

No. 15-1091

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

MCM PORTFOLIO LLC,
APPELLANT,

v.

HEWLETT-PACKARD COMPANY,
APPELLEE.

APPEAL FROM PATENT AND TRADEMARK OFFICE –
PATENT TRIAL AND APPEAL BOARD IN NO. IPR2013-00217

**REPLY BRIEF FOR APPELLANT
MCM PORTFOLIO LLC**

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TABLE OF CONTENTS

TABLE OF AUTHORITIES.....iii

I. SUMMARY..... 1

II. THE PATENTABILITY ISSUE..... 1

A. Introduction..... 1

B. Facts 3

C. Responsive Arguments 6

1. MCM is Not Challenging the Institution Decision 6

2. MCM Consistently Argued That HP Had Failed to Prove a Controller Chip With All The Functionality as Claimed 7

3. An Institution Decision Does Not Decide That Petitioner Has Met Its Statutory Burden..... 8

4. The Board’s Decision is Not Supported By Substantial Evidence 8

5. The Board Misstates HP’s Arguments and Evidence and HP Did Not Meet Its Burden 11

III. HP’S PETITION IS BARRED BY SECTION 315(b)..... 13

A. Privity..... 13

B. Reliance on Section 314(d) to Rebut a Jurisdictional Bar Under Section 315(b)..... 16

IV. CONSTITUTIONAL LAW ISSUES	20
A. Contentions of the Director and HP	20
B. Patents are Private Rights	21
C. Congress Does Not Have Plenary Power to Allocate Adjudications of Statutory Rights at Its Discretion	25
D. ITC Proceedings Are The Kind of Regulatory Proceeding Congress May Authorize – Removing Validity Trials from Courts is Not.....	27

PROOF OF SERVICE

CERTIFICATE OF COMPLIANCE

TABLE OF AUTHORITIES

CASES:

Aevoe Corp. v. AE Tech. Co.,
727 F.3d 1375 (Fed. Cir. 2013)..... 14, 15

Am. Signature, Inc. v. United States,
598 F.3d 816 (Fed. Cir. 2010)..... 16

B&B Hardware v. Hargis Industries, No. 13-352, Slip
(Supreme Court, March 24, 2015).....28-29

Bio-Tech. Gen. Corp. v. Genentech, Inc.,
80 F.3d 1553 (Fed. Cir. 1996).....27-28

Chevron USA Inc. v. Natural Resources Defense Council, Inc.,
467 U.S. 837 (1984). 14, 15

Crowell v. Benson,
285 U. S. 22 (1932) 18, 19

Dairy Queen, Inc. v. Wood,
369 U. S. 469 (1962) 26

Executive Benefits Ins. Agency v. Arkison,
134 S. Ct. 2165, 573 U.S. __ (2014)..... 29

Feltner v. Columbia Pictures Television, Inc.,
523 U.S. 340 (1998) 26

Heckler v. Cheney,
470 U.S. 821 (1985) 19

In re Cuozzo Speed Techs., LLC,
No. 14-1301, -- F.3d --, 2015 WL 448667
(Fed. Cir. Feb. 4, 2015)..... 13, 16

In re Leithem,
661 F.3d 1316 (Fed. Cir. 2011)..... 9

In re Lockwood,
53 F.3d 966 (1995), *vacated*, 515 U.S. 1182 (1995) 30, 31, 33

In re MCM Portfolio, LLC,
554 F. App'x 944 (Fed. Cir. 2014) 19

Joy Technologies v. Manbeck,
959 F.2d 226 (Fed. Cir. 1992)..... 20, 21

Koon v. United States,
518 U.S. 81 (1996) 16

Marbury v. Madison,
5 U. S. (1 Cranch) 137 (1803)..... 25

Markman v. Westview Instruments, Inc.,
517 U.S. 370 (1996) 22-23

McCormick Harvesting Machine Co. v. Aultman & Co.,
169 U.S. 606 (1898) 33

Mowry v. Whitney,
81 U.S. 434 (1872) 31, 32, 33

Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.,
458 U.S. 50 (1982) 22

Patlex Corp. v. Mossinghoff,
758 F.2d 594 (Fed. Cir. 1985)..... *passim*

Patlex Corp., Inc. v. Mossinghoff,
585 F. Supp. 713 (E.D. Pa. 1983) 29

Plas-Pak Industries. v. Sulzer Mixpac, No. 2014-1447
(Fed. Cir. Jan. 27, 2015)..... 10, 11

Stern v. Marshall,
131 S. Ct. 2594, 564 U.S. 2, 180 L. Ed. 2d 475 (2011)..... *passim*

Teva Pharm. USA, Inc. v. Sandoz, Inc.,
135 S. Ct. 831 (2015) 24

Texas Instruments, Inc. v. U.S. Int’l Trade Comm’n,
851 F.2d 342 (Fed. Cir. 1988)..... 28

Wood & Brundage,
222 U.S. 603 (1824) 31, 32

CONSTITUTIONAL PROVISIONS:

United States Constitution, Seventh Amendment..... 29, 32

Article III of the Constitution *passim*

STATUTES:

