

## Selected docket entries for case 15-1205

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IN THE UNITED STATES COURT OF APPEALS  
FOR THE FOURTH CIRCUIT

J. CARL COOPER, *et al.*,

Plaintiffs-Appellants,

v.

MICHELLE K. LEE, Deputy Director of U.S.  
Patent and Trademark Office, *et al.*,

Defendants-Appellees.

No. 15-1205

**REPLY IN SUPPORT OF MOTION TO TRANSFER**

Plaintiffs implausibly contend that their facial challenge to the operation of the patent laws does not raise a substantial question of patent law. They do so in a transparent effort to avoid the jurisdiction of the Federal Circuit, where binding precedent would require rejection of their constitutional claims on the merits. *See Joy Techs., Inc. v. Manbeck*, 959 F.2d 226, 228 (Fed. Cir. 1992) (upholding the PTO's reexamination procedures against a similar Article III and Seventh Amendment challenge); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985) (finding "no constitutional infirmity" in the PTO's process of evaluating the patentability of previously issued patents). Because Congress has granted exclusive jurisdiction over their claims to the Federal Circuit, plaintiffs' appeal should be transferred. *See* 28 U.S.C. § 1295(a)(1).

1. Plaintiffs do not dispute that transfer to the Federal Circuit is appropriate

when an appeal presents a claim that is “created by federal patent law” or requires this Court to resolve “a substantial question of patent law.” *Goldstein v. Moatz*, 364 F.3d 205, 210 n.8 (4th Cir. 2004). Plaintiffs likewise do not dispute that the Federal Circuit has concluded that constitutional challenges to patent laws raise “substantial” patent-law questions.<sup>1</sup>

In *Madstad Engineering, Inc. v. U.S. Patent and Trademark Office*, 756 F.3d 1366, 1370 (Fed. Cir. 2014), the Federal Circuit squarely held that “a claim attacking the constitutionality of an Act of Congress relating to patents is one arising under that Act of Congress” within the meaning of 28 U.S.C. § 1295(a)(1). As in this case, the plaintiff in *Madstad* raised a constitutional challenge to certain provisions of the America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), which amended the Patent Act. The *Madstad* court explained that the challenge raised a “substantial issue” of patent law even though the plaintiff did “not assert a claim under the [America Invents Act] and, instead assert[ed] a claim directly under the constitution challenging the [Act’s] constitutionality.” 756 F.3d at 1370.

The Federal Circuit’s decision in *Patlex*, 758 F.2d at 604, is also squarely on point. As in this case, the plaintiff in *Patlex* brought suit alleging that the PTO’s procedure for reviewing the patentability of previously issued patents violated

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<sup>1</sup> Contrary to plaintiffs’ assertion, *see* Pls.’ Op. 3, the Administrative Procedure Act, 5 U.S.C. § 702, provides the waiver of sovereign immunity that permits this challenge to the constitutionality of inter partes review. *See Transohio Sav. Bank v. Dir., Office of Thrift Supervision*, 967 F.2d 598, 610 (D.C. Cir. 1991).

Article III and the Seventh Amendment. After the district court rejected its challenges, the plaintiff appealed both to the Federal Circuit and to the Third Circuit. *Id.* at 598 n.5. But “on motion of [the government] to the effect that jurisdiction resided in the Federal Circuit, the Third Circuit dismissed that appeal for lack of jurisdiction.” *Id.* The Federal Circuit proceeded to exercise jurisdiction over the appeal and to rule against the challenger on the merits. *Id.* at 604.

The Federal Circuit has thus held that its exclusive appellate jurisdiction extends to cases of this kind, and there is nothing about this case that would warrant a different conclusion.

2. Plaintiffs are patent owners who have brought suit to prevent the PTO from completing certain administrative proceedings—“inter partes reviews”—concerning plaintiffs’ patents. Upon completion of these inter partes reviews, plaintiffs will be entitled to appeal the agency’s final decision “only” to the Federal Circuit. *See* 35 U.S.C. § 141(c) (a party who is dissatisfied with the PTO’s decision in an inter partes review “may appeal the [agency’s] decision only to the United States Court of Appeals for the Federal Circuit”). And in such an appeal, there is no question that plaintiffs may raise the same constitutional claims they have raised—prematurely—here. Indeed, there is an action on appeal from an inter partes review now pending before the Federal Circuit raising constitutional challenges that are materially indistinguishable from the challenges plaintiffs have raised here. *See MCM Portfolio LLC v. Hewlett-Packard Co.*, No. 15-1091 (Fed. Cir.). Plaintiffs have

participated as *amici* in that action. This appeal belongs in the same court.

Plaintiffs contend that their appeal does not implicate any question of patent law because, rather than allowing the PTO proceedings to run their course, they prematurely filed a constitutional challenge in district court. It is difficult to imagine that Congress intended to allow patent owners whose patents are the subject of ongoing PTO proceedings to avoid the exclusive appellate jurisdiction of the Federal Circuit by that simple artifice. And in any event, as the Federal Circuit has explained, constitutional challenges to the operation of the patent laws typically *do* require the resolution of substantial questions of patent law. *See, e.g., Madstad*, 756 F.3d at 1370.

That is certainly the case here. Adjudication of plaintiffs' challenge would require this Court to pass on myriad questions of patent law better suited to the expertise of the Federal Circuit. In particular, to resolve plaintiffs' Article III challenge, this Court would be required to determine whether the rights conferred on patent owners under the Patent Act constitute "public rights" that Congress may permissibly delegate to non-Article III courts. This question in turn would require the Court to construe various features of the PTO's process for reevaluating the patentability of claims in issued patents. The government's brief in *MCM Portfolio*, for example, discusses at length the nature of the legal rights granted under the Patent Act, the features of inter partes review, and the balance that Congress has struck between granting a patent owner an exclusive entitlement and protecting the right of the public to benefit from useful inventions. Just as in *Madstad*, 756 F.3d at 1370, and

*Patlex*, 758 F.2d at 604, therefore, plaintiffs' constitutional challenge implicates substantial patent-law questions.

Plaintiffs' assertion that this case does not present the question whether patent rights are "public rights," *see* Pls. Op. 10-12, only underscores the substantial patent-law question at issue. The government contends that patents implicate quintessential public rights that Congress may authorize the PTO to adjudicate. Plaintiffs, by contrast, contend just the opposite. They do so by relying on a Supreme Court patent case that, according to plaintiffs, precludes reconsideration of issued patents by the PTO. *See* Pls. Op. 5 (quoting *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606 (1898)). Thus, even by plaintiffs' own account, deciding this case will require an understanding of the exact nature of the rights conferred on patentees under the Patent Act, and patent-law precedent from the Supreme Court will be central to resolving that question.

3. Accordingly, there is no need to refer the transfer motion to a merits panel. Indeed, a full briefing as to why this action implicates issues of patent law would defeat the purpose of 28 U.S.C. § 1295(a)(1), which seeks to avoid the waste and delay associated with such briefing and to direct patent-related appeals to the Federal Circuit from the outset. This case plainly presents a substantial issue of patent law. The government therefore respectfully requests that it be transferred to the Federal Circuit without delay.

## CONCLUSION

For the foregoing reasons, this appeal should be transferred to the United States Court of Appeals for the Federal Circuit pursuant to 28 U.S.C. § 1631.

Respectfully submitted,

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MARCH 2015

**CERTIFICATE OF SERVICE**

I hereby certify that I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Fourth Circuit by using the appellate CM/ECF system on March 20, 2015. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

*/s/ William E. Havemann*

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WILLIAM E. HAVEMANN



RECORD NUMBER: 15-1205

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

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**J. CARL COOPER and eCHARGE LICENSING, LLC,**

*Plaintiffs/Appellants,*

– v. –

**MICHELLE K. LEE, in her capacity as Deputy Director of the United States  
Patent & Trademark Office and UNITED STATES PATENT &  
TRADEMARK OFFICE,**

*Defendants/Appellees.*

**ON APPEAL FROM THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA AT ALEXANDRIA**

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**OPENING BRIEF OF APPELLANTS**

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UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT  
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No. 15-1205 Caption: J. Carl Cooper et al. v. Michelle K. Lee et al.

Pursuant to FRAP 26.1 and Local Rule 26.1,

J. Carl Cooper; eCharge Licensing, LLC  
(name of party/amicus)

who is appellant, makes the following disclosure:  
(appellant/appellee/petitioner/respondent/amicus/intervenor)

1. Is party/amicus a publicly held corporation or other publicly held entity?  YES  NO

2. Does party/amicus have any parent corporations?  YES  NO  
If yes, identify all parent corporations, including grandparent and great-grandparent corporations:

Cascades Ventures, Inc.

3. Is 10% or more of the stock of a party/amicus owned by a publicly held corporation or other publicly held entity?  YES  NO  
If yes, identify all such owners:

4. Is there any other publicly held corporation or other publicly held entity that has a direct financial interest in the outcome of the litigation (Local Rule 26.1(b))?  YES  NO  
If yes, identify entity and nature of interest:

5. Is party a trade association? (amici curiae do not complete this question)  YES  NO  
If yes, identify any publicly held member whose stock or equity value could be affected substantially by the outcome of the proceeding or whose claims the trade association is pursuing in a representative capacity, or state that there is no such member:

6. Does this case arise out of a bankruptcy proceeding?  YES  NO  
If yes, identify any trustee and the members of any creditors' committee:

Signature: /s/ Robert P. Greenspoon

Date: 3/3/2015

Counsel for: Appellants

**CERTIFICATE OF SERVICE**

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I certify that on 3/3/2015 the foregoing document was served on all parties or their counsel of record through the CM/ECF system if they are registered users or, if they are not, by serving a true and correct copy at the addresses listed below:

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## I. INTRODUCTION

In 2011, Congress passed legislation diverting patent validity litigation into an administrative agency tribunal. The process, called *inter partes* review, makes it harder for new firms to enter and compete in markets.<sup>1</sup> The administration personnel who now replace juries and judges for such matters quickly gained a reputation as “patent death squads.”<sup>2</sup> This case challenges the constitutionality of *inter partes* review.

Since *Marbury v. Madison*, 5 U.S. 137 (1803), the Judiciary must declare whether Acts of Congress are valid under the United States Constitution. This appeal seeks correction of the error by the district court in failing to hold unconstitutional the new *inter partes* review proceedings conducted by the United States Patent and Trademark Office (USPTO), an Article I agency of the Executive within this judicial circuit. Those proceedings unconstitutionally assign to an Article I tribunal matters reserved for the Judiciary, in violation of Separation of Powers principles.

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<sup>1</sup> James E. Daily and F. Scott Kieff, *Benefits of Patent Jury Trials for Commercializing Innovation*, 21 Geo. Mason L. Rev. 865, 878-79 (2014) (“One reason for this is that larger firms generally are thought to be more effective at bringing political influence to bear in agency determinations.”).

<sup>2</sup> Both the erstwhile Chief Judge of the Court of Appeals for the Federal Circuit and the Chief Patent Judge of the Patent Trial and Appeal Board have publicly agreed that “patent death squad” is an accurate label. Ryan Davis, *PTAB’s “Death Squad” Label Not Totally Off-Base, Chief Says*, Law360 (August 14, 2014).

They also adjudicate patent validity without a jury, in violation of patentees' Seventh Amendment rights.

A patent, upon issuance, is not subject to revocation or cancellation by any executive agent, including by any part of the USPTO. *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 609 (1898). The Executive branch invades the province of Article III courts to cancel a patent as invalid during any kind of post-grant proceedings. *Id.* at 612.

[W]hen a patent has received the signature of the Secretary of the Interior, countersigned by the Commissioner of Patents, and has had affixed to it the seal of the Patent Office, *it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or cancelled by the President, or any other officer of the Government.* It has become the property of the patentee, and as such is entitled to the same legal protection as other property.

*Id.* at 608-09 (emphasis added, citations omitted). “The only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” *Id.*

Because *inter partes* review does to patents what the Supreme Court says cannot be done, it is clearly unconstitutional. Clear unconstitutionality negates the district court's application of administrative exhaustion, and entitles Appellants to substantive relief in this Court.

## **II. JURISDICTIONAL STATEMENT**

This matter raises a claim that particular provisions of an Act of Congress violate Separation of Powers principles and the Seventh Amendment to the United States Constitution. The district court had jurisdiction under 28 U.S.C. § 1331 because this matter arose under the United States Constitution and the Declaratory Judgment Act, 28 U.S.C. § 2201. The Court of Appeals has jurisdiction over this appeal as an appeal from a final judgment under 28 U.S.C. § 1291, entered on February 18, 2015. Appellants timely filed the notice of appeal on February 19, 2015.

Appellate jurisdiction does not reside in the Court of Appeals for the Federal Circuit under 28 U.S.C. § 1295(a). The Appellee disagrees and has moved to transfer this appeal. Appellants have opposed. Appellants have asked that, at a minimum, the transfer/jurisdiction question should be referred to the merits panel. For these reasons, Appellants respectfully incorporate by reference their opposition to the transfer motion.

