

No. \_\_\_\_\_

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**In The  
Supreme Court of the United States**

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J. CARL COOPER AND  
ECHARGE LICENSING LLC,

*Petitioners,*

v.

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

*Respondents.*

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**On Petition For A Writ Of Certiorari  
To The United States Court Of Appeals  
For The Federal Circuit**

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**PETITION FOR A WRIT OF CERTIORARI**

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## QUESTION PRESENTED

Nearly 30 years have passed since this Court last applied Article III Separation of Powers principles to declare the authority of Congress to empower an executive agency to adjudicate a private dispute. More recently in a non-agency context, in *Stern v. Marshall*, 131 S. Ct. 2594 (2011), Justice Scalia’s concurring opinion questioned the “multifactors relied upon today [that] seem to have entered our [public rights] jurisprudence almost randomly.” *Id.* at 2621 (Scalia, J., concurring). The two other *Stern* opinions (majority and dissent) have all members of this Court expressing dissatisfaction with the clarity of Article III public rights jurisprudence: either it “has not been entirely consistent,” *id.* at 2611 (majority), or preceding cases “do not admit of easy synthesis.” *Id.* at 2624 (dissent) (citation omitted). Congress continues to pass laws against this murky backdrop, risking inappropriate expansion of the administrative state.

The question presented is whether 35 U.S.C. §318(b) violates Article III of the United States Constitution, to the extent that it empowers an executive agency tribunal to assert judicial power canceling private property rights amongst private parties embroiled in a private federal dispute of a type known in the common law courts of 1789, rather than merely issue an advisory opinion as an adjunct to a trial court.

## **CORPORATE DISCLOSURE STATEMENT**

Petitioner J. Carl Cooper is an individual and owner of relevant United States patents. Petitioner eCharge Licensing LLC is Mr. Cooper's exclusive licensee, and is an Illinois limited liability company. There is no parent corporation or publicly-held corporation that owns 10 percent or more of the interest of eCharge or any of its members.

## TABLE OF CONTENTS

	Page
QUESTION PRESENTED.....	i
CORPORATE DISCLOSURE STATEMENT.....	ii
TABLE OF CONTENTS .....	iii
TABLE OF APPENDICES.....	iv
TABLE OF AUTHORITIES.....	v
PETITION FOR A WRIT OF <i>CERTIORARI</i> .....	1
OPINIONS BELOW.....	1
JURISDICTION.....	1
STATUTORY AND REGULATORY PROVISIONS INVOLVED .....	2
STATEMENT OF THE CASE.....	3
I. Introductory Statement.....	3
II. Procedural Background.....	6
A. The History and Nature of <i>Inter Partes</i> Review .....	6
B. Petitioners' Challenge to <i>Inter Partes</i> Review .....	12
III. The District Court Decision .....	13
IV. The Appeals Court Decision .....	14
REASONS FOR GRANTING THE PETITION ...	19
I. The Lower Court Decision Conflicts Di- rectly With This Court's Patent Precedent, and Imperils the Innovation Economy.....	19

TABLE OF CONTENTS – Continued

	Page
II. The Lower Court Decision Conflicts With This Court’s Public Rights Jurisprudence .....	27
III. The Circuits are Split on the Proper Adjudicatory Framework in the Wake of This Court’s Inadequate Guidance.....	34
IV. This Case Is an Ideal Vehicle for Clarifying Article III Jurisprudence, and for Fixing the Constitutional Damage to the Patent System .....	36
CONCLUSION.....	39

APPENDIX

ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT.....	1a
MEMORANDUM OPINION AND ORDER OF THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF VIRGINIA.....	3a
<i>MCM PORTFOLIO LLC V. HEWLETT-PACKARD CO.</i> , CASE NO. 2015-1091 (FED. CIR. DEC. 2, 2015).....	25a