35 U.S.C. §314(a)..... 16

35 U.S.C. §314(b)..... 17

35 U.S.C. §314(d)..... *passim*

35 U.S.C. §315(b)..... 13-19

35 U.S.C. §316(e) 2, 8, 15

America Invents Act; Public Law 112-29, secs. 6(h)(2)
(effective Sept. 16, 2011) 29

RULES:

Rule 42.23(b)..... 9

MISCELLANEOUS:

Lemley, Mark A. “Why Do Juries Decide If Patents Are Valid?”
Va. L. Rev. 98 (2013): 1673-1893 31-32

I. SUMMARY

The principal arguments of the Director and HP in their rebuttals to MCM's appeal of the decision of unpatentability of US Patent 7,162,549 reached by the Board in its final written decision on August 6, 2014 (the "Decision") are (i) that the majority of MCM's appeal is barred by Section 314(d) or has been waived and (ii) that MCM does not adequately distinguish IPRs from re-examinations and because re-examinations are constitutional, so are IPRs. These arguments rely heavily on mischaracterizations of MCM's actual arguments on appeal, and the Director and HP do little more than reiterate the substance of the Decision. HP and the Director used these arguments as diversions because there is scant support for a rebuttal of the issues raised by MCM on appeal.

II. THE PATENTABILITY ISSUE

A. Introduction

In its Decision, the Board stated that "[w]e are persuaded that a preponderance of the evidence demonstrates that the combination of Kobayashi and Kikuchi discloses each of the limitations of the challenged claims, as presented in HP's Petition." MCM established in

the IPR proceeding and in its principal brief that Kobayashi and Kikuchi do not, in fact, disclose each of the limitations of the challenged claims and also that HP did not establish that they did. HP and the Director argue that MCM is actually appealing the institution decision, an appeal which is precluded by Section 314(d). HP also argues that MCM waived most of the issues it challenges and can only challenge the single controller chip limitation determination. While MCM provides sufficient support on that challenge alone to reverse the Board's Decision, neither of these arguments is persuasive and, notably, neither of these arguments rebuts the merits of MCM's appeal: Kobayashi and Kikuchi do not, in fact, disclose each of the limitations of the challenged claims and HP did not establish that they did. Moreover, the "combination of Kobayashi and Kikuchi" was an argument constructed by the Board. The combination is an impossibility that would change the basic principles under which Kobayashi was designed to operate and is counter to HP's argument in its Petition. HP did not meet its statutory burden to prove unpatentability by a preponderance of the evidence as required under Section 316(e) and, accordingly, the Board's Decision must be reversed.

B. Facts

HP filed a Petition naming two references (Kobayashi and Kikuchi), neither of which disclosed a controller chip with any of the claimed controller chip structures or functions. A5-A7; A7-A8. However, HP presented its principal reference, Kobayashi, as disclosing *all* claim limitations but for one, bad block mapping, for which it presented Kikuchi. A9.

HP's obviousness argument was premised on the fact that both references disclosed ATA controllers that could alternatively be located either on a flash card reader or on a flash card because they were the same controller. A91:8-19. It argued that when the bad block mapping techniques of Kikuchi were substituted into Kobayashi's ATA controller, that all the claim limitations had been proven. A91:8-A92:5.

MCM filed its Patent Owner Response objecting that HP had failed to prove all claim limitations because Kobayashi did not disclose a controller chip having *all* the controller chip functions (but for bad block mapping) *as claimed*. A200-A201:11. Thus, the substitution of the bad block mapping techniques of Kikuchi into Kobayashi's ATA controller as argued by HP *could not prove* a controller chip having *all*

the claim limitations of the '549 because Kobayashi did not disclose a controller chip having *all* the claim limitations but for bad block mapping. *Ibid.*

HP then filed a reply brief where it argued that Kikuchi's disclosure of a single-chip controller having multiple functionalities demonstrated that one of ordinary skill in the art could reconstruct Kobayashi into a single chip. A219:6-A220.

At oral argument, MCM objected that the new argument HP presented in its reply brief was in violation of the rules. A260:13-A261:14.

Also at oral argument, and in response to the new argument advanced by HP, MCM pointed out that HP's Petition was devoid of evidence and argument for reconstructing Kobayashi into a single chip. A249:5-18; A252:16-A254-13. Specifically, MCM argued that there was no evidence that one of ordinary skill could place the functionality of a mechanical/optical detector into a chip and HP provided no evidence to the contrary. A254:14-19; A255:9-12; A259:2-6. MCM further argued that reconstructing Kobayashi into a single chip would "defeat the whole purpose of Kobayashi to put the same controllers on the

flashcards into the readers” because such a reconstructed controller “cannot be the same controller on the flashcards.” A258:13-24.