## **III. STATEMENT OF THE ISSUES**

Whether *inter partes* review violates Separation of Powers principles, and/or the Seventh Amendment right to a jury trial.

#### IV. STATEMENT OF THE CASE

##### A. Procedural Background

Appellant J. Carl Cooper (“Mr. Cooper”) is an inventor and owner of numerous United States patents. Appellant eCharge Licensing, LLC (“eCharge”) is an entity that helps inventors effectively license their intellectual property. Mr. Cooper granted eCharge an exclusive license to a number of his patents.

During a concurrent proceeding in the Northern District of Illinois in which eCharge sought a jury’s determination of infringement, validity and damages, the defendant in that action petitioned the Patent Trial and Appeal Board (the “PTAB,” a branch of the USPTO) to conduct an *inter partes* review of three of Mr. Cooper’s patents, as provided in 35 U.S.C. § 311. (*eCharge Licensing LLC v. Square, Inc.*, Case No. 1:13-cv-06445 (N.D. Ill.)). The Northern District of Illinois stayed that action pending the PTAB’s decision. On May 15, 2014, the PTAB instituted *inter partes* reviews of U.S. Patent Nos. 6,764,005; 7,828,207; and 8,490,875.

Appellants promptly filed suit in the Eastern District of Virginia on June 5, 2014, seeking a declaratory judgment that *inter partes* review proceedings are unconstitutional on their face, and requesting relief in the form of an injunction barring the USPTO from continuing its



unconstitutional practices. On the same day they filed the Complaint, Appellants moved for summary judgment in their favor. The USPTO appeared but did not file an answer. Instead, it cross-moved for summary judgment, raising a new ground to dissuade the district court from granting relief – failure to exhaust administrative remedies.

The district court heard oral arguments in October 2014. On February 18, 2015, the district court granted the USPTO's motion on administrative exhaustion grounds, reaching (but rejecting) whether *inter partes* review embodies a clear constitutional violation. *See Cooper v. Lee*, 2015 U.S. Dist. LEXIS 19419, Case No. 1:14-cv-00672-GBL-JFA, (E.D. Va. Feb. 18, 2015). The district court required exhaustion, even though the USPTO lacks authority to reach or decide the constitutional questions. In making this determination, the district court did not cite or attempt to distinguish *McCormick*, 169 U.S. 606. The district court also determined that *inter partes* review “mirrors” a different kind of USPTO proceeding called *ex parte* reexamination. It therefore held that previous authority supporting the constitutionality of *ex parte* reexamination made it unlikely that Appellants would succeed in their arguments that *inter partes* review failed constitutional tests.

These determinations by the district court overlooked the controlling distinctions between *ex parte* reexamination and *inter partes* review that Appellants had explained in detail in their district court submissions. (ECF No. 3, at 16-22; ECF No. 24, at 2-14). These determinations also overlooked unambiguous Supreme Court authority forbidding the Executive from canceling or invalidating issued patents. And even though Appellants' suit did not challenge any actual administrative *decision* by the PTAB or the USPTO (instead challenging the constitutionality of the power to adjudicate), the district court mistakenly applied exhaustion principles that only relate to challenges to agency *decision making* (as opposed to challenges to the legality of its processes as a whole).

Because of the importance of the issues and the profound errors by the district court, Appellants filed their notice of appeal immediately.

### **B. The Nature of *Inter Partes* Review**

The district court decision overlooks the adjudicatory nature of *inter partes* review. Its opinion contains conclusory statements describing it as “mirroring” a prior proceeding known as *ex parte* reexamination. *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*17-18. But the *inter partes* review procedure is of an adjudicatory nature. It is nothing like “examination” of a patent application. The USPTO itself agrees in its transfer motion that this

appeal raises a question whether “Congress may permissibly delegate [patent validity] to a non-Article III tribunal *for adjudication*” (Appeal ECF No. 18, at 6, (emphasis added)). The USPTO also agrees that *inter partes* review is “an adversarial proceeding before the Board,” at the end of which “the Board issues a final written decision” (*id.* at 3).

In 2011, Congress passed the America Invents Act, and the President signed it into law on September 16, 2011 as Public Law 112–29. This Act enabled *inter partes* review, governed now under 35 U.S.C. §§ 311-19. A private person may petition the PTAB to commence an *inter partes* review by submitting a large fee along with a demonstration of a reasonable likelihood that at least one of the claims challenged is unpatentable as anticipated or obvious. 37 C.F.R. §§ 42.15, 42.108. The petition gets assigned to one of many possible PTAB “Judicial Panels” (as it is known internally). *See* E-mail from Patrick E. Baker, PTAB Trial Paralegal (June 3, 2014, 9:09 CST) (A103). This is a panel of administrative law judges, *not* patent examiners (and *not* Article III judges). *See* Jennifer R. Bush, *Administrative Patent Judges: Not Your Typical Federal Judge*, Fenwick & West LLP (July 10, 2014), <https://www.fenwick.com/publications/Pages/Administrative-Patent-Judges-Not-Your-Typical-Federal-Judge.aspx> (“Based on a sampling of about half

of the current administrative patent judges from their LinkedIn profiles, most . . . have . . . 10-plus years of experience. A full 84 percent are former patent attorneys having practiced in the private sector. . . . About one quarter (23 percent) have experience as examiners or other USPTO roles . . . .”). Within six months, the Judicial Panel reviews the petitioner’s evidence (and any patent owner preliminary response) and makes a determination of whether it believes that the petitioner was right in its “reasonable likelihood” arguments. If so, it will then “institute” a “trial.” 35 U.S.C. § 314.

The Judicial Panel enters an initial scheduling order concurrent with the decision to institute a trial. 37 C.F.R. § 42.25. All deadlines are subject to that order. The parties then file mandatory notices regarding real parties-in-interest and related matters, *id.* § 42.8(b), and provide initial disclosures that are expressly modeled after Fed. R. Civ. P. 26(a)(1). *See id.* § 42.51; Office Patent Trial Practice Guide, 77 Fed. Reg. 48,761 (Aug. 14, 2012). The PTAB’s regulations provide for depositions, and authorize parties to seek such discovery as the Patent Office determines is otherwise necessary in the interest of justice. 37 C.F.R. § 42.51(b)(2). Routine discovery includes cited documents, cross-examination of declaration testimony, and information inconsistent with positions advanced during the proceeding. *See id.* § 42.51(b)(1). A party may compel testimony and production with the

PTAB's prior authorization, *id.* § 42.52, and may also have a certified court reporter present for depositions and conference calls. *See id.* § 42.53. The parties then file objections, motions *in limine*, and motions to exclude arguably inadmissible evidence at the close of fact discovery. *Id.* § 42.64. Oral argument is also permissible. *Id.* § 42.70.

Throughout the process, as with an Article III court, the parties are prohibited from having *ex parte* communications with the Judicial Panel on substantive matters. *Id.* § 42.5(d). At the end of this judicial process, the result is a final written decision of the PTAB that may include patent cancellation. *Id.* § 42.73(b)(2); 35 U.S.C. § 318(b). The PTAB thus performs the role of the Judicial branch, and Article III courts are only called upon at the circuit court level to review the PTAB's decision under a deferential standard. *See* 35 U.S.C. § 141(c); *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999).

The PTAB itself has bristled at any suggestion that it performs "examination" – a task reserved to the technologically trained (and largely non-attorney) USPTO examination corps. As the PTAB admits, "[a]n *inter partes* review is not original examination, continued examination, or reexamination of the involved patent. Rather, it is a trial, adjudicatory in nature and constituting litigation." *ScentAir Tech., Inc. v. Prolitec, Inc.*,

IPR2013-00179, Paper 9, at 4 (PTAB April 16, 2013). The PTAB has made this point more than once: “An *inter partes* review is more adjudicatory than examinational in nature.” *Idle Free Sys., Inc. v. Bergstrom, Inc.*, IPR2012-00027, Paper 26, at 6 (PTAB June 11, 2013) (citing *Abbott Labs v. Cordis Corp.*, 710 F.3d 1318, 1326 (Fed. Cir. 2013) (“The purpose . . . was to convert *inter partes* reexamination from an examinational to an adjudicative proceeding . . . .”). The Federal Circuit also recognizes its adjudicatory nature. *See In re Cuozzo Speed Techs., LLC*, No. 14-1301, \_\_\_ F.3d \_\_\_, 2015 U.S. App. LEXIS 1699, at \*20-21 (Fed. Cir. Feb. 4, 2015) (majority opinion acknowledging “adjudicatory” nature of *inter partes* review, and stating “Congress in enacting the AIA was aware of these differences in terms of amendments and adjudication . . . .”); *Id.* at \*34 (Newman, J., dissenting) (“[Congress] provid[ed] a new adjudicatory proceeding in the administrative agency, the Patent and Trademark Office, in the Department of Commerce, whereby a newly formed Patent Trial and Appeal Board (PTAB) serves as a surrogate for district court litigation of patent validity.”). And as mentioned, Appellees have conceded its adjudicatory nature within this very proceeding (Appeal ECF No. 8, at 6).

Though adjudicatory, *inter partes* review proceedings depart from adjudication standards that have been developed over centuries in Article III

courts. For example, when invalidity is raised in a declaratory judgment action or as a defense in an Article III court, the patentee enjoys a presumption of validity that must be overcome by the accused infringer or declaratory judgment plaintiff by clear and convincing evidence. *See* 35 U.S.C. § 282 (“A patent shall be presumed valid. Each claim of a patent . . . shall be presumed valid independently of the validity of other claims. . . . The burden of establishing invalidity . . . shall rest on the party asserting such invalidity . . . .”); *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2242 (2011) (reaffirming clear and convincing standard). By contrast, the petitioner in an *inter partes* review must only prove invalidity by a preponderance of the evidence. *See* 35 U.S.C. § 316(e). In addition, the USPTO construes claims under the “broadest reasonable interpretation,” not the “correct” one. *See In re Cuozzo*, 2015 U.S. App. LEXIS 1699, at \*39 (Newman, J., dissenting).

*Ex parte* patent reexamination is different. *Accord ScentAir Tech., Inc.*, IPR2013-00179, Paper 9, at 4 (“[a]n *inter partes* review is not . . . reexamination . . . .”). *Ex parte* reexamination first came into existence in 1980. *See* Pub. L. 96–517, 94 Stat. 3015 (Dec. 12, 1980) (codified at 35 U.S.C. § 301 *et seq.*). There, a person – including the patentee itself – may file a request to reopen the examination process for a given patent. 35 U.S.C.

§ 302. If the request is granted, the case gets assigned to one of a special corps of technologically trained patent examiners within a branch called the “Central Reexamination Unit.” Manual of Patent Examining Procedure (MPEP) § 2236. Third parties are forbidden from participating after the grant; only the patentee may work with the examiner. 37 C.F.R. § 1.550(g).

The legislative history for *ex parte* reexamination confirms that Congress designed it to help patentees *salvage* their claims from prospective in-court invalidation, unlike *inter partes* review which Congress intended as a streamlined way to *annihilate* them. The House Report that preceded the 1980 enactment of *ex parte* reexamination made this clear:

A new patent reexamination procedure is needed to permit the owner of a patent to have the validity of his patent tested in the Patent office where the most expert opinions exist and at a much reduced cost. Patent office reexamination will greatly reduce, if not end, the threat of legal costs being used to “blackmail” such holders into allowing patent infringements or being forced to license their patents for nominal fees.

20 H. Rep. No. 96-1307, 96<sup>th</sup> Cong., 2d Sess. (1980) (discussing H.R. 6933, which became *ex parte* reexamination).

Consistently, unlike the newly fashioned Judicial Panels, reexamination examiners may give interviews to patentees to discuss the merits of the matter. *Id.* § 1.560. Examiners are trained to be helpful to applicants and patentees during this process, to help them identify *allowable*



subject matter for potential patent claims.<sup>3</sup> And unlike in *inter partes* review, patentees undergoing reexamination enjoy an unfettered right to amend patent claims, provided they are narrowing amendments. *In re Cuozzo*, 2015 U.S. App. LEXIS 1699, at \*35 (Newman, J., dissenting). In another distinction, unlike during *inter partes* review, during reexamination patentees must disclose all known material prior art. 37 C.F.R. § 1.555(a). The outcome of reexamination will either confirm patent claims over the reexamination prior art (either as originally written or as amended), or will cancel them. *Id.* § 1.570. The USPTO will issue a “reexamination certificate,” which becomes an official part of the patent document from then on. *Id.*

## V. SUMMARY OF THE ARGUMENT

That *inter partes* review is clearly unconstitutional makes the application of administrative exhaustion improper. That same showing also entitles Appellants to relief on the merits. This Court should reverse and direct entry of judgment for Appellants.