## TABLE OF AUTHORITIES

## Page

## CASES

<i>Bahlul v. United States</i> , 792 F.3d 1 (D.C. Cir. 2015) .....	35, 36
<i>Block v. Hirsch</i> , 256 U.S. 135 (1921) .....	33
<i>Commodity Futures Trading Comm’n v. Schor</i> , 478 U.S. 833 (1986) .....	<i>passim</i>
<i>Consolidated Fruit Jar Co. v. Wright</i> , 4 Otto 92, 94 U.S. 92 (1876) .....	20
<i>Crowell v. Benson</i> , 285 U.S. 22 (1932) .....	28, 32, 38
<i>Dickinson v. Zurko</i> , 527 U.S. 150 (1999) .....	8
<i>Ex parte Bakelite Corp.</i> , 279 U.S. 438 (1929) .....	33
<i>Ex parte Schurz</i> , 102 U.S. 378 (1880) .....	25
<i>Ex parte Wood</i> , 22 U.S. (9 Wheat.) 603 (1824) .....	30
<i>Granfinanciera, SA v. Nordberg</i> , 492 U.S. 33 (1989) .....	3, 18, 27, 32
<i>Horne v. Dept. of Agriculture</i> , 135 S. Ct. 2419 (2015) .....	20
<i>In re Cuozzo Speed Techs.</i> , 778 F.3d 1271 (Fed. Cir. 2015) .....	8
<i>In re Mankin</i> , 823 F.2d 1296 (9th Cir. 1987) .....	25
<i>In re Tech. Licensing Corp.</i> , 423 F.3d 1286 (Fed. Cir. 2005) .....	30
<i>Iron Silver Mining Co. v. Campbell</i> , 135 U.S. 286 (1890) .....	24, 25
<i>James v. Campbell</i> , 104 U.S. 356 (1882) .....	20

## TABLE OF AUTHORITIES – Continued

	Page
<i>McCormick Harvesting Mach. Co. v. Aultman-Miller Co.</i> , 169 U.S. 606 (1898) .....	<i>passim</i>
<i>MCM Portfolio LLC v. Hewlett-Packard Co.</i> , 2015 U.S. App. LEXIS 20848.....	<i>passim</i>
<i>Michigan Land &amp; Lumber Co. v. Rust</i> , 168 U.S. 589 (1897).....	16, 22
<i>Microsoft Corp. v. i4i Ltd. P'ship</i> , 131 S. Ct. 2238 (2011) .....	8
<i>Moore v. Robbins</i> , 96 U.S. 530 (1878).....	12, 16, 22, 23, 24
<i>Murray's Lessee v. Hoboken Land &amp; Improvement Co.</i> , 59 U.S. 272 (1856) .....	29, 32
<i>Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.</i> , 458 U.S. 50 (1982) .....	25, 29
<i>Patlex Corp. v. Mossinghoff</i> , 758 F.2d 594 (Fed. Cir. 1985) .....	18, 20, 26
<i>Republican Party of Minn. v. White</i> , 536 U.S. 765 (2002).....	26
<i>Simpson v. Office of Thrift Supervision</i> , 29 F.3d 1418 (9th Cir. 1994), <i>cert. denied</i> , 513 U.S. 1148 (1995) .....	34, 35
<i>Stern v. Marshall</i> , 131 S. Ct. 2594 (2011).....	<i>passim</i>
<i>Tennessee Valley Authority v. Whitman</i> , 336 F.3d 1236 (11th Cir. 2003), <i>cert. denied</i> , 541 U.S. 1030 (2004).....	35
<i>Teva Pharm. USA, Inc. v. Sandoz, Inc.</i> , 135 S. Ct. 831 (2015).....	15

## TABLE OF AUTHORITIES – Continued

	Page
<i>Thomas v. Union Carbide Agric. Prods. Co.</i> , 473 U.S. 568 (1985).....	33
<i>United States v. Am. Bell Tel. Co.</i> , 128 U.S. 315 (1888).....	<i>passim</i>
<i>United States v. Missouri, Kansas &amp; Texas