In its Decision, the Board acknowledged that HP had argued in its Petition that Kobayashi disclosed all claim limitations but for bad block mapping. A9. It acknowledged further that Kobayashi *did not disclose* the claimed controller chip. The Board made an independent finding of fact, not substantiated by HP’s evidence, to reach its Decision: that Kikuchi’s disclosure of a single chip controller made it obvious to reconstruct Kobayashi into a single chip.¹ A10:4-16. In doing so, the Board misstated HP’s arguments presented in its reply brief as having been presented in its Petition. A9:5-7 vs A91:8-19 (Pet.) vs. A220:Demo (Reply); A10:8-12 vs. A91-A92 (Pet.) vs. A221:17-A222:4 (Reply). Further, the Board made a factual finding concerning the disclosure of the two references as both disclosing ATA controller chips that could work with flashcards having controllers and flashcards that did not have controllers. A9:7-8. That finding of fact, *necessary to its determination of unpatentability* of US ‘549, is contrary to the evidence:

¹ MCM disputes that it was obvious to reconstruct Kobayashi into a single chip and disputes that it is even possible to do so. Both HP and the Director mischaracterize MCM’s oral argument in this regard.

the evidence instead established that both references disclosed ATA controllers that could work alternatively on readers and on flashcards because they were the same controller for both. A90:4-7; A91:12-17. In fact, they needed to be the same controller for both in order to function as claimed.

C. Responsive Arguments

1. *MCM is Not Challenging the Institution Decision*

At oral argument, MCM withdrew its challenge to the institution decision and requested a decision on the merits. A251:13-A252:5. Moreover, there is simply no way to read MCM's principal brief as challenging the Board's decision to institute rather than its final Decision.²

² From MCM's principal brief: "The Board provides no support for a factual finding that Kobayashi discloses the challenged claims of US '549 in its Decision.... Therefore, the finding is not supported by substantial evidence and must be reversed." (page 27) "The Board's findings regarding Kikuchi's controller chip disclosure and HP's arguments with respect thereto are contrary to the record and therefore its Decision must be reversed." (page 29) "The Board's basing their unpatentability Decision on an argument that Petitioner HP did not make is reversible error. Likewise, putting the burden on MCM to rebut an argument that the Petition did not make is reversible error. Moreover, basing its finding of unpatentability on a fictional

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2. *MCM Consistently Argued That HP Had Failed to Prove a Controller Chip With All The Functionality as Claimed*

MCM has consistently argued that by reading out of the claims of the '549 *the requirement for a chip* that HP failed to prove the claimed controller chip and *all* its claimed functionalities. MCM specifically identified the interface mechanism as a missing limitation at A200:6-10, the flash adapter at A202:1-7, and the detector at A253:24, A254:7-19, A:255:9-12, A259:2-6. The argument concerning the detector was made necessary by the *new argument* that HP first presented in its reply brief about combining all the structures and functionalities of Kobayashi into a single controller chip. It was further made necessary because of the Board's *sua sponte* cross-examination of MCM's counsel concerning skill in the art. A257:17-20; A258:5-A259:13. HP's argument that MCM waived certain arguments relies on a mischaracterization of MCM's previous arguments. Moreover, even if MCM's arguments in response to the new argument raised by HP in its reply were not in

combination of references that do not comport to the references themselves is reversible error." (page 36) "On this record, reversal of the Board's Decision is required." (page 39) For HP and the Director to argue otherwise is not only unpersuasive, but egregiously mischaracterizes MCM's position.

MCM's response, finding waiver of them would mean that an IPR Petitioner may introduce new arguments in a reply brief but that the patent owner cannot address them. This cannot be the result.

3. *An Institution Decision Does Not Decide That Petitioner Has Met Its Statutory Burden*

HP argues that the institution decision decided that HP had proven unpatentability by a preponderance of the evidence as required under 35 U.S.C. 316(e) thereby shifting the burden of proof to MCM. However, all that the institution decision decided was that there is a reasonable likelihood that HP might prove the unpatentability of at least one claim. Nothing about the decision to institute changes petitioner's statutory burden under Section 316(e) to prove a proposition of unpatentability by a preponderance of the evidence.

4. *The Board's Decision is Not Supported By Substantial Evidence*

HP must prove all claim limitations by a preponderance of evidence in order for the Board to reach a final decision of unpatentability. HP did not prove all the claim limitations. Thus, the Board's Decision is not supported by substantial evidence and must be reversed. Moreover, the Board may not "rel[y] on new facts and

rationales not previously raised...” because to do so, denies administrative due process. *In re Leithem*, 661 F.3d 1316, 1319 (Fed. Cir. 2011).

HP’s Petition failed in its burden of proof because it argued Kobayashi as having *all* claim limitations but for bad block mapping – even the Board agreed that this was HP’s argument. A9:2-3. Kobayashi did not, however, teach all the claim limitations but for bad block mapping.

The new argument that HP first presented in its reply brief was that Kobayashi should be reconstructed into a single chip. This argument not only defies the teaching of Kobayashi, but is an impermissible new argument and must be rejected. Because the Board’s Decision rested on that new argument, its decision must be reversed. MCM objected to this argument and the alleged evidence supporting this argument in the record below.³ A260:16-A263:5. It renews that objection in this appeal.

Notwithstanding the fact that HP was not entitled to raise the new argument, there is no supporting evidence in the Petition or in the

³ Rule 42.23(b) bars new arguments in a reply brief.

supporting expert opinion for HP's argument. As discussed in the principal brief, the reconstruction argument is inconsistent with the argument and evidence that HP produced in its Petition – that Kobayashi disclosed *all* claim limitations but for bad block mapping, and that because both Kobayashi and Kikuchi disclosed ATA controllers that could be alternatively located on a reader or a flash card because they were the same controller, that one of ordinary skill in the art would substitute the bad block mapping techniques of Kikuchi into Kobayashi's ATA controller.