Nothing demonstrates the district court’s error better than the absence of any citation to *McCormick* (or related Supreme Court authority) in its

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<sup>3</sup> Sue A. Purvis, “The Role of a Patent Examiner,” at 8 [http://www.uspto.gov/sites/default/files/about/offices/ous/04082013\\_StonyBrookU.pdf](http://www.uspto.gov/sites/default/files/about/offices/ous/04082013_StonyBrookU.pdf) (last visited February 27, 2015) (identifying as one of the roles of an examiner to “[h]elp applicant identify allowable subject matter”).

opinion. Since *inter partes* review is an adjudicatory proceeding between private parties within an Executive agency, and is designed to cancel and invalidate issued patents, it falls squarely under *McCormick's* prohibitions.

Nor can legal theories that saved *ex parte* reexamination procedures from constitutional infirmity save *inter partes* review. Courts developed a legal fiction to save *ex parte* reexamination that simply does not apply to *inter partes* review – that such procedures just re-do the granting and examination process. By the PTAB's own admission, *inter partes* review involves adjudication between litigating opponents in front of a panel of judges, not examination by a technologically trained patent examiner whose mandate includes identifying allowable subject matter.

## **VI. ARGUMENT**

### **Standard of Review**

This Court reviews all issues here *de novo*, including application of administrative exhaustion. *Talbot v. Lucy Corr Nursing Home*, 118 F.3d 215, 218 (4th Cir. 1997).

### **Discussion**

This brief first assumes for the sake of argument, in subsections VI.A.-C. that some form of administrative exhaustion applies, and explains why an exception to the application of administrative exhaustion known as

the “clear right” exception waives or excuses exhaustion. Later, in subsection VI.D., this brief will explain why administrative exhaustion should not apply in the first instance as a matter of law.<sup>4</sup> Either way, the district court erred.

As the district court acknowledged, “when a statute is ‘patently unconstitutional’ or an agency has taken a *clearly* unconstitutional position,” administrative exhaustion does not apply to bar a litigant’s challenge of an agency procedure. (*Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*16, citing *Thetford Props. IV Ltd. P’Ship v. HUD*, 907 F.2d 445, 448-49 (4th Cir. 1990) and *Ticor Title Ins. Co. v. FTC*, 814 F.2d 731, 740 (D.C. Cir. 1987)). In fact, this Court has not required exhaustion when the administrative agency in question could not decide the constitutional question. “[T]he adjudication of the constitutionality of legislative enactments has generally been thought beyond the jurisdiction of administrative agencies.” *S. Carolina Citizens for Life, Inc. v. Krawcheck*, 301 Fed. Appx. 218, 222 (4th

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<sup>4</sup> Importantly, there exists another exception that the district court overlooked in its opinion – that requiring Appellants to exhaust will cause irreparable harm. *See McCarthy*, 503 U.S. at 147. As explained in district court briefing, the very process of *inter partes* review, once trial is instituted, places a cloud over the validity of Appellants’ patents. (ECF No. 24, at 24-25). The district court overlooked this argument, mistakenly believing that Appellants based irreparable harm arguments on mere “litigation expenses.” *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*19. But as the district court briefing shows, that was not so.

Cir. 2008) (unpublished opinion) (citing *Thunder Basin Coal Co. v. Reich*, 510 U.S. 200, 215 (1994) (waiving exhaustion and finding ripe the plaintiff's facial challenge because it sought "adjudication of the constitutionality of two provisions of state law, *not judicial review of the Commission's actions.*") (emphasis added)).

The district court here erred in failing to apply this exception to exhaustion, instead requiring Appellants to exhaust agency procedures that cannot even begin to grant them the relief requested of the district court. The clarity of the constitutional violation follows from simple comparison of *inter partes* review to the relevant Separation of Powers and Seventh Amendment principles that apply.

**A. The Supreme Court Has Always Treated Patent Invalidation, Whether for Land or Invention Patents, as Subject Solely to the Judicial Power under Article III**

A patent, upon issuance, is not subject to revocation or cancellation by any executive agent (*i.e.*, the USPTO or any part of it, such as the PTAB). *McCormick*, 169 U.S. at 609. While *ex parte* reexamination has so far been held to avoid a Separation of Powers bar, *see Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985), that decision rested on classification of the *grant* of a patent right in the reexamination context as a "public" right. *See Joy Techs., Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992), *cert. denied*, 506

U.S. 829 (1992) (confirming that it is the “grant” or “issuance” of a patent that is a public right, not the revocation or invalidation of previously granted private property).

The Supreme Court decided on numerous occasions during the nineteenth century that a patent for either invention or land, once issued, has left the authority of the granting office. Patents for invention and patents for land are treated the same way under the relevant law. “The power . . . to issue a patent for an invention, and the authority to issue such an instrument for a grant of land, emanate from the same source, and although exercised by different bureaux or officers under the government, are of the same nature, character and validity . . . .” *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 358-59 (1888) (comparing Art. I, § 8, para. 8, with Art. IV, § 3, para. 2). “A patent for an invention is as much property as a patent for land. The right rests on the same foundation and is surrounded and protected by the same sanctions.” *Patlex*, 758 F.2d at 599 (citing *Consolidated Fruit Jar Co. v. Wright*, 4 Otto 92, 96, 94 U.S. 92, 96 (1876)).

The United States Supreme Court has repeatedly and emphatically held that it is an unconstitutional encroachment on Article III courts for the Executive to affect an issued patent in any way. For example, in 1888 the Court stated in *American Bell*:

A patent is the highest evidence of title, and is conclusive as against the Government, and all claiming under junior patents or titles, until it is set aside or annulled by some *judicial tribunal*. . . . Patents are sometimes issued unadvisedly or by mistake, where the officer has no authority in law to grant them, or where another party has a higher equity and should have received the patent. *In such cases courts of law will pronounce them void*. The patent is but evidence of a grant, and the officer who issues it acts ministerially and not judicially. If he issues a patent for land reserved from sale by law, such patent is void for want of authority. *But one officer of the Land Office is not competent to cancel or annul the act of his predecessor. That is a judicial act, and requires the judgment of a court.*

*Am. Bell*, 128 U.S. at 365 (emphasis added) (citing *United States v. Stone*, 2 Wall. 525, 69 U.S. 525, 535 (1864)). Importantly, *American Bell* addressed patents for invention, but the Court discussed extensively the analogousness of patents for land. *See id.* at 358-59. The Court revisited the issue ten years later in *McCormick*, and underscored the importance of this foundational principle. Specifically, the Court held that it is an invasion of the province of Article III courts for the Executive branch to cancel a patent as invalid upon the patentee's application for reissue. *McCormick*, 169 U.S. at 612. However, the opinion makes clear that the Court's reasoning is not limited to reissuance proceedings.

[W]hen a patent has received the signature of the Secretary of the Interior, countersigned by the Commissioner of Patents, and has had affixed to it the seal of the Patent Office, *it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or cancelled by the President, or any other officer of the Government.* *United States v. Am. Bell*

*Telephone Co.*, 128 U.S. 315, 363. It has become the property of the patentee, and as such is entitled to the same legal protection as other property.

*Id.* at 608-09 (additional citations omitted).<sup>5</sup> Although “*a suit* may be maintained by the United States to set aside a patent for lands improperly issued by reason of mistake, or fraud[, even *that* is only] the case where the Government has a direct interest, or is under obligation respecting the relief invoked.” *Id.* at 609 (emphasis added) (citing *United States v. Missouri, Kansas & Texas Railway*, 141 U.S. 358 (1891)). The Executive therefore cannot cancel or amend an issued patent in any way without going through Article III courts. The *McCormick* Court continued:

The only authority competent to set a patent aside, or to annul it, *or to correct it for any reason whatever*, is vested in the courts of the United States, and not in the department which issued the patent. *Moore v. Robbins*, 96 U.S. 530, 533; *United States v. Am. Bell Telephone Co.*, 128 U.S. 315, 364; *Michigan Land & Lumber Co. v. Rust*, 168 U.S. 589, 593. And in this respect a patent for an invention stands in the same position and is subject to the same limitations as a patent for a grant of lands.

*Id.* (emphasis added).

The Court disposed of a virtually identical question multiple times in the land context prior to both *McCormick* and *American Bell*, reaching the

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<sup>5</sup> Patentees themselves commence reissue proceedings and offer to “surrender” their patents when they do. But here, third parties commence *inter partes* reviews. If anything, the involuntary nature of *inter partes* review makes the Separation of Powers issue even stronger than it was in *McCormick*.

same conclusion. For example, in *United States v. Stone*, the Court discussed an Article I tribunal's authority to void a patent for land where evidence of fraud, mistake, or absence of legal authority was presented. 69 U.S. 525 (1864). The Court unequivocally rejected this argument, and, as cited above, *Stone's* reasoning applied to protect patents for invention against the same type of Executive overreaching in *American Bell* more than twenty years later.

In 1878, the Court decided *Moore v. Robbins*, which centered on whether the Secretary of the Interior could rescind a patent for land where multiple parties claimed ownership over the same tract. 96 U.S. 530 (1877).

The Court was similarly unwavering in its reasoning:

While conceding for the present . . . that when there is a question of contested right between private parties to receive from the United States a patent for any part of the public land, it belongs to the head of the Land Department to decide that question, *it is equally clear that when the patent has been awarded to one of the contestants, and has been issued, delivered, and accepted, all right to control the title or to decide on the right to the title has passed from the land-office. Not only has it passed from the land-office, but it has passed from the Executive Department of the government.* A moment's consideration will show that this must, in the nature of things, be so. . . . With the title passes away all authority or control of the Executive Department over the land, and over the title which it has conveyed. *It would be as reasonable to hold that any private owner of land who has conveyed it to another can, of his own volition, recall, cancel, or annul the instrument which he has made and delivered.* If fraud, mistake, error, or wrong has been done, the courts of justice present the only



remedy. *These courts are as open to the United States to sue for the cancellation of the deed or reconveyance of the land as to individuals; and if the government is the party injured, this is the proper course.*

*Id.* at 532-33 (emphasis added). The Court restated this principle yet again in 1890 to prevent officers of the Land Department from requiring two competing land owners to appear regarding the patents' validity. *See Iron Silver Mining Co. v. Campbell*, 135 U.S. 286, 293 (1890) (“[Patent validity] is *always* and ultimately a question of judicial cognizance.”) (emphasis added). The *Iron Silver* Court elaborated:

We have more than once held that when the government has issued and delivered its patent for lands of the United States, the control of the department over the title to such land has ceased, and the only way in which the title can be impeached is by a bill in chancery; and we do not believe that, as a general rule, the man who has obtained a patent from the government can be called to answer in regard to that patent before the officers of the land department of the government.

*Id.* at 301-02 (citing *Ex parte Schurz*, 102 U.S. 378 (1880)).

In each of these cases, the dispute centered on a patent for either invention or land that was arguably invalid due to a mistake in the office from which it originated. Granting the same piece of land to two separate individuals is a particularly egregious example of such a governmental mistake. But the Court's treatment remained consistent: even mistake on the

part of the granting office does not in any way excuse a violation of Separation of Powers principles.

Nor can this unambiguous controlling Supreme Court authority be brushed aside. The district court did not try to distinguish it. Nowhere in its opinion does it cite, much less distinguish, these clear constitutional prohibitions against the Executive attempting to cancel (or adjudicate the validity of) an issued patent. Since *inter partes* review clearly violates Separation of Powers principles, the district court erred in refusing to adjudicate its unconstitutionality.

Recent Supreme Court activity confirms the need to hold *inter partes* review unconstitutional. In *B&B Hardware v. Hargis Industries*, No. 13-352, Slip Op. (U.S. Mar. 24, 2015), Justices Thomas and Scalia *sua sponte* raised the issue of the constitutionality of giving preclusive effect to agency decisions involving private rights so as to effectively deprive the party of a right to a trial in an Article III court and to a jury. Justice Thomas dissenting, at 10-14.

Because federal administrative agencies are part of the Executive Branch, it is not clear that they have power to adjudicate claims involving core private rights. Under our Constitution, the “judicial power” belongs to Article III courts and cannot be shared with the Legislature or the Executive. *Stern v. Marshall*, 564 U. S. \_\_\_, \_\_\_–\_\_\_ (2011) (slip op., at 16-17); see also *Perez*, ante, at 8-11 (opinion of THOMAS, J.). And some historical evidence suggests that the adjudication of

core private rights is a function that can be performed only by Article III courts, at least absent the consent of the parties to adjudication in another forum.

*Id.* at 11. The majority in *B&B Hardware* did not address the constitutional issue because it was not raised below. Majority Opinion, Slip. Op. at 10-11. The Court also suggested that the availability of *de novo* review was enough to cure the constitutional defect. *Id.* at 13. In the case of *inter partes* review, no district court *de novo* trial right exists. The district court in *Patlex Corp., Inc. v. Mossinghoff*, 585 F. Supp. 713, 725 (E.D. Pa. 1983), upheld the constitutionality of *ex parte* reexamination in part because its results are subject to a *de novo* district court trial.

