attorney General, by regulation, delegated to the BIA the authority to adjudicate immigration determinations, but then tried to “dictate the Board’s decision,” in violation of “the due process required by the regulations”); *accord Wilson v. Comm’r of Soc. Sec.*, 378 F.3d 541, 545 (6th Cir. 2004) (“An agency’s failure to follow its own regulations tends to cause unjust discrimination and deny adequate notice and consequently may result in a violation of an individual’s constitutional right to due process.” (internal quotation marks omitted)); *Montilla v. I.N.S.*, 926 F.2d 162, 164, 166–67 (2d Cir. 1991) (“The notion of fair play animating [the Fifth Amendment] precludes an agency from promulgating a regulation affecting individual liberty or interest, which the rule-maker may then with impunity ignore or disregard as it sees fit.”). At a minimum, failing to follow such regulations renders an agency’s actions invalid under the APA. *Wagner v. United States*, 365 F.3d 1358, 1361–62 (Fed. Cir. 2004).

PTAB's rules mandate that the Chief Judge (aided by the PTAB's "administrative personnel") direct which PTAB judges sat on the expanded panel, and make assignments based solely on judges' "technical or legal expertise." *Id.*; *see id.* at 2. These are quintessential procedural safeguards "intended primarily to confer important procedural benefits upon indiv[i]duals in the face of unfettered discretion." *Am. Farm Lines v. Black Ball Freight Serv.*, 397 U.S. 532, 538-39 (1970) (internal quotation marks omitted).

Yet in December 2015, the PTO's counsel described PTO's practice of panel-stacking in terms starkly departing from those rules. Rather than reserving expanded panels for rare cases, "the agency" uses them whenever a panel rejects self-joinder. Appx1012, Appx1017. Rather than leaving the decision to initiate expanded panels to the Chief Judge, unspecified actors within "the agency" apparently prompt expanded panels. *See id.* And rather than selecting expanded panel members based on legal and technical expertise, "the agency" selects them for their willingness to hew to a policy preference (presumably the Director's) that favors self-joinder. *See id.* As described by the PTO's counsel, the agency's practices depart from the PTAB's publicly announced procedures in a way that raises disturbing questions about whether any safeguards protect against the abuse

of expanded panels. And the facts of this case strongly suggest that these practices continue and were at play here.⁸

Worse still, PTO's representations to this Court suggest that the agency is testing out this practice to avoid the notice-and-comment procedures that the APA prescribes for agency rulemaking. Congress delegated to the Director the power to make binding rules governing IPR proceedings. *See* 35 U.S.C. § 316. Under the APA, however, the price of exercising that authority is public accountability: the Director must notify the public of the proposed rule and defend her position against objections raised in public comments. *Perez v. Mortgage Bankers Ass'n*, 135 S. Ct. 1199, 1203-04 (2015). Now, the PTO appears to be pioneering another way to set policy without having to engage in public discourse: select members of an expanded panel who will adopt the Director's position on self-joinder, then inform courts that—to the extent they can review this at all—*Chevron* requires them to accept the Director's position. That innovation “produces a balance between power and procedure quite different from the one Congress chose when it enacted the APA,” and should be rejected. *See id.* at 1211-12 (Scalia, J., concurring).

⁸ It is no answer to say that the PTAB was not obligated to follow these rules because it designated them unenforceable “internal norms.” *See* SOP 1 (rev. 14) at 2. Courts have required agencies to follow their internal rules irrespective of whether those rules went through the bells and whistles of notice-and-comment rulemaking. *See, e.g., Morton v. Ruiz*, 415 U.S. 199, 235 (1974); *United States v. Heffner*, 420 F.2d 809, 812 (4th Cir. 1969); *cf. Appalachian Power Co. v. E.P.A.*, 208 F.3d 1015, 1021-23 (D.C. Cir. 2000).

In sum, neither parties nor the public know who within the PTO really decides whether to allow expanded panels, or who actually selects these panels. The public is in the dark as to how the Director is ensuring that PTAB members follow her policy preferences. No one knows how and when PTAB members became aware of that policy. All the public knows is that the PTO's policy of allowing self-joinder began to appear in non-precedential panel opinions, and that if a PTAB panel interprets Section 315(c) to bar self-joinder, unspecified elements within the agency will ensure that an expanded panel is convened to reverse it. If due process means anything, it surely bars such machinations.⁹

II. THE EXPANDED PANEL'S JOINDER DECISION IS REVIEWABLE

1. Section 314(d) specifies that “[t]he determination . . . whether to institute an inter partes review” is “final and nonappealable.” 35 U.S.C. § 314(d). That restriction does not extend to the PTAB's joinder decision and its reliance on panel-stacking, which are reviewable under the Supreme Court's interpretation of Section 314(d) in *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131 (2016). *Cuozzo* held that Section 314(d) only bars judicial review of “ordinary dispute[s] about the application of certain relevant patent statutes concerning the Patent Office's decision to institute inter partes review.” 136 S. Ct. at 2139. Thus, the

⁹ If this Court concludes that panel-stacking is not a due-process violation, the Court should at least hold that the agency's practices violate the APA's prohibition on arbitrary decision-making. 5 U.S.C. § 706.