By arguing in its reply brief to combine all the controllers, switches, and mechanical/optical detectors of Kobayashi into a single chip (e.g., A220: Demo (Reply)), HP undoes a principal teaching of Kobayashi: that the ATA controller be the same, whether located on the reader or on the flash card.

On this latter point, MCM respectfully brings to the attention of the Court a non-precedential decision that was decided after MCM had filed his Principal Brief, *Plas-Pak Industries v. Sulzer Mixpac*, No. 2014-1447 (Fed. Cir. Jan. 27, 2015). Here, this Court decided that a reconstruction of a reference that would “change the ‘basic principles

under which the [prior art] was designed to operate' ... or that render the prior art 'inoperable for its intended purpose'" may fail to support a conclusion of obviousness. *Id.* at *5. Such is the case here: the reconstruction of Kobayashi would eliminate Kobayashi's requirement that the ATA controller be the same controller whether located on the reader or on the flash card.

5. *The Board Misstates HP's Arguments and Evidence and HP Did Not Meet Its Burden*

The Board heavily relied on statements by HP to support unpatentability allegedly presented in its Petition, but which, as MCM demonstrated, were first presented in its reply brief. HP argues that the Board does not have to quote its arguments in *haec verba*. MCM does not disagree with this principle generally, but HP's actual statements and arguments do not even come close to what the Board said HP argued – as MCM's principal brief makes clear by comparing the statements by HP to the Board's summaries thereof. Rather, the Board's determinations paraphrase (incorrectly) the argument HP first made in its reply brief.

But more than just misstate HP's arguments, the Board misstated the evidence regarding Kobayashi and Kikuchi, to wit: that each

disclosed ATA controllers that work with flashcards that had controllers and flashcards that did not have controllers. That is contrary to the evidence. The ATA controllers of both references, when located on a reader, can only work with flashcards that do not have controllers.

Moreover, this misstatement by the Board suggests that the Board fundamentally misunderstood the teachings of Kobayashi and Kikuchi as discussed in MCM's principal brief.⁴

In summary, HP did not prove all claim limitations and, therefore, did not prove unpatentability by a preponderance of the evidence. The Board's findings are not supported by substantial evidence and the

⁴ The Board's statement in the Decision is revealing: "MCM's assertion – that even if Kikuchi's error correction is incorporated into Kobayashi's ATA controller 124 the result would not yield the claimed invention – misses the point... The relevant inquiry is whether the claimed subject matter would have been obvious to those of ordinary skill in the art in light of the combined teachings of the references.... 'Combining the teachings of references does not involve an ability to combine their specific structures.'" (citation omitted) A11. The "combining" was never the issue. The issue is that the combination does not yield the claimed invention. MCM never argued that one could not combine the bad block mapping techniques of Kikuchi into Kobayashi's ATA controller 124 nor that it was beyond the skill of the art for anyone to do that. MCM consistently argued that doing so does not yield the claimed invention which is a controller chip having all the claimed functionalities. The Board's statement highlights the Board's misunderstanding.

reconstruction of Kobayashi cannot be obvious because it would eliminate the basic principles under which it was designed to operate. The Board's Decision must be reversed.

III. HP'S PETITION IS BARRED BY SECTION 315(b)

Both HP and the Director summarily rely on Section 314(d) and *Cuozzo*⁵ to argue that this Court lacks jurisdiction to review the Board's decision to institute. In so doing, both HP and the Director significantly mischaracterize MCM's appeal as a challenge to the Board's substantive decision to institute rather than a challenge to the Board's jurisdiction.

A. Privity

Neither HP nor the Director dispute (i) that MCM established privity between HP and Pandigital, a party served with a complaint for patent infringement of US '549 outside the 1 year bar of Section 315(b), (ii) that HP was notified of that patent infringement action, and (iii) that HP is a reseller and successive owner of the very products that are the subject of the complaint for infringement of US '549 against Pandigital and that HP maintains substantial substantive legal

⁵ *In re Cuozzo Speed Techs., LLC*, No. 14-1301, -- F.3d --, 2015 WL 448667 (Fed. Cir. Feb. 4, 2015).

relationships with Pandigital. Neither does either party dispute that, under the controlling statutes and rules, HP bears the ultimate burden of proof of statutory standing, *i.e.*, the right to bring the IPR at issue. Finally, neither party disputes that HP provided no evidence to support it had statutory standing and no evidence with respect to its relationship to Pandigital, including in rebuttal.