The Supreme Court has explained the harm to the rule of law that arises whenever persons other than Article III judges wield the judicial power. *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 459 U.S. 50, 60-61 (1982). Lifetime tenure and the prohibition against salary reduction insulate Article III judges from political influence. *See id.* at 64; *In re Mankin*, 823 F.2d 1296, 1309 (9th Cir. 1987) (“The purpose of the lifetime tenure / no salary diminution requirement of Article III is in part to ensure that federal judges are independent of political pressure from the other branches of government.”). Senate confirmation guarantees the most thorough vetting possible, and ensures that only independent jurists preside

over cases. *Republican Party of Minn. v. White*, 536 U.S. 765, 795 (2002) (Kennedy, J., concurring) (“[T]he design of the Federal Constitution, including lifetime tenure and appointment by nomination and confirmation, has preserved the independence of the Federal Judiciary.”).

These protections do not exist for administrative personnel who work within the hierarchy of the Executive branch, and serve at the whim of agency heads, the President, or even Congress. Agency capture – to which federal courts are immune – has also crept into PTAB outcomes. *See* Daily and Kieff, *supra* n.1. In addition, the Judiciary has always supervised and adjudicated any deprivation of private property rights by the government. Only the Judiciary has historically been imbued with the power to adjudicate condemnation proceedings for takings, seizure of criminal proceeds, nullification of land grants, and (until recently) invalidation of issued patents. Placing such judicial power in the hands of personnel who work for the Executive offends the Constitution’s reservation of such power to the Judicial branch.

### **B. Adjudications of Validity are Seventh Amendment-Protected Private Rights**

*Inter partes* reviews involve adjudication of patent validity, as just stated. They therefore violate the Seventh Amendment because they deprive patentees of jury trials. The Federal Circuit in *Patlex* excused *ex parte* patent

reexaminations in the USPTO from the jury trial right only because “the *grant* of a valid patent is primarily a public concern.” *Patlex*, 758 F.2d at 604 (emphasis added). Note that the public “right” was the public’s “interest” in ensuring that the patent was properly *granted*. *Id.* The court held that because reexamination is directed to “correct errors made by the government, to remedy defective governmental (not private) action, and if need be to remove patents that should never have been granted,” *id.*, re-doing the *examination process* qualified as a public right. The Court in *Joy* repeated this rationale. 959 F.2d at 228. Even assuming this legal fiction may survive scrutiny under *McCormick*, it simply does not apply here.

*Inter partes* reviews lack the very thing that allowed *ex parte* reexamination to pass muster: a legal fiction that the USPTO is restarting the examination process by patent examiners to correct a governmental mistake. The PTAB conducts a court-like trial between adversaries without the protections enjoyed by Article III courts (*e.g.*, life tenure, protection against salary reduction and involvement of the political process, and senate confirmation in appointments). For example, the trial includes initial scheduling orders, mandatory notices, initial disclosures modeled after Fed. R. Civ. P. 26(a)(1), depositions, additional discovery as the USPTO determines is otherwise necessary “in the interest of justice,” cross-

examination, compelled testimony and document production, oral argument, as well as objections, motions *in limine*, motions to exclude arguably inadmissible evidence, and oral argument. After the parties have finished the entire adversarial process, the Judicial Panel issues a decision, which may cancel the patent.

In sum, *inter partes* review is virtually identical to what would happen if the party challenging the validity of the patents chose to bring a declaratory judgment action in an Article III court instead. The Federal Circuit in *Joy* stated that a private right involves the liability of one individual to another, which contrasts with cases that “arise between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments.” *Joy Techs.*, 959 F.2d at 229 (internal quotation marks omitted) (citing *Crowell v. Benson*, 285 U.S. 22, 50 (1932)). *Inter partes* review is the epitome of a private dispute, and was designed by Congress to lack the features of reexamination that made the latter a proceeding just between the Government and a person. The PTAB assumes that the adversaries will bring the best prior art, and does not conduct any examination as part of the proceedings. Its decision is based entirely on the parties’ arguments, to such an extent that patentees are not subject to the duty of disclosure like they are

in reexamination. This stands in stark contrast to *ex parte* reexaminations, which were the only USPTO proceedings considered in *Patlex* and *Joy*.

This is also why Appellants' Seventh Amendment rights are being abridged in a way not present in *Patlex* or *Joy*. The Seventh Amendment protects the right to a jury trial on issues of patent validity that may arise in a suit for patent infringement. *Patlex* 758 F.2d at 603 (citing *Swofford v. B & W, Inc.*, 336 F.2d 406 (5th Cir. 1964), *cert. denied*, 379 U.S. 962 (1965)). "Congress may devise *novel* causes of action involving public rights free from the strictures of the Seventh Amendment if it assigns their adjudication to tribunals without statutory authority to employ juries as factfinders. But it lacks the power to strip parties contesting matters of private right of their constitutional right to a trial by jury." *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 51-52 (1989) (emphasis added). Stated another way, the public rights exception cannot apply where a right has a long line of common-law jury-trial forebears. *Id.* at 52. "The Constitution nowhere grants Congress such puissant authority." *Id.* Instead, the claim must "originate in a newly fashioned regulatory scheme." *Id.*

"[T]he Seventh Amendment . . . applies to actions brought to enforce statutory rights that are analogous to common-law causes of action ordinarily decided in English law courts in the late 18th century . . . ." *Id.* at

41-42 (citing *Curtis v. Loether*, 415 U.S. 189, 193 (1974) (internal quotation marks omitted). Since *Tull v. United States*, courts look to whether the claim involves legal, or equitable remedies. 481 U.S. 412, 417 (1987) (stating that Seventh Amendment requires a jury trial on the merits in actions that are analogous to “Suits at common law.”). In making this determination, the Court must examine both the nature of the action and of the remedy sought. *Id.*

Patent infringement suits have a long history in the common law, and thus of a jury trial right. *See, e.g., Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996) (“Equally familiar is the descent of today’s patent infringement action from the infringement actions tried at law in the 18th century, and there is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”) (citation omitted); *In re Lockwood*, 50 F.3d 966, 976 (Fed. Cir. 1995), *vacated*, 515 U.S. 1182 (1995)<sup>6</sup> (holding jury trial right applies to adjudication of patent validity, discussing eighteenth- and nineteenth-century patent adjudication in England and the United States); *In re Tech. Licensing Corp.*, 423 F.3d 1286,

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<sup>6</sup> “After a grant of certiorari was mooted, *Lockwood* was vacated by the Supreme Court without explanation. However, the Federal Circuit repeatedly confirmed the vitality of *Lockwood*’s reasoning in subsequent cases.” *MedImmune, Inc. v. Genentech, Inc.*, 535 F. Supp. 2d 1020, 1027 (C.D. Cal. 2008) (citations omitted).



1289 (Fed. Cir. 2005) (citing *Lockwood* for the proposition that under both English and American practice it was the patentee who decided whether a jury trial on the factual questions relating to validity would be compelled.).

In analyzing whether a right to a jury trial exists in a particular patent case, courts look to whether it most closely resembles an action at law, or in equity. *See In re Lockwood*, 50 F.3d at 974. Although the Federal Circuit in *Joy* rejected the appellant's argument that a reexamination proceeding is most like a declaratory judgment action filed by the USPTO, and should therefore be treated the same way (and require a jury as factfinder), that was only because the appellant conceded that the USPTO could not have brought such a suit. *Joy Techs.*, 959 F.2d at 229. In contrast, an *inter partes* review is virtually identical to a declaratory judgment action for an invalidity finding filed by the petitioner, which is analyzed by looking at whether a jury would be available if the case were inverted. *See In re Lockwood*, 50 F.3d at 972. This means that even the analysis of *Joy* leads to a conclusion of constitutional infirmity for adversarial *inter partes* reviews, at least in the context of a simultaneous legal claim against the petitioner for patent infringement damages.

Thus, not only does *inter partes* review violate Separation of Powers principles. It also violates the patentees' right to a jury trial under the Seventh Amendment.

**C. The District Court Did Not Succeed in Its Attempt to Fit *Inter Partes* Review Under the Holdings of *Patlex* or *Joy***

The district court came to the opposite conclusion, but only after committing mistakes of law and analysis. The district court concluded that *inter partes* review “mirrors” *ex parte* reexamination “in three key ways.” *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*17-18. According to the district court, these “three key ways” meant that *Patlex* and *Joy* may be extended to keep *inter partes* review from failing constitutional scrutiny. Instead, the “three key ways” identified by the district court are either wrong or do not lead to a conclusion of constitutional validity. And each of them ignores the true rationale of *Patlex* and *Joy*, while turning a blind eye to the controlling *McCormick* decision.

The district court first stated that both procedures “authorize the PTO to review the validity of an issued patent despite the availability of federal court review of that patent.” *Id.*, 2015 U.S. Dist. LEXIS 19419, at \*17. In fact, this is true only of *inter partes* review. As the Federal Circuit was careful to explain in *Patlex* and *Joy*, *ex parte* reexamination is imbued with the legal fiction that it is *not* a review of patent validity, but instead is a re-do

by patent examiners of the “grant” or “issuance” process. *See Patlex Corp.*, 758 F. 2d at 604; *Joy Techs.*, 959 F.2d at 228. The same cannot be said of *inter partes* review – a procedure where adversaries litigate over the validity of a patent before a panel of judges.

The district court next stated that both procedures “do not give an issued patent a presumption of validity and construe the claims of an issued patent using their broadest reasonable interpretation.” *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*18. The first part of this statement is actually false, because there is still a “preponderance” burden that must be met by the respective examiner or petitioner to prove unpatentability. But whether true or not, the entire rationale is irrelevant. The two procedures differ so that *Patlex* and *Joy* cannot be extended. A legal fiction has so far protected *ex parte* reexamination by treating it as a re-do of the examination and granting process. This characterization cannot fit *inter partes* review. No examiners are involved – only private litigants and judges. That means that the Federal Circuit’s only attempt at a rationale for distinguishing *McCormick* is simply unavailable when considering *inter partes* review. The lowered standard of proof and relaxed claim interpretation standards do disadvantage patentees equally, but they have nothing to do with how *Patlex* and *Joy* examined the constitutional issues that apply.

The district court's final "key way" to shoehorn *inter partes* review under the *Patlex* and *Joy* precedent is the weakest of all. The district court explained that "both *ex parte* reexamination and *inter partes* review allow for Article III judicial review of the PTAB's decision at the conclusion of the administrative proceedings." *Id.*, 2015 U.S. Dist. LEXIS 19419, at \*18. However, the availability of deferential Article III appellate review of agency procedures is forbidden as a rationale to sidestep a violation of the Separation of Powers or Seventh Amendment requirements. *Northern Pipeline.*, 459 U.S. at 86 n.39. Therefore it, too, is legally irrelevant.

In short, the district court, at best, identified only incorrect or legally irrelevant similarities between *ex parte* reexamination and *inter partes* review. No legitimate way exists to sidestep the constitutional infirmities of *inter partes* review. It certainly cannot be shoehorned under *Patlex* and *Joy*, which are themselves of uncertain vitality in view of *McCormick*. The district court's efforts thus cannot avoid the obvious fact that *inter partes* review constitutes adversarial adjudication before administrative judges of a private right that, since it is protected by the Seventh Amendment when there is a preexisting claim for damages, must be tried before a jury. *McCormick* and related Supreme Court precedent forbid Congress's or the

President's placement of such judicial power before an agency of the Executive.

For these reasons, the district court did not support the absence of the undisputed exception to administrative exhaustion of a "clear constitutional violation."

**D. Administrative Exhaustion Should Not Apply Here**

Even if the "clear right" exception were unavailable, the district court still erred. It should not have required exhaustion of administrative remedies, at the outset. Exhaustion does not apply as a threshold matter, either via Congressional directive or after application of prudential considerations. This Court reviews decisions on "administrative exhaustion" *de novo*. *Nationsbank Corp. v. Herman*, 174 F.3d 424, 428 (4<sup>th</sup> Cir. 1999).

Though the district court was correct that exhaustion of administrative remedies might be appropriate for *some* kinds of constitutional claims (*i.e.*, certain as-applied challenges), it avoided a proper analysis of *these particular* constitutional claims (a facial challenge). The complaint here raises only two grounds – that *inter partes* review violates the Separation of Powers requirement and the Seventh Amendment. These are facial challenges. This Court has never applied administrative exhaustion to bar or

delay adjudication of the facial unconstitutionality of an act of the legislature.

In fact, the opposite is true.

The district court overlooked the only apposite Fourth Circuit decision. In *Citizens for Life*, 301 Fed. Appx. at 222 n.6 (unpublished opinion), this Court waived exhaustion and found ripe the plaintiff's facial challenge. The plaintiff sought "adjudication of the constitutionality of two provisions of state law, *not judicial review of the Commission's actions.*" *Id.* at 222 (emphasis added). Instead of applying the principles in *Citizens for Life*, the district court cited inapposite Fourth Circuit decisions. As discussed below, those decisions required exhaustion only where plaintiffs brought "as-applied" constitutional challenges, and where factfinding for those challenges would be within the scope of agency expertise.