Supreme Court held, Section 314(d) barred judicial review of whether a petition stated the grounds of invalidity “with particularity,” as required by 35 U.S.C. § 312, because that appeal “attacks a ‘determination . . . whether to institute’ review by raising this kind of legal question and little more.” *Id.* (citing § 314(d)).

Critically, *Cuozzo* reserved whether Section 314(d) barred “appeals that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond [Section 314].” *Id.* at 2141. The Court indicated that such appeals likely would be reviewable, emphasizing that its holding would not “enable the agency to act outside its statutory limits,” for instance by creating “a due process problem with the entire proceeding,” by reviewing a claim on statutorily ineligible grounds, or by engaging in “shenanigans” that violate the Administrative Procedure Act. *Id.* at 2141-42.

Nidec’s appeal of the PTAB’s joinder decision and Nidec’s challenge to the PTO’s use of panel-stacking in this case raise precisely the types of questions that *Cuozzo* suggested would remain reviewable. Whether the PTAB can join the same party to an existing proceeding is a question of pure statutory interpretation going to the heart of the agency’s delegated authority. *Cuozzo* signaled that such issues remain reviewable under the courts’ duty to police whether an agency exceeded its “statutory limits.” 136 S. Ct. at 2141. And whether to allow joinder is a decision

that affects parties' procedural rights and the entire scope of the ensuing proceeding. It cannot be reduced to a mere quibble with the PTAB's "conclusion, under § 314(a), that the information presented in the petition warranted review." *Id.* at 2142 (internal quotation marks omitted).

Moreover, the PTO's use of expanded panels raises the same kind of due-process issues that the Supreme Court has traditionally considered reviewable no matter how categorically Congress has seemed to bar review. *See id.* at 2141. Even a statute providing that determinations are "final," "conclusive" and "not subject to review" does not bar review of whether the agency "depart[ed] from important procedural rights." *Lindahl v. Office of Personnel Mgmt.*, 470 U.S. 768, 771, 791 (1985); *accord Johnson v. Robison*, 415 U.S. 361, 367 (1974) (similar). Accordingly, the Court has repeatedly suggested that construing limitations on judicial review to bar constitutional challenges would itself raise serious constitutional problems. *See, e.g., Webster v. Doe*, 486 U.S. 592, 603 (1988).

These decisions thus fundamentally differ from appeals relating to "minor statutory technicalit[ies] related to [the PTAB's] preliminary decision to institute [IPR]." *Cuozzo*, 136 S. Ct. at 2140; *accord, e.g., St. Jude Med., Cardiology Div., Inc. v. Volcano Corp.*, 749 F.3d 1373, 1376 (Fed. Cir. 2014) (holding that the Court lacked jurisdiction to review the PTAB's determination that IPR petition was time-barred); *Achates Reference Publ'g, Inc. v. Apple Inc.*, 803 F.3d 652, 654, 658

(Fed. Cir. 2015) (court could not review the PTAB's determination of lack of privity under Section 315(b), such that time bar was not triggered).

Finally, important policy considerations favor review. If the PTO can misconstrue the plain text of the joinder provisions and engage in panel-stacking without ever facing judicial accountability, there is nothing to stop the PTAB from disregarding other critical statutory provisions, like the AIA's robust estoppel provisions. *See* 35 U.S.C. § 315(e). Judicial review of the fundamental statutory and constitutional questions raised by the PTO's joinder practices is essential to prevent agency self-regulation from becoming an invitation to abuse.

2. In all events, the PTO's panel-stacking practices are reviewable because they affected not only the initial joinder decision, but the final decision as well, since the same expanded panel rendered that decision. *See Ethicon*, 812 F.3d at 1028-29 (Section 314(d) does not bar "a challenge to the authority of the Board to issue a final decision"). The severe procedural defects underpinning the agency's decision to use an expanded panel taint every ensuing decision the expanded panel made, including its final decision.

CONCLUSION

This Court should reverse the PTAB's final decision and remand the case back to the PTAB for further proceedings.

Dated: November 14, 2016

Respectfully submitted,

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

Nidec Motor Corporation v. Zhongshan Broad Ocean Motor Co. et al., 2016-2321

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