HP alone urges that the Board properly required demonstration that HP had a right to control the Pandigital action in order to establish the “type” of privity required for a bar under Section 315(b). However, proof of control is not required to establish privity involving successors in property. Under controlling Federal Circuit law, *Aevoe Corp. v. AE Tech. Co.*, 727 F.3d 1375 (Fed. Cir. 2013) a reseller of accused infringing products is in privity with a party accused of infringement and is bound when notified of, for example, as in *Aevoe*, a notice of a preliminary injunction. Neither HP nor the Director provides a compelling reason why the principles of privity under *Aevoe* are not applicable to Section 315(b) privity.⁶ The Director simply does not address the issue and HP

⁶ In a footnote, HP states the Board’s analysis is entitled to *Chevron* deference because Congress has delegated rulemaking

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attempts to distinguish *Aevoe* arguing that “any successive ownership of allegedly infringing products between HP and Pandigital has no relationship to the invalidity issue before the Board.” The invalidity issue, however, is with respect to US ‘549 – which is precisely the patent in dispute with respect to the successively-owned infringing products. HP’s argument is simply nonsensical: if it were adopted, there would never be privity established in an IPR (which is a validity proceeding) because a validity proceeding is not related to infringement. Certainly that cannot be the result when Section 315 expressly contemplates an IPR being barred on the basis of privity. HP’s argument is not supported in the law, and certainly is not supported by *Aevoe*.

The imposition by the Board of the requirement of control to determine privity is beyond that required by controlling law and is an

authority under Section 316. HP’s argument is off-point: the issue is whether the Board can ignore Supreme Court and Federal Circuit precedent in determining whether HP and Pandigital are privies (and extend its jurisdiction thereby) when the application of controlling precedent would bar the institution of the IPR under Section 315(b). *Chevron USA Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984) does not provide support for the Board’s failure to apply controlling precedent, and neither does Section 316.

abuse of discretion. *Koon v. United States*, 518 U.S. 81, 100 (1996) (“A district court by definition abuses its discretion when it makes an error of law.”); *Am. Signature, Inc. v. United States*, 598 F.3d 816, 823 (Fed. Cir. 2010). Therefore, the Decision must be reversed.

B. Reliance on Section 314(d) to Rebut a Jurisdictional Bar Under Section 315(b)

HP and the Director rely on misleading and fundamentally flawed characterizations of MCM’s argument,⁷ Section 314(d) and *Cuozzo*⁸ in their rebuttals. Section 314 provides the following structure for institution of an IPR, to wit:

“35 U.S. Code § 314 – Institution of inter partes review.

(a) Threshold. – The Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.

⁷ It is critical to the arguments of both HP and the Director to cast MCM’s challenge as a challenge to the decision to institute rather than on what it in fact is: a challenge to the Board’s jurisdiction to institute when the IPR is barred by Section 315(b).

⁸ *In re Cuozzo Speed Techs., LLC*, No. 14-1301, -- F.3d --, 2015 WL 448667 (Fed. Cir. Feb. 4, 2015) is not on point here because *Cuozzo* involved a challenge to the Board’s decision to institute under Section 314(a), not a challenge to the Board’s jurisdiction under Section 315(b).

(b) Timing. – The Director shall determine whether to institute an inter partes review under this chapter pursuant to a petition filed under section 311 within 3 months...

(c) Notice. – The Director shall notify the petitioner ... of the Director’s determination under subsection (a)...

(d) No Appeal. – The determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.” (emphasis added)

Section 314(d) clearly bars appeals of the “reasonable likelihood” determination made by the Director in subsection (a). *By the statute’s very terms*, however, there is no bar to appealing a determination outside Section 314. The statute clearly uses “chapter” when intended (314(b)) and “section” when intended (314(d)) – and Section 314(d) precludes only challenges to “the determination by the Director whether to institute an inter partes review “*under this section,*” not “*under this chapter.*” Thus, Section 314(d) does not bar a challenge to the Board’s determination under Section 315(b). HP and the Director attempt to re-write and enlarge the scope and coverage of the words “final and nonappealable” to include determinations made “under this chapter” in order to dispense with MCM’s critical and un rebutted arguments related to the privity of HP and Pandigital and the statutory bar resulting therefrom, to wit:

“35 U.S.C. 315 Relation to other proceedings or actions.

(a) INFRINGER’S CIVIL ACTION. (omitted)

(b) PATENT OWNER’S ACTION.— An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.” (emphasis added)

MCM established privity between HP and Pandigital. The Board, therefore, is statutorily barred from instituting the IPR.

Not only is the argument that Section 314(d) bars a jurisdictional challenge to the Board’s ability to institute incorrect as a matter of statutory construction, but also under controlling Supreme Court case law. In *Crowell v. Benson*, 285 U. S. 22, 62-63 (1932), the Supreme Court decided that statutes authorizing an agency created by Congress to conduct adjudications involving *private rights* must be construed to allow judicial review of statutory jurisdiction as a constitutional matter under Article III. Agencies do not have the exclusive power to determine their own jurisdiction. That is a matter for the courts.

As patents are constitutionally protected property which may be revoked as a result of an IPR, *Crowell* stands as authority that this Court *must* construe the statutes surrounding IPRs to allow judicial review of statutory jurisdiction.

Subsequent Supreme Court authority likewise holds that assertions of statutory jurisdiction by an agency *are* judicially reviewable. *Heckler v. Cheney*, 470 U.S. 821, 832 (1985).

The evidence of record establishes a Section 315(b) bar. A decision thereafter to institute when the conditions of Section 315(b) are met is *ultra vires* -- beyond the jurisdiction of the Director. Whether the conditions of Section 315(b) are met or not met are judicially reviewable under *Heckler*, and the statute must be construed to allow such review under *Crowell*. If this Court bars review of the manifestly unlawful assertions of jurisdiction by the Board with respect to Section 315(b), then MCM's rights under Article III of the Constitution will be violated. *Crowell, supra*.