Decisions like *Citizens for Life* follow the Supreme Court's directive that, notwithstanding whatever institutional interests an agency might invoke, "federal courts are vested with a virtually unflagging obligation to exercise the jurisdiction given them." *McCarthy v. Madigan*, 503 U.S. 140, 146 (1992) (citation and internal quotation omitted). "Of paramount importance to any exhaustion inquiry is congressional intent. Where Congress specifically mandates, exhaustion is required. But where Congress has not clearly required exhaustion, sound judicial discretion governs . . . ." *Id.* at

144 (citations and internal quotation marks omitted). Thus only two possible ways might justify a finding that administrative exhaustion applies – a clear Congressional directive that the exact issue being litigated must first be addressed through the administrative agency, or a determination that exhaustion would “serve[] the twin purposes of protecting administrative agency authority and promoting judicial efficiency” (*i.e.*, “prudential” exhaustion). *Id.* at 145. Neither applies here.

### **1. No Express Exhaustion**

Here, no clear Congressional directive mandates exhaustion of Separation of Powers or Seventh Amendment challenges. For such a directive to apply, “a statute must contain sweeping and direct statutory language indicating that there is no federal jurisdiction prior to exhaustion, or the exhaustion requirement is treated as an element of the underlying claim.” *Hettinga v. United States*, 560 F.3d 498, 503 (D.C. Cir. 2009) (internal quotations and alterations omitted) (quoting *Weinberger v. Salfi*, 422 U.S. 749, 757 (1975)). Explicit language mandating exhaustion in one area does not carry over to mandate exhaustion in another. For example, a statutory requirement for exhaustion before a challenge to a final agency order does not raise an inference that Congress required exhaustion for a facial constitutional challenge. *Id.* at 503-04 (holding that requirement of

exhaustion for milk handlers' challenges of milk marketing orders under the AMAA did not apply to facial constitutional challenges by milk producer-handlers to a statutory amendment).

The district court incorrectly found authority for Congressionally-mandated exhaustion in express language, statutory PTAB procedures, and the mechanism for review of final written decisions. *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*11 (citing *Versata Dev. Corp. v. Rea*, 959 F. Supp. 2d 912, 919-20 (E.D. Va. 2013)). The district court misunderstood all three. Therefore, mandated exhaustion does not apply.

The "express language" to which the district court referred forecloses judicial review only of the initial PTAB decision on whether to institute a trial. *Id.*, citing 35 U.S.C. § 314(d). It does not address facial constitutional challenges. It is therefore irrelevant. *See Hettinga*, 560 F.3d at 503-04. That should be the end of the inquiry, because of the absence of a "clear" requirement that "specifically" mandates exhaustion for constitutional challenges. *See McCarthy*, 503 U.S. at 144. The district court should not have even reached the other two rationales (statutory procedures and review mechanisms). But even if considered, they too do not support the district court's result.



The “detailed procedures” named by the district court (which it also labeled a “detailed scheme”) simply refer to the eight statutory sections that govern *inter partes* review. *Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*11-12. This only proves the bland fact that Congress established the procedure and established direct review of final written decisions. If this were enough to qualify as “sweeping and direct” language that clearly and specifically requires exhaustion of all facial constitutional claims, then every federal program would always require exhaustion. Such reasoning turns the entire analysis on its head. Mandated exhaustion requires express statutory language supporting it; it is not the plaintiff’s burden to show that statutory language explicitly *forecloses* exhaustion.

Likewise, Appellants are not challenging “final agency action in federal court,” as the district court seemed to assume when it quoted this Court’s decision in *Volvo GM Heavy Truck Corp. v. Dep’t of Labor*, 118 F.3d 205, 211-12 (4<sup>th</sup> Cir. 1997). *Cf. Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*12. Nothing about Appellant’s lawsuit seeks to review or overturn the merits of any decision by the PTAB. It is instead a facial challenge to the attachment of the process itself to the parties. *Public Utilities Commission of California v. United States*, 355 U.S. 534, 539 (1958) (no exhaustion where the “only question is whether it is constitutional to fasten the administrative

procedure onto the litigant . . . .”). Again, Appellants raise a facial constitutional challenge that does not depend on whatever the PTAB has done to date or might state in its final written decision.

Finally, the district court also erred by inferring some sort of clear directive for exhaustion just because there exists a judicial review mechanism, whereby the Federal Circuit reviews “final written decisions” (and only final written decisions). *See* 35 U.S.C. § 319. This statutory language does not mention any power to review agency “actions” apart from such written decisions, nor does it directly address constitutional questions. Even where Congress has established a comprehensive administrative review structure meant to be exclusive, district court jurisdiction over claims challenging agency action is precluded *only* to the extent that the claims asserted “are *of the type* that Congress intended to be reviewed within this statutory structure.” *Thunder Basin Coal Co. v. Reich*, 510 U.S. 200, 212 (1994) (emphasis added). And, claims that are “wholly collateral to a statute’s review provisions and outside the agency’s expertise” are *not* of the type precluded by an implicitly exclusive administrative review mechanism. *Id.* at 212-13 (internal quotation marks omitted). Principal among the types of “wholly collateral” claims that remain within the district court’s jurisdiction are facial constitutional challenges. *See, e.g., McNary v. Haitian*

*Refugee Ctr. Inc.*, 498 U.S. 479, 492 (1991); *Mathews v. Eldridge*, 424 U.S. 319, 330 (1976); *Johnson v. Robison*, 415 U.S. 361, 373 (1974).

Here, *inter partes* review direct appeals to the Federal Circuit reach no further than appeal from the “final written decision.” 35 U.S.C. § 319. This appellate-scope language does not include plenary review language sometimes found elsewhere that permits *all* issues about an agency’s procedures to receive direct-review appellate treatment. *Cf. Elgin v. Dep’t of the Treasury*, 132 S. Ct. 2126, 2130-31 (reviewing court may set aside “any” agency action not in accordance with law). Therefore, the mere fact of a limited judicial review mechanism proves nothing about Congressional intent to mandate exhaustion for facial constitutional challenges.<sup>7</sup>

For the foregoing reasons, in all three of its rationales, the district court erred to find Congressional intent that exhaustion should apply.

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<sup>7</sup> This Court observed that in *Elgin*, the Supreme Court explained *subject matter jurisdiction* principles as follows: “‘where Congress simply channels judicial review of a constitutional claim to a particular court,’ the appropriate inquiry is ‘whether Congress’s intent to preclude district court jurisdiction [is] fairly discernible in the statutory scheme.’” *Blitz v. Napolitano*, 700 F.3d 733, 740 (4<sup>th</sup> Cir. 2012) (*quoting Elgin*, 132 S. Ct. at 2132). Here, the district court ruled based on exhaustion, not subject matter jurisdiction. And in any case, *Elgin* would not call jurisdiction into question, since 35 U.S.C. § 319 contains no language to “channel” constitutional claim judicial review into the Federal Circuit. *See generally Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*, 130 S. Ct. 3138 (2010) (reaching Separation of Powers issue and finding violation after determining that appellate review provision did not cover facial constitutional challenge).

## 2. No Prudential Exhaustion

Though the district court did not address prudential exhaustion as such, its reasoning conflates some of the “express” exhaustion concepts with prudential exhaustion. Prudential exhaustion might be required even absent express exhaustion if it “serves the twin purposes of protecting administrative agency authority and promoting judicial efficiency.” *McCarthy*, 503 U.S. at 145. The primary concern is to find the proper balance between interests of the individual in invoking judicial review by the court system, and interests of the institution in efficient operations. *Id.* Three possible grounds exist for rejecting the application of prudential exhaustion. *Id.* at 146-49; *see also Volvo GM*, 118 F.3d at 211 n.8 (citing *McCarthy* factors). They are where:

(1) it would occasion undue prejudice to subsequent assertion of a court action, for example through excessive delay; (2) an agency may not be empowered to grant relief, for example “because it lacks institutional competence to resolve the particular type of issue presented, such as the constitutionality of a statute” or because “an agency may be competent to adjudicate the issue presented, but still lack authority to grant the type of relief requested;” or (3) the agency is biased.

*Hettinga*, 560 F.3d at 503 (quoting *McCarthy*). Here, at least factors (2) and (3) apply to prevent the threshold application of prudential exhaustion.

First, the PTAB lacks institutional competence to resolve the facial constitutional challenge to its enabling legislation. Its mandate is to issue a final written decision on patent validity, not to question its own existence.

Similarly explicable are those cases in which challenge is made to the constitutionality of the administrative proceedings themselves. . . . Exhaustion in those situations would similarly risk infringement of a constitutional right by the administrative process itself.

*Moore v. City of East Cleveland*, 431 U.S. 494, 528 n.3 (1977) (internal citations omitted); *see also Hettinga*, 560 F.3d at 506 (finding no prudential exhaustion because “[t]he Secretary lacks the power either to declare provisions of the MREA unconstitutional, or exempt the Hettingas from the requirements of the milk marketing order as imposed by the MREA.”).

Second, the PTAB is biased. After briefing closed in the district court, the PTAB made its view known that, even if it had the power to abnegate itself, it believes that the initiation and litigation of an *inter partes* review does not violate the patentee’s Seventh Amendment rights. *See, e.g., Garmin Int’l, Inc. v. MSPBO, LLC*, IPR2014-01379, Paper 11 at 9-10 (PTAB March 3, 2015) (Final Written Decision); *Hewlett-Packard Company v. MCM Portfolio, LLC*, IPR2013-00217, Paper 31, at 4-5 (PTAB August 6, 2014) (Final Written Decision). In so stating, however, the PTAB reasoned that an *inter partes* review was essentially the same as a reexamination—which, as

found in the PTAB's admissions in *ScentAir* and discussed generally above, it is not. By its recent decisions, the PTAB has foreclosed any constitutional challenges to the *inter partes* review procedures at the administrative level.

Thus, for these reasons, just as the D.C. Circuit observed in *Hettinga*, “[r]equiring exhaustion . . . would neither ‘protect[] administrative agency authority’ nor ‘promot[e] judicial efficiency.’” *Hettinga*, 560 F.3d at 506. Prudential exhaustion simply does not apply to this facial constitutional challenge to a statute. Nor have any of this Court's prior decisions permitted such a perverse result.

### **3. The District Court's Decisions are Distinguishable**

Though the district court cited several of this Court's prudential exhaustion decisions for the proposition that exhaustion might apply to constitutional claims, none of those decisions involved facial constitutional challenges to a statute. They involved as-applied challenges. Of course, facial challenges are exactly what the Supreme Court's *McCarthy* decision expressly carves out. But the district court lost sight of this controlling Supreme Court law.

For example, two of the district court's cited Fourth Circuit decisions applied exhaustion to challenges attacking federal contractor affirmative action enforcement. *See Cooper*, 2015 U.S. Dist. LEXIS 19419, at \*14-15,

*citing Nationsbank*, 174 F.3d at 429 and *Volvo GM*, 118 F.3d at 215. The *Nationsbank* plaintiff presented a Fourth Amendment unreasonable search challenge, based on the apparent arbitrariness of the Department of Labor's identification of particular bank branches for investigation and enforcement. The *Volvo GM* plaintiff presented a Fifth Amendment due process challenge, based on the unreasonable delay implicit in bringing enforcement proceedings after expiration of a putative statute of limitations. In each case, "reasonableness" of agency action was at issue, and therefore the agency was empowered to develop the factual record surrounding its actions. The constitutional challenge was neither facial, nor to the statute *per se*. *McCarthy* therefore did not apply, and this Court unsurprisingly held that the record developed within the administrative process would assist in the possible later adjudication of the constitutional claim. *Nationsbank*, 174 F.3d at 430 n.4; *Volvo GM*, 118 F.3d at 214-15. That is not possible here.

*Nationsbank* and *Volvo GM* did, at least, involve plaintiffs who (like Appellants here) could not initiate administrative proceedings to seek relief for themselves. The agency had filed actions *against* them, just as here where Appellants are respondents who simply hold a patent, adverse to petitioners who went to the Executive to invalidate it. The rest of the cited Fourth Circuit decisions by the district court are even more inapposite. They

involve as-applied constitutional challenges by a plaintiff who could have (and this Court held should have) initiated a procedure to procure an administrative remedy for itself. While prudential exhaustion applied in those cases, their rationale does not carry over.

For example, in *Thetford Props IV Ltd. P'Ship v. HUD*, the plaintiffs were affordable housing property owners who felt aggrieved by emergency legislation that imposed new barriers to block their previously unfettered ability to exit HUD's affordable housing programs. 907 F.2d at 447. They raised as-applied due process challenges. The *Thetford* court stated that the statute was clear, "HUD has the authority to grant them the ultimate economic relief that they seek . . . ," *id.* at 448, which in that case was their right to exit the program by prepaying a mortgage. The court concluded that "requiring exhaustion . . . may very well lead to a satisfactory resolution of this controversy without having to reach appellants' constitutional challenge." *Id.* That is not the case here. The PTAB cannot provide Plaintiffs the specific relief they seek, which is a holding of facial unconstitutionality of a statute. Further, in *Thetford*, this Court discussed the benefits of having the administrative agency develop an administrative record, which would assist the reviewing court by providing it with the agency's interpretation of the Act. *Id.* Again, that is not the case here. The PTAB's interpretation of



federal law is not in dispute, and it has no authority to declare itself or any of its proceedings unconstitutional. Therefore, *Thetford* is distinguishable and does not permit this Court to sidestep *McCarthy* to align this facial-challenge case with as-applied constitutional challenges that triggered prudential exhaustion.

Likewise, in *Guerra v. Scruggs*, this Court held that an Army private could not avoid prudential exhaustion in bringing as-applied due process and equal protection challenges against his military discharge. 942 F.2d 270, 275-77 (4<sup>th</sup> Cir. 1991) (noting that discharge proceedings began after the soldier admitted to cocaine use). He could have commenced and completed certain administrative procedures (“two avenues of appeal within the Army structure”) that could provide most of what he sought. *Id.* at 272-77. Considerations of efficiency and agency expertise also controlled the outcome. *Id.* at 277-78. But here, the PTAB has no agency expertise (and no authority) to rule itself or one of its proceedings unconstitutional. And again, there is no “remedy” in the PTAB that can give Appellants any of what they seek – a ruling of facial unconstitutionality.

Finally, in *Am. Fed’n of Gov’t Emps., AFL-CIO v. Nimmo*, this Court held that military veterans who wished to contest Veterans Administration bills seeking to recapture medical payments must use administrative

remedies before lodging an as-applied due process challenge. 711 F.2d 28, 30-31 (4<sup>th</sup> Cir. 1983). The Court held that “the veterans can obtain redress through the available administrative procedures” which they had the power to commence and complete, which included various ways (“[t]wo administrative remedies exist”) to convince the Veterans Administration to waive the debt. *Id.* As explained already at length, Appellants have no way of using administrative procedures to secure an administrative ruling that the PTAB or any of its procedures are unconstitutional.

## **VII. CONCLUSION AND PROPER REMEDY**

Since *inter partes* review clearly violates one or both of constitutional Separation of Powers and the Seventh Amendment, it was wrong for the district court to dismiss for lack of administrative exhaustion. From that conclusion, it also necessarily follows that the district court should have granted Appellants’ motion for summary judgment, and held *inter partes* review unconstitutional. In any case, whether or not the violation was “clear,” exhaustion simply should not have applied in the first instance, in violation of the Supreme Court’s directive in *McCarthy* not to apply exhaustion to facial challenges to a statute’s constitutionality. Appellants therefore respectfully request that this Court reverse the district court.

Unconstitutionality triggers the question of proper remedy.

*McCormick* itself supplies the answer. In *McCormick*, the particular action by the reissuance examiner that ostensibly canceled a patent's original claims was simply held to be of no effect. *McCormick*, 169 U.S. at 612 (though he "might declare them to be invalid, [] such action would not affect the claims of the original patent, which remained in full force."). Thus, the USPTO activities in *inter partes* review, such as they are, may continue. All that needs correction is to deprive "final written decisions" of the effect of canceling an issued patent. This means striking part of 35 U.S.C. § 318(b). It will then rest with the sound discretion of the various United States District Courts to decide what to do with such adjunct advisory opinions handed down by the Executive. *See Free Ent. Fund*, 130 S. Ct. at 3161 (severing "problematic" portions of unconstitutional statute "while leaving the remainder intact").

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April 13, 2015

**Statement Regarding Oral Argument**

The Appellants request oral argument.

**UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT**

No. 15-1205

Caption: J. Carl Cooper et al. v. Michelle K. Lee et al.

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(s) Robert Greenspoon

Attorney for appellants

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UNITED STATES COURT OF APPEALS  
for the FOURTH CIRCUIT

J. CARL COOPER and eCHARGE LICENSING, LLC,

*Plaintiffs-Appellants,*

v.

MICHELLE K. LEE, in her capacity as Deputy Director of the United States  
Patent & Trademark Office and the UNITED STATES PATENT &  
TRADEMARK OFFICE

*Defendants-Appellees.*

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE  
EASTERN DISTRICT OF VIRGINIA AT ALEXANDRIA

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**AMICUS BRIEF OF AFFINITY LABS OF TEXAS, LLC**

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ATTORNEYS FOR AFFINITY LABS  
OF TEXAS, LLC

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT
DISCLOSURE OF CORPORATE AFFILIATIONS AND OTHER INTERESTS

Disclosures must be filed on behalf of all parties to a civil, agency, bankruptcy or mandamus case, except that a disclosure statement is not required from the United States, from an indigent party, or from a state or local government in a pro se case. In mandamus cases arising from a civil or bankruptcy action, all parties to the action in the district court are considered parties to the mandamus case.

Corporate defendants in a criminal or post-conviction case and corporate amici curiae are required to file disclosure statements.

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No. \_\_\_\_\_ Caption: \_\_\_\_\_

Pursuant to FRAP 26.1 and Local Rule 26.1,

(name of party/amicus)

who is \_\_\_\_\_, makes the following disclosure:
(appellant/appellee/petitioner/respondent/amicus/intervenor)

- 1. Is party/amicus a publicly held corporation or other publicly held entity? YES NO
2. Does party/amicus have any parent corporations? YES NO
If yes, identify all parent corporations, including grandparent and great-grandparent corporations:
3. Is 10% or more of the stock of a party/amicus owned by a publicly held corporation or other publicly held entity? YES NO
If yes, identify all such owners:



4. Is there any other publicly held corporation or other publicly held entity that has a direct financial interest in the outcome of the litigation (Local Rule 26.1(b))? YES NO  
 If yes, identify entity and nature of interest:

5. Is party a trade association? (amici curiae do not complete this question) YES NO  
 If yes, identify any publicly held member whose stock or equity value could be affected substantially by the outcome of the proceeding or whose claims the trade association is pursuing in a representative capacity, or state that there is no such member:

6. Does this case arise out of a bankruptcy proceeding? YES NO  
 If yes, identify any trustee and the members of any creditors' committee:

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Counsel for: \_\_\_\_\_

**CERTIFICATE OF SERVICE**

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I certify that on \_\_\_\_\_ the foregoing document was served on all parties or their counsel of record through the CM/ECF system if they are registered users or, if they are not, by serving a true and correct copy at the addresses listed below:

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 (date)

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## **STATEMENT OF IDENTITY, INTEREST & AUTHORITY TO FILE**

In 2011, Congress passed the America Invents Act (“AIA”). 35 U.S.C. §§ 311 *et seq.* The AIA established a new procedure called *inter partes* review (“IPR”) by which petitioners request validity trials for patents issued by the U.S. Patent and Trademark Office (“PTO”). The validity trials are heard by administrative judges at the PTO as opposed to the Article III courts who have handled such matters in the past. Under the AIA, any private person (including an accused infringer involved in litigation pending in an Article III court) may petition the Patent Trial and Appeal Board (“PTAB”) of the PTO to commence an IPR trial and may do so without the consent of the patentee. If the PTAB “institutes” the IPR, then, after limited discovery, a trial is held before a PTAB Judicial Panel (an Article I tribunal), which adjudicates the issue of the patent’s validity. *Inter partes* review is an unconstitutional scheme that violates the Separation of Powers doctrine of Article III and violates the patentee’s Seventh Amendment right to a jury trial on the issue of patent validity.

*Amicus Curiae* Affinity Labs of Texas, LLC, is a Texas limited liability company, having a principal place of business at 31884 RR 12, Dripping Springs, Texas 78620. Affinity is an innovation consulting firm that works with inventors and innovators, helping them to develop their ideas and their intellectual property through company formation, manufacturing, licensing, and marketing.

Affinity has also developed its own intellectual property and has secured patents on its own inventions. Years ago, Affinity invented a digital media ecosystem. The digital media industry is dominated by multi-billion dollar, multi-national companies, so Affinity chose to bring its inventions to market via licensing. To that end, Affinity has successfully licensed its digital media patents to several market leaders. In some cases, the licensing efforts required litigation. *See, e.g., Affinity Labs. of Tex., LLC v. BMW N. Am., LLC*, 783 F. Supp. 2d 891, 895 (E.D. Tex. 2011) (final judgment of patent infringement and validity). Affinity's digital media inventions have been incorporated into a wide range of products.

Since the enactment of the AIA, Affinity's patents have been subjected to multiple IPR proceedings – all of which were initiated by accused infringers.<sup>1</sup> For these reasons, Affinity has a profound interest in the outcome of this case.

Affinity has authority to file this brief pursuant to Fed. R. App. P. 29(a). Further, all parties have consented to the filing of this brief. Affinity files this *amicus curiae* merits-brief to provide the Court with additional information and authority that may help it decide the constitutional questions presented by Appellants. Affinity agrees with Appellants that the IPR procedures are

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<sup>1</sup> Affinity has the following IPRs pending against its patents: IPR2014-01181; IPR2014-01184; IPR2015-00820; IPR2015-00821; IPR2014-00407; IPR2014-00407; IPR2014-00209 and IPR2014-00212.



unconstitutional. This brief (1) describes real-life examples to demonstrate the fundamentally unfair nature of IPR proceedings, which run roughshod over the patentee's private property rights; (2) provides concrete data and statistics to demonstrate how the PTAB earned the "Death Squad" moniker given it by then-Chief Justice of the Federal Circuit, Judge Rader; and (3) briefly explains why the Supreme Court's 19<sup>th</sup> Century jurisprudence on patent rights, particularly its unequivocal declaration that issued patents cannot "be revoked or cancelled by the President, or any other officer of the Government," has never been overruled or otherwise disturbed. *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 608-09 (1898). Part III specifically addresses *Stern v. Marshall*, 131 S. Ct. 2594 (2011), and its in-depth treatment of the "public rights exception" – an exception that does not apply here and cannot save *inter partes* review from its constitutional infirmities.

**STATEMENT REGARDING PARTICIPATION BY PARTIES, THEIR  
ATTORNEYS, OR OTHER PERSONS IN FUNDING OR AUTHORIZING  
THE BRIEF**

Pursuant to Federal Rule of Appellate Procedure 29(c)(5), the undersigned counsel for *Amicus* represent that the entirety of this brief was authored by counsel for *Amicus Affinity*. Portions of the Statement of Identity, Interest, and Authority to File, *supra*, and the Argument, *infra*, were originally authored by Craig C. Reilly in his role as prior counsel for *Amicus Affinity* in the underlying action, *Cooper, et al., v. Lee, et al.*, Case No. 1:14-cv-00672-GBL-JFA [Doc. No. 30-2]. None of the parties or their counsel, nor any other person or entity other than *Amicus Affinity* or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

## ARGUMENT

### **I. The IPR Scheme is Fundamentally Unfair**

Inventors come from all walks of life and from every demographic. When an individual or a small group of individuals designs “a better mouse trap,” they are allowed to seek patent protection. Given the cost of entering certain markets and competing with market leaders, many patent holders – especially individuals and universities<sup>2</sup> – choose to license their ideas to one or more of the market leaders. When unlicensed organizations make, use, sell, or offer to sell products that practice the patented invention, many patent holders feel compelled to initiate infringement litigation in federal district court, where they can seek damages and injunctive relief.

In such litigation, the patent enjoys a statutory presumption of validity (a presumption the defendant must overcome by clear and convincing evidence), and the patentee enjoys the constitutional right to a jury trial on the issue of the patent’s

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<sup>2</sup> See, e.g., <http://patentdocs.typepad.com/files/big-10-letter.pdf> (letter from all of the presidents and chancellors of the Big 10 universities, including the University of Maryland of this Circuit, to Congress explaining that: “One of the major ways research universities like ours help serve the nation is by transferring the patentable inventions developed in university-owned research labs to the private sector for development into new technologies to benefit all Americans, whose tax dollars frequently paid for much of that research. ... Having a strong defensible patent is crucial to ensuring that those who want to commercialize the discoveries emerging from university research can access the investment dollars they need to move their discoveries into the marketplace.”)

validity. However, under the IPR scheme established by the AIA, accused infringers can now circumvent those rights and protections by seeking an administrative adjudication from an Article I tribunal, rather than a judicial adjudication from an Article III district court, on the issue of patent validity.