If this Court determines otherwise, MCM hereby requests its appeal to be treated as a renewal of its previous petition for a writ mandamus. *In re MCM Portfolio, LLC*, 554 F. App'x 944 (Fed. Cir. 2014). MCM has demonstrated a clear right to a reversal of the Board's assertion of jurisdiction under Section 315(b) based on legal error regarding privity, and has literally no other avenue than mandamus for judicial review.

IV. CONSTITUTIONAL LAW ISSUES

A. Contentions of the Director and HP

The Director and HP both rely on essentially the same arguments in defense of the constitutionality of *inter partes* review proceedings:

(i) Because the Federal Circuit held in *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985)⁹ that patents are public rights, the adjudication of patent validity is appropriately removed from the jurisdiction of Article III courts;

(ii) Patents are in fact public rights because they are “statutory grants conferring rights against the public at large” (Director Br., page 20);

(iii) Because “Congress may authorize the PTO to issue patents in the first instance, Congress may equally authorize [the] PTO to reconsider its patentability decisions and to correct its mistakes” (Director Br., page 11);

(iv) IPRs enable the PTO to correct an erroneous decision to issue a patent similarly to the re-examination proceedings found constitutional in *Patlex*;¹⁰

⁹ *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985). *Joy Technologies v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992) did not conduct an independent analysis of whether a patent was a public right, but simply followed *Patlex* and, therefore, does not need to be independently addressed.

¹⁰ HP and the Director make a point that MCM does not argue any differences between reexaminations and IPRs. The assumption is that reexaminations are constitutional, therefore IPRs are constitutional. Since the principal reason that MCM challenges constitutionality is not the form of PTO procedure, but the ultimate fact of cancellation of claims that revoke the patent without access to an Article III court, it makes no difference what the procedure is for purposes of MCM’s

- footnote cont’d -

(v) no Supreme Court decision before or after *Patlex* affects the holdings in *Patlex* and MCM's arguments to the contrary are wrong; and

(vi) *In re. Tech. Licensing* held that there is no right to a jury trial for validity when the patentee seeks only an equitable remedy and *scire facias* actions (the common law procedure for revoking patents for invalidity) are more like inequitable conduct actions, implying they may not have a right of trial by jury.

B. Patents are Private Rights

The Director and HP cite no authority other than *Patlex* in support of the legal determination that patents are public rights. *See*, fn. 1, *supra*, *Joy Tech.* just followed *Patlex*. Both the Director and HP suggest that MCM was remiss by not distinguishing *Patlex* and *Joy*, which highlights both parties' reluctance to address the primary argument advanced by MCM: patents are not public rights and *Patlex* was incorrect in so holding. *Patlex* held that patents are *public rights* because validity is a public concern and because patents can only be

argument. The IPR procedures, however, are radically different from *ex parte* reexamination—they are *adversarial litigation* between the patent owner and an accused infringer. IPR procedures bear no resemblance at all to prosecution by the PTO and the differences are profound.

created by statute – in contrast to the *private rights* at issue in *Northern Pipeline*.¹¹

In contrast with the private rights at issue in *Northern Pipeline*, the grant of a valid patent is primarily a public concern.... At issue is a right that can only be conferred by the government.

Patlex at 604.

The holding is categorical in nature and would apply to every patent proceeding even though *Patlex* was limited to the question of the constitutionality of reexaminations of patents. Thus, the determination that a patent is a *public right* would permit, under controlling authority, e.g., *Stern v. Marshall*, 131 S. Ct. 2594, 564 U.S. 2, 180 L. Ed. 2d 475 (2011), Congress to wholly withdraw all patent matters, including patent infringement litigation, from Article III courts, an essential characteristic of a *public right*.

It depends upon the will of congress whether a remedy in the courts shall be allowed at all.

Stern at 2612.

¹¹ *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982).

The error in the position of the Director and HP is demonstrated by the fact that removing patent infringement litigation from the courts is not constitutionally possible because the Supreme Court has held that there is a constitutional right to a jury trial for patent infringement actions. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996). Accordingly, a patent cannot qualify as a *public right*, and the legal rationale advanced by the Court in *Patlex* is incorrect as a matter of law.

A patent is a private right because it provides the *legal* right to exclude others and provides a right to sue for damages in a court of law. *Stern v. Marshall*, 131 S. Ct. 2594, 564 U.S. 2, 180 L. Ed. 2d 475 (2011) (A “private right [is] of the liability of one individual to another under the law as defined.”) *Id.* at 2612.

Neither the Director nor HP rebut that a patent is property, nor do they question that a patent is a *legal* right that involves the liability of one to another under the law. Instead, they argue that because a patent is a *statutory right* that affects the *public at large* that that alone is sufficient to convert a private right into a public right so as to justify allocating adjudications involving that right to executive

agencies. But the Supreme Court recently considered the issue of whether a patent affects the public at large. In *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, slip at *11 (2015), the majority addressed the argument of Justice Thomas in dissent that patents were like statutes, affecting the public at large. In so doing the majority held that “[s]tatutes, in general, address themselves to the general public; patent claims concern a small portion of that public.”