**A. The IPR scheme improperly removes patent validity determinations from Article III courts, where they belong**

Patents are private property belonging to the patentee. 35 U.S.C. § 261 (“patents shall have the attributes of personal property”); *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 608-09 (1898) (issued patent is “the property of the patentee”); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (“It is beyond reasonable debate that patents are property.”) (citation omitted).<sup>3</sup> The essential, and constitutionally protected property right conferred by a patent is the right to exclude others from practicing the invention during the life of the patent. *See Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979) (“the ‘right to exclude others’ is ‘one of the most essential sticks in the bundle of rights that are commonly characterized as property’”); *accord Patlex*, 758 F.2d at 599 (“The basic right concomitant to the grant of a patent is the right of exclusivity founded in the Constitution.”). The patentee’s right to judicial process includes, *inter alia*,

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<sup>3</sup> “The word ‘patentee’ includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.” 35 U.S.C. § 100(d). Ownership of a patent is conveyed by assignment (*e.g.*, from the inventor to another person), *see* 35 U.S.C. § 261, and if all rights in the patent are therein conveyed, the assignee becomes the “patentee.”

the Seventh Amendment right to trial by jury on the issue of patent validity. *See Patlex*, 758 F.2d at 600-07. Indeed, once issued, a patent is not subject to revocation or cancellation by any agency (even the PTO) or any officer of the executive branch (including the President). *McCormick*, 169 U.S. at 608-09. “The only authority competent to set a patent aside, or to annul [an issued patent], or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” *Id.* at 609 (citation omitted).

**B. IPRs violate the grand bargain negotiated between the inventor and the government**

The issuing of a patent marks the moment the government “shakes hands” with the inventor. The United States patent system is built upon a *quid pro quo* exchange of promises between the government and the inventor. *See, e.g., Universal Oil Products Co. v. Globe Oil & Refining Co.*, 322 U.S. 471 (1944) (“As a reward for inventions and to encourage their disclosure, the United States offers a 17-year monopoly to an inventor who refrains from keeping his invention a trade secret.”); *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966) (the granting of a patent is the reward – the inducement – promised to inventors for telling the public about their ideas). In most cases, the inventor and the government negotiate for two or three years from the filing date before the “handshake” happens. And it is the handshake that triggers the inventor’s obligation to share his or her secret with the

world. *See* 35 U.S.C. § 122 and § 122(b)(2).<sup>4</sup> Fundamental fairness dictates that the governmental branch that induced the inventor to reveal his or her secret cannot be allowed to back out of the deal after the handshake. That is why the Supreme Court in *McCormick Harvesting* made clear that “when a patent has received the signature of the secretary of the interior, countersigned by the commissioner of patents, and has had affixed to it the seal of the patent office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or canceled by the president, or any other officer of the government.” *McCormick*, 169 U.S. at 608. The Supreme Court’s unequivocal jurisprudence on this point will not tolerate a bait-and-switch scheme in which the executive branch first “giveth” and then later “taketh away.”

**C. IPR differs significantly from ex parte reexamination and ties the patentee’s hands when he seeks to defend his patent against validity challenges**

*Inter partes* review transforms the PTO from an office focused on examining applications with an eye toward issuing valid claims to an administrative body that seeks to destroy the very patents it previously issued. The PTAB recently admitted:

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<sup>4</sup> In 2000, a change in the patent laws (to bring them into alignment with international law) required applications to be published eighteen months after filing unless the applicant “opts out” of publication by declaring that she will not file the application internationally. Thus, if the applicant wishes to negotiate without his disclosure becoming public, 35 USC § 122(b)(2) allows the inventor to keep the application a secret indefinitely or until the handshake moment of issuance.

“An *inter partes* review *is not ... reexamination* of the involved patent. Rather, *[an IPR] is a trial, adjudicatory in nature and constituting litigation.*” *ScentAir v. Prolitec*, IPR2013-00179, Paper 9, at 4 (PTAB April 16, 2013) (emphasis added). In other words, unlike original examination and *ex parte* reexamination (which the Federal Circuit has characterized as a re-opening of the patent examination process by the PTO), an IPR constitutes binding adversarial litigation between the patentee and the petitioner (often an accused infringer), and (unconstitutionally) eliminates the protections of Article III and the Seventh Amendment by replacing the district court and jury with an administrative tribunal.

Predictably, the PTAB has held that the initiation and litigation of an IPR does not violate the patentee’s Seventh Amendment rights. *See Hewlett-Packard Company v. MCM Portfolio, LLC*, IPR2013-00217, Paper 31, at 4-5 (PTAB August 6, 2014) (Final Written Decision). In so ruling, however, the PTAB reasoned that an IPR was essentially the same as a reexamination—which, for reasons the PTAB itself articulated in *ScentAir*, it is not. By its *Hewlett-Packard* decision, the PTAB has foreclosed *any* constitutional challenges to the IPR procedures at the administrative level. In fact, in an IPR formerly pending against Affinity, the PTAB would not even allow Affinity to file a motion to stay the IPR while this Constitutional challenge to the IPR scheme is decided by an Article III court.

Instead, the patentee must bear the cost and delay of the IPR proceeding before even having the right to question the constitutionality of the IPR procedures in an appeal to the Federal Circuit, which has sole appellate jurisdiction over the final written decisions of the PTAB. *See* 35 U.S.C. § 319. The PTAB's intractable stance further exposes the constitutional infirmities of the IPR procedures and treads heavily upon the patentee's constitutional rights and reasonable expectations of fairness.

The differences between *ex parte* reexamination and an *inter partes* review are substantial. The patent examination process (whether initial examination or *ex parte* reexamination) is conducted between an inventor/patentee and the PTO. The examination (and reexamination) process involves multiple back-and-forth communications, the frequent amending of claims, and the shared desire to attain allowance of valid claims in an issued patent.

By contrast, IPRs are "adjudicatory in nature" and "constitut[e] litigation" between a patentee and a petitioner. *See ScentAir, supra*. Unlike patent examination, the PTO is not a party in the IPR dispute. Rather, the IPR is a dispute between two private parties, where the PTAB presides as judge, jury, and executioner of claims. Unlike patent examination, the inventor/patentee is no longer allowed to freely amend his or her claims. *See, e.g.,* 35 U.S.C. § 316(d). Unlike patent examination, the inventor/patentee and the examiner cannot engage



in any of the back-and-forth discussions that characterize the examination process. *See* 37 C.F.R. § 42.5(d) (barring *ex parte* communications). Unlike patent examination, the PTAB does not examine the application with an eye towards allowance of valid claims; rather, it sits in judgment as the IPR petitioner attempts to invalidate the patentee's previously-issued claims.

By instituting IPR proceedings, an accused infringer (or any other private person) may circumvent Article III of the Constitution and, at the same time, deprive the patentee of the constitutional protections and rules that apply in the judicial system. In judicial litigation, issued claims are entitled to a presumption of validity, which may be overcome only by presentation to a jury of clear and convincing evidence. *See, e.g., Microsoft Corp. v. i4i Ltd. P'ship*, 131 S.Ct. 2238, 2242 (2011). In judicial litigation, the claims must be given a proper interpretation. *See, e.g., Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312-18 (Fed. Cir. 2005) (*en banc*) (describing the claim construction standard in district court litigation). In judicial litigation, a patentee is entitled to discovery that may establish the validity and the non-obviousness of his claims. *See, e.g., Leo Pharm. Prods., Ltd. v. Rea*, 726 F.3d 1346, 1357 (Fed. Cir. 2013), quoting *Crocs, Inc. v. Int'l Trade Comm'n*, 598 F.3d 1294, 1310 (Fed. Cir. 2010) (“[O]bjective indicia can be the most probative evidence of nonobviousness in the record, and enables the court to avert the trap of

hindsight.”) (internal citations omitted). And, in judicial litigation, a final judgment must be entered for the findings to become binding. *See, e.g.*, Fed. R. Civ. P. 58. None of these protections are provided in an *inter partes* review.

As just one example of the constitutionally significant flaws of IPR, this Court need only consider the severe restrictions on discovery. *See* 35 U.S.C. § 316(a)(5). As the PTAB explains, the IPR rules “provide limitations for discovery and testimony. Unlike in proceedings under the Federal Rules of Civil Procedure, the burden of justifying discovery in [PTAB] proceedings would lie with the party seeking discovery.” *Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions: Final Rules*, 77 Fed. Reg. 48621 (Aug. 14, 2012) (hereafter, “*PTAB Rules*”). Moreover, to obtain any additional discovery, the rules place “an affirmative burden upon a party seeking the discovery to show how the proposed discovery would be productive,” and meet either a “good cause” or “interests of justice” standard. *PTAB Rules*, 77 Fed. Reg. 48622 (Aug. 14, 2012). This has proven to be a steep, uphill climb on certain factual issues pertaining to validity.

In the approximately 1,500 IPR proceedings initiated since the AIA took effect, the PTAB has routinely rejected the patentee’s efforts to seek additional discovery from the accused infringer/petitioner regarding objective evidence of nonobviousness. *See, e.g., Garmin International Inc. v. Cuozzo Speed Tech. LLC*,

IPR2012-00001, Paper 26, at 4-7 (PTAB Mar. 5, 2013) (delineating parameters of permissible discovery in IPR). According to the PTAB, “in *inter partes* review, discovery is limited as compared to that available in district court litigation. Limited discovery lowers the cost, minimizes the complexity, and shortens the period required for dispute resolution.” *Garmin*, at 5. In the name of speed and convenience, the PTAB typically refuses to allow discovery related to objective indicia of non-obviousness. *See Crocs*, 598 F.3d at 1310. Even the Federal Circuit has recognized that such tight restrictions on relevant discovery, including pertinent secondary indicia of non-obviousness, lead to impermissibly narrow, hindsight-driven adjudications of this issue. *Leo Pharm. Prods*, 726 F.3d at 1353-58 (reversing PTO determination of obviousness). Convenience and speed are worthy goals, but they cannot be used as a justification for the unconstitutional taking of private property. To the contrary, Article III and the Seventh Amendment are designed to be bulwarks against such unfairness. *See Stern*, 131 S. Ct. at 2619 (“the fact that a given law or procedure is efficient, convenient, and useful in facilitating functions of government, standing alone, will not save it if it is contrary to the Constitution”) (citation omitted).

The differences between examination/reexamination and IPRs are not limited to the subject of discovery. The AIA purports to allow claim amendments under some circumstances. 35 U.S.C. § 316(a)(5). However, as a practical matter,

the PTAB has effectively decided that it will not allow such amendments. As of December 2014, the PTAB had granted a patentee's motion to amend his claim in an IPR only once—and, ironically, the patent owner in that case was the United States Government. *See Int'l Flavors & Fragrances, Inc. v. United States*, IPR2013-00124, Paper 12 (PTAB May 20, 2014) (Final Written Decision); *see also* Harnessing Patent Office Litigation, slide 2 of 3, available at <http://ipr-pgr.com/wp-content/uploads/2015/01/IPR-PGR-Report-Vol.-8.pdf>. The contrast between reexamination (in which amendment of claims to preserve validity is routine) and IPR (in which amendment of claims is virtually non-existent) is stark.

Finally, IPR is a poor substitute (not to mention an unfair and unconstitutional substitute) for judicial adjudication, because in IPR proceedings, there is: (1) no presumption of validity; (2) a lowered burden of proof (preponderance of the evidence) to show invalidity – an evidentiary burden applied by PTAB judges who typically lack experience with the Federal Rules of Civil Procedure and Evidence; (3) no attempt to construe claims based on the knowledge of a person of ordinary skill in the relevant art as in Article III litigation; and (4) immediate implementation of the PTO's ruling without immediate Article III oversight. *See* 35 U.S.C. § 311 *et seq.*

**D. The rapidly increasing use of *inter partes* review, by well-funded third parties and against unsuspecting non-litigants, is particularly troubling**

Affinity has been forced to endure the prejudice associated with the deprivation of its Constitutional rights. Fortunately for Affinity, several large market leaders in the digital media space have already taken a license to Affinity's Digital Media patents. As a result, Affinity has resources to help it to fight the unconstitutional IPRs instituted against it by unlicensed infringers. While no one should be forced to expend resources fighting an unconstitutional IPR, the IPR scheme is particularly burdensome to individuals and small startups who own patents but who often lack the resources to fight, for the reasons discussed further below.

An *inter partes* review may be requested by any private person, regardless of whether or not that person has been accused of infringement or even threatened with litigation. For example, a large technology company or a hedge fund with an axe to grind may seek to invalidate any pesky patent they view as an obstacle to their business goals – regardless of whether or not such a patent was ever asserted against them. Various commentators and news outlets have recently documented the ironic turn of events in which hedge funds are using IPRs to manipulate the

stock market by attacking patents in certain industries, such as the pharmaceutical industry.<sup>5</sup>

Further, the use of IPRs is not limited to attacks on the patents of any particular company or industry. Many patents are owned by unsuspecting and under-funded individuals and startups who lack the resources to defend themselves against deep-pocketed petitioners that launch IPRs to destroy patents, even though the patentee has never asserted, enforced, litigated or even threatened litigation of his patent(s). Those unfortunate patentees are essentially required to bring a knife to the gunfight – a gunfight they did not request or provoke but which nevertheless requires them to participate in the IPR litigation and to incur the considerable costs associated with the process. The IPR scheme thus contemplates forcing unsuspecting patentees into costly litigation regardless of their intentions.

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<sup>5</sup> See <http://www.nasdaq.com/article/kyle-basss-new-tack-dispute-the-patent-short-the-stock-20150407-01033> (Wall Street Journal article, reprinted at [www.nasdaq.com](http://www.nasdaq.com), describing “a novel approach to making money: filing and publicizing patent challenges against pharmaceutical companies while also betting against their shares”); <http://www.ipwatchdog.com/2015/04/08/is-kyle-bass-abusing-the-patent-system/id=56613/> (referencing Wall Street Journal article and stating: “How ironic that the AIA could bring the [pharmaceutical] industry to its knees.”); <http://www.patentspostgrant.com/the-ptab-as-a-hedge-fund-tool> (describing “manipulation of financial markets through PTAB filings of investment professionals ... that undermine the integrity of the patent system”); <http://www.law360.com/articles/620747/hedge-fund-s-novel-aia-strategy-targets-acorda-s-ms-drug> (describing IPR petition challenging Acorda patent as “the first to be filed by a hedge fund” and citing hedge fund’s admitted and unapologetic strategy of using “IPR reviews as part of an investment strategy of betting on tanking share prices of the targeted companies”).

## II. The Data Shows that the “Death Squad” Moniker is Well-Deserved

The reality of IPRs is not simply an academic or theoretical debate about their potential shortcomings. Rather, the actual implementation of the procedural deficiencies of the IPR scheme is even more alarming than anyone imagined. Congress estimated that approximately 460 petitions for IPR would be filed per year. In the first two full years of IPR availability (2013–’14), there were 1,824 petitions filed, with 1,310 of those filed in 2014. Aashish Kapadia, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 Tex. Intell. Prop. L.J., 113, 121-22 (2015). The reason for this alarming rate of filing is clear – the PTO demonstrated an appetite for killing the very same patents it had issued. In the first two fiscal quarters in which final written decisions were issued, every claim challenged was invalidated. PostGrantHQ Reporter 2014 Findings on USPTO Contested Proceedings, slides 16-18, available at [http://www.postgranthq.com/wp-content/uploads/2014/10/PostgrantHQ\\_Reporter.pdf](http://www.postgranthq.com/wp-content/uploads/2014/10/PostgrantHQ_Reporter.pdf).

The PTAB’s reputation as a killing machine is justified based on the microscopic numbers of claims that have survived. Since IPRs have been available to petitioners, 73.5% of claims challenged by petitioners have either been found unpatentable by the PTAB in a final written decision or canceled by the patentee during the IPR proceeding. *Id.*, at slide 2 of 18. For claims in petitions that were

instituted for trial, the number of claims found unpatentable or canceled jumps to 81.9%. *Id.*, at slide 4 of 18.

Remarkably, former Federal Circuit Chief Judge Randall Rader coined the term “death squad” for IPRs when he told the American Intellectual Property Law Association that “you’ve got an agency with 7,000 [examiners] giving birth to property rights, and then you’ve got, in the *same agency*, 300 or so [administrative judges] on the back end...acting as death squads, kind of killing property rights.” Brian Mahoney, *Software Patent Ruling a Major Judicial Failure, Rader Says*, IPLaw360, Oct. 25, 2013, available at <http://www.law360.com/articles/482264> (emphasis added). Chief Judge James Smith of the PTAB embraces the “death squad” label. “If we weren’t, in part, doing some ‘death squadding,’ we would not be doing *what the statute calls on us to do*.” Ryan Davis, *PTAB’s ‘Death Squad’ Label Not Totally Off-Base, Chief Says*, IPLaw360, Aug. 14, 2014, available at <http://www.law360.com/articles/567550/ptab-s-death-squad-label-not-totally-off-base-chief-says> (emphasis added). Although Chief Judge Smith says that “not every [challenged] claim in a patent brought forward [in an IPR]...has met its death because it has been raised in a petition,” the statistics show that an overwhelming number of claims have been either invalidated or canceled. *Id.*

As these statistics demonstrate, the PTAB enthusiastically embraces its statutory (though unconstitutional) role as a replacement for Article III courts,



happily applies a lower standard of review for patent invalidity (preponderance of the evidence), and employs a “speed over accuracy” approach to drastically alter the patentee’s playing field, to devalue or destroy private property, and to undermine the Constitutional protections established by more than 100 years of Supreme Court precedent on the subject of private property rights. It is a curious scheme indeed when the PTO justifies the existence, actions, and expansion of the PTAB by reference to its perceived mandate: to invalidate the very patents that it has previously issued.

### **III. IPRs Violate the Separation of Powers Doctrine**

If the statistics are not sufficiently alarming, the unconstitutional consolidation of yet more power within the executive branch should be. It does not matter whether the consolidation is the result of power grabs and executive fiats by the Chief Executive or the result of laws passed by a complicit or unwitting Congress (“we have to pass the bill so that you can find out what is in it”). In either case, the effect on the individual is the same: the further erosion of private property rights and individual liberties.

Appellants’ principal brief provides a thorough discussion of the Separation of Powers doctrine and the role of Article III courts in our Constitutional system; the Seventh Amendment concerns implicated by the IPR scheme; and the “public rights” exception to the Constitution’s prohibition against Article I courts resolving

private disputes (such as the validity of an issued patent) that are reserved exclusively for Article III courts. *See, e.g.*, Appellant's Prin. Br. at 1-3, 16-29. However, Appellants' brief does not discuss the *Stern* case or the *Crowell* case upon which *Stern* relies. *Stern* represents the Supreme Court's most current pronouncement on public rights jurisprudence and, along with *Crowell*, further supports Appellants' argument that patents are private rights, *not* subject to the public rights exception, and that the adjudication of patent validity in the PTAB (an Article I tribunal) is therefore unconstitutional.

As the Supreme Court's 19<sup>th</sup> Century jurisprudence makes clear, the executive branch cannot grant a patent and then later, post-issuance, cancel or annul that same patent. *See, e.g., McCormick Harvesting*, 169 U.S. at 608-09. That precedent is as binding today in the 21<sup>st</sup> Century as it was in the 19<sup>th</sup> Century.

In *Stern v. Marshall*, 131 S. Ct. 2594, 2600-01 (2011), the Supreme Court held that an Article I court (a bankruptcy court) lacked the constitutional authority to enter judgment on a tortious interference counterclaim brought by Anna Nicole Smith (aka "Vickie") against E. Pierce Marshall (the son of Vickie's late husband, Texas tycoon J. Howard Marshall II) in her bankruptcy proceeding. Significantly, the opinion provides in-depth treatment of the Supreme Court's jurisprudence on the public rights exception, which the Court analyzed to help explain the bankruptcy court's Article III violation. *Id.* at 2610-18; *see also* Michael Rothwell,

*Patents and Public Rights: The Questionable Constitutionality of Patents Before Article I Tribunals After Stern v. Marshall*, 13 N.C. J.L. & Tech. 287, 291-358 (2012) (hereafter, “Rothwell”) (chronicling a century and a half of Supreme Court jurisprudence on the public rights exception, including *Stern*’s detailed analysis of the narrow exception).

On this point, *Stern* endorsed the narrow view of public rights espoused in *Crowell v. Benson*, 285 U.S. 22, 49-51 (1932), and affirmed that where wholly private property cases are at issue and where the government is not a party, public rights are not implicated. *Stern*, 131 S. Ct. at 2612-13 and n.6 (acknowledging *Crowell* as the controlling standard for analysis of the public rights exception), citing *Crowell*, 285 U.S. at 49-51 (endorsing the long-held view that Congress cannot “withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity” and describing as a “private right” any claim that is “of the liability of one individual to another under the law as defined”) (citation omitted); *see also id.* at 2621 (Scalia, J., concurring) (describing “our landmark decision in *Crowell*” and emphasizing his view that “an Article III judge is required in *all* federal adjudications, unless there is a firmly established historical practice to the contrary”) (emphasis in original).

*Crowell* involved an action “arising between the government and others.” *Crowell*, 285 U.S. at 50. The Court took a narrow view of public rights and

determined that only private rights were at issue. Nevertheless, the Court upheld the constitutionality of a partial adjudication by an Article I tribunal – the U.S. Employees’ Compensation Commission – because the Commissioner had only limited authority to make certain findings of fact and was only empowered to issue advisory, and thus not final, opinions on questions of law, which were expressly reserved for Article III courts. *Id.* at 48 – 57 (explaining that to allow an Article I tribunal to adjudicate the claim in question “would be to sap the judicial power as it exists under the Federal Constitution, and to establish a government of a bureaucratic character alien to our system”). Eighty years later, the Court in *Stern* embraced *Crowell*, explaining that any interpretation of public rights that allows for the adjudication of a common law claim before an Article I tribunal transforms Article III “from the guardian of individual liberty and separation of power ... into mere wishful thinking.” *Stern*, 131 S. Ct. at 2616.

Finally, the *Stern* Court acknowledged “the varied formulations of the public rights exception” in the Supreme Court’s past cases. *Id.* at 2614, *see also* *Rothwell* at 291-345. Under any rationale from those past cases, the IPR scheme would not survive constitutional scrutiny because it fails to fit into any of those formulations:

<b>Rationale invoked or proposed to survive constitutional scrutiny and to justify resolution or partial resolution of a private dispute by an Article I tribunal or agency:</b>	<b>Applies to <i>inter partes</i> review?</b>
Proceedings limited to factual findings	No.
Final decision was subject to <i>de novo</i> review by an Article III district court	No.
Government was a party	No.
Proceeding involved a right that had never been litigated at common law but rather was established by the same regulatory scheme that created the Article I tribunal	No.
Proceeding involved voluntary or consensual participation by both private parties	No.
Tribunal was simply acting as an adjunct to the district court	No.
All participants waived Seventh Amendment right to a jury trial	No.

*See also id.* at 2611 (acknowledging “the various formulations of the concept” of a public rights exception”); *id.* at 2621 (Scalia, J., concurring) (referencing “the many tests suggested by our jurisprudence”); *see also* Rothwell at 379-84 (summarizing the various analytical frameworks of the public rights exception and concluding: “where a dispute takes place between private parties, as is oft the case in patent litigation, and where a dispute entails a right with common law antecedent, as is always the case in patent litigation, that right cannot be a public right”).

Because the IPR scheme adjudicates private rights, its implementation encroaches upon the authority of Article III courts. The Court in *Stern* concluded with this warning:

A statute may no more lawfully chip away at the authority of the Judicial Branch than it may eliminate it entirely. Slight encroachments create new boundaries from which legions of power can seek new territory to capture. ... [W]e cannot overlook the intrusion: illegitimate and unconstitutional practices get their first footing in that way, namely, by silent approaches and slight deviations from legal modes of procedure. We cannot compromise the integrity of the system of separated powers and the role of the Judiciary in that system, even with respect to challenges that may seem innocuous at first blush.

*Id.* at 2620 (citations and internal quotations omitted); *see also id.* at 2608-09 (“there is no liberty if the power of judging be not separated from the legislative and executive powers”) (quoting Alexander Hamilton and Montesquieu).

In sum, the Supreme Court in *McCormick Harvesting* established a bright line rule that the validity of an issued patent may not be adjudicated by the executive branch, and the government has identified no authority from the Supreme Court or Fourth Circuit that would serve to blur this line. Moreover, for the reasons recently described by the Supreme Court in *Stern*, the public rights exception does not apply here and cannot justify the unconstitutional acts of the PTAB in conducting *inter partes* review.<sup>6</sup>

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<sup>6</sup> Appellants have already addressed and distinguished the Federal Circuit’s holdings in *Patlex* and *Joy Techs.* *See*, Appellant’s Prin. Br. at 16-17, 24-33; *see also* Rothwell at 314-19 (discussing *Patlex*), 340-43 (discussing *Joy*), and 380-81 (discussing *Patlex* and *Joy*). The legal rationale used in those cases is dubious at best, and, in any event, those cases are not binding on this Court.

## **CONCLUSION**

The IPR scheme usurps the Constitutional authority of Article III courts, who have exclusive authority to adjudicate the validity of issued patents. This Court should uphold over 100 years of Supreme Court jurisprudence by declaring the IPR procedures unconstitutional.

## **CERTIFICATE OF COMPLIANCE**

This brief complies with the type-volume limitation of FED. R. APP. P. 29(d), because the brief contains 5,809 words, excluding the parts of the brief exempted by FED. R. APP. P. 32(a)(7)(B)(iii).

This brief complies with typeface requirements of FED. R. APP. P. 32(a)(5) and the type-style requirements of FED. R. APP. P. 32(a)(6), because it has been prepared in a proportionally spaced typeface using Microsoft Word in Times New Roman 14-point font.

/s/ Jonathan T. Suder

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I hereby certify that a true and correct copy of the Brief of *Amicus Curiae* Affinity Labs of Texas, LLC will be served on the following counsel of record on the 20th day of April 2015, via electronic mail and service through the Court's ECF filing system:

/s/ Jonathan T. Suder

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