While patents *in general* may affect the public, individual patents do not. *Ibid.* Individual patents are exclusive rights granted to an inventor of an invention who has disclosed that invention to the public in exchange for exclusive rights. Only those members of the public who exploit that very same invention are ultimately affected by the patent.

Thus, while the public may have a general interest that patents are validly issued, a particular patent does not affect the public generally as does a statute. Moreover, there is simply no support for the premise that the public having a general interest in ensuring that patents are validly issued translates into Congress being able to deny a patent owner access to an Article III court to resolve issues of validity before revoking the patent owner’s patent. If a patent were indeed a

public right, Congress has the plenary power to locate trials involving public rights in any forum it chooses. *Stern, supra*. And, the extreme popularity of IPRs has, *de facto*, all but completely removed validity trials from the courts. Congress does not have that right just because patent validity in a general sense is a “public concern.” Congress only has that power if a patent is a *public right* under *Stern v. Marshall*.

C. Congress Does Not Have Plenary Power to Allocate Adjudications of Statutory Rights at Its Discretion

Both the Director and HP argue that because patent rights can only be created by statute, they are *therefore* public rights and, as with any public right, Congress can allocate adjudications involving such public rights anywhere. In other words, the power to create rights includes the power to dictate the adjudication of those rights.

This simplistic argument has no legal support and is foreclosed by such landmark decisions as *Marbury v. Madison*, 5 U. S. (1 Cranch) 137 (1803), which expressly held that adjudications regarding the validity of property rights must be conducted in a court of law. Moreover, the argument is directly contrary to cases involving other statutory intellectual property rights where the Supreme Court has held there to be a constitutional right to a trial by jury in an Article III court. *See*,

e.g., *Feltner v. Columbia Pictures Television, Inc.*, 523 U.S. 340, 355 (1998) (“[W]e hold that the Seventh Amendment provides a right to a jury trial on all issues pertinent to an award of statutory damages under § 504(c) of the Copyright Act.”); *Dairy Queen, Inc. v. Wood*, 369 U.S. 469, 477, 479-480 (1962) (“And as an action for damages based upon a charge of trademark infringement, it would be no less subject to cognizance by a court of law [citing to] *Arnstein v. Porter*, 154 F.2d 464, 468 (2d Cir. 1946) (“That it is founded solely on a statute does not deprive either party of a right to a trial by jury....”)).

It made no difference to the result in those cases that the right at issue was subject to pre-grant examination, a so-called “regulatory program” in the words of both the Director and HP. Patents, trademarks and copyrights are all examined before grant. The fact of examination does not make them *public rights* or permit the government to deny their owners a right of access to the courts or juries.

Post-grant, the property right holder has the legal right to exclude others, making it a private right. Even *Patlex* acknowledges that patents are constitutionally protected property. *Patlex* at 599.

D. ITC Proceedings Are The Kind of Regulatory Proceeding Congress May Authorize – Removing Validity Trials from Courts is Not

The public rights doctrine will allow new statutory remedies with respect to a private right provided such cases are “between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments.” *Stern v. Marshall*, 131 S. Ct. 2594, 564 U.S. 2, 180 L. Ed. 2d 475 (2011); and further provided it is not “the stuff of the traditional actions at common law tried by the courts at Westminster in 1789.” *Stern* at 2609. An ITC action is a good example of the government acting in its sovereign capacity within the scope of its traditional powers, where patent infringement and validity may be adjudicated without constitutional objection, and further where such an action was not the stuff litigated in the courts of Westminster in 1789 because the result of the action is an exclusion order and because the rulings of the ITC, whether on validity or infringement, do not result in invalidation of the patent or liability for damages, and do not have collateral estoppel effect. *See Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563-64 (Fed. Cir. 1996) (holding that a prior ITC

decision does not bind a subsequent federal court under the doctrine of claim preclusion); *Texas Instruments, Inc. v. U.S. Int'l Trade Comm'n*, 851 F.2d 342, 344 (Fed. Cir. 1988) (“[T]his court has stated that the ITC’s determinations regarding patent issues should be given no *res judicata* or collateral estoppel effect . . .”).

Patent rights do not fall into the same category. Rather, issues of patent validity involve private rights. In *B&B Hardware v. Hargis Industries*, No. 13-352, Slip (Supreme Court, March 24, 2015), Justices Thomas and Scalia *sua sponte* raised the issue of the constitutionality of giving preclusive effect to agency decisions involving core 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. Justice Thomas's dissent echoes our argument here. The majority in *B&B Hardware* did not address the constitutional issue because it was not raised below. Slip. at 10-11. The Court also suggested that the availability of *de novo* review was enough to cure the constitutional defect. *Id.* at 13. This echoes the Court's recent holding in *Executive Benefits Ins. Agency v. Arkison*, 134 S. Ct. 2165, 573 U.S. ___ (2014), that *de novo* review of a so-called *Stern* claim (a claim decided by a non-Article III court had statutory, but not constitutional, jurisdiction) solved the constitutional problem regarding Article III and the Seventh Amendment.

There is a key difference between IPRs and the review procedure in *B&B Holdings* and *Executive Benefits*: in those cases, the procedure was constitutional because there was a right of a trial *de novo*. In the case of IPRs, that right was removed by the America Invents Act; Public Law 112-29, secs. 6(h)(2) (effective Sept. 16, 2011).¹² The district court in *Patlex Corp., Inc. v. Mossinghoff*, 585 F. Supp. 713, 725 (E.D. Pa. 1983), upheld the constitutionality of reexaminations in part because they were subject to a trial *de novo*. This case is different.

¹² IPRs do not have a right of *de novo* review.

Both HP and the Director cite *In re. Tech. Licensing*, a decision of this Court which held that when the patent owner seeks *only* an equitable remedy, there is no right to a trial by jury with respect to a declaratory action for invalidity. But *In re. Tech. Licensing* noted (at n.1) that this Court still followed *In re Lockwood*, 53 F.3d 966 (1995), *vacated*, 515 U.S. 1182 (1995), where this Court held that the declaratory judgment actions for invalidity did have a constitutional right to a jury trial if the patentee had not yet limited his remedy solely to an equitable remedy. Thus, it is clear that both the Director and HP are confusing the question of whether a remedy must be tried in an Article III court with whether a particular remedy must be tried to a jury. The issue of whether a particular remedy must be tried in Article III courts depends on whether the matter was the subject of a “suit at the common law, or in equity, or in admiralty.” *Stern* at 2609. Thus, *even if* a particular action was in equity in 1789, it still cannot be withdrawn from the Article III courts. In contrast, if the courts have already ruled that an action has a right to a trial by jury, that action was necessarily tried in the law courts of Westminster, and, under *Stern*, must be tried in an Article III court.

The reference to *In re Lockwood* is, however, critically important. Judge Nies, in her dissent from denial of *in banc* review, argued strenuously that the holding of the panel that validity actions had a right to a trial by jury necessarily overruled *Patlex*. See, *Lockwood* at 983. Because this Court continues to follow *Lockwood* under *In re Tech. Licensing*, this Court has already effectively overruled *Patlex*.

The Director relies on *In re Tech. Licensing's* discussion of *dicta* in the vacated *Lockwood* decision, see n.9, that *scire facias* actions (actions to revoke patents) were analogous to actions for inequitable conduct. This discussion is beside the point. The Director does not deny that such actions were tried in the courts of Westminster in 1789, and under *Stern*, even equitable actions tried at Westminster in 1789 must be tried in Article III courts. Indeed, *scire facias* actions enjoyed the common law right to a trial by jury. *Ex parte Wood & Brundage*, 222 U.S. 603, 604-605, 607, 615 (1824); *Mowry v. Whitney*, 81 U.S. 434 (1872) (describing that *scire facias* actions revoked patents for double patenting, fraud and invalidity); Lemley, Mark A. "Why Do Juries Decide If Patents Are Valid?" Va. L. Rev. 98 (2013): 1673-1893:

The history I discuss in Part I blows up the myth that patent issues were tried to juries only if damages were at issue.

Both equitable infringement suits in Chancery and scire facias actions were referred to juries to resolve fact disputes, despite the fact that neither involved claims for damages.

Id. at 1733.

Neither the Director nor HP dispute the Supreme Court's holding in *ex parte Wood* that such *scire facias* actions had a right to trial by jury, and that because of this, actions to revoke patents in the United States also had and still have a right to a trial by jury.

To remove any ambiguity on this point, *ex parte Wood* stated multiple times that the grounds for a *scire facias* actions were invalidity, *id.* at 604-605, 607, 615 (1824); *cf. Mowry* (grounds included double patenting, fraud and invalidity).

Most importantly, *Wood* premised its holding on the Seventh Amendment.

In suits at common law, where the value in controversy exceeds 20 dollars, the constitution has secured to the citizens a trial by jury.

Id. at 608. *Wood* held that actions in the United States to revoke a patent for invalidity had a Seventh Amendment right to a jury trial. As such, such actions cannot be withdrawn from Article III courts under *Stern v. Marshall*, where statutory remedies akin to actions at common

law must be tried in Article III courts, and to a jury if they were legal in nature. *Id.* at 2609. IPRs are virtually identical to *scire facias* actions, including a preliminary petition to the government before the petitioner was granted a right to proceed – in the name of the King. *Mowry* at 440.

Furthermore, neither brief adequately addresses *McCormick Harvesting Machine Co. v. Aultman & Co.*, 169 U.S. 606 (1898), which unambiguously held that only an Article III court could revoke a patent for any reason including government mistakes.

The arguments advanced by both briefs are inconsistent with controlling Supreme Court law, and to the extent this Court follows *Lockwood*, to this Court's authority. *Patlex* has been overruled, IPRs are unconstitutional, and the Board does not have constitutional subject matter jurisdiction to revoke MCM's patent in whole or in part.

Respectfully submitted,

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No. 15-1091

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

MCM PORTFOLIO LLC,
APPELLANT,

v.

HEWLETT-PACKARD COMPANY,
APPELLEE.

PROOF OF SERVICE

I, Rita L. Hemenway, being duly sworn according to law and being over the age of 18, upon my oath depose and say that: Bateman & Slade, Inc. was retained by Edward P. Heller III, Attorney for Appellant to print this document. I am an employee of Bateman & Slade, Inc.

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April 6, 2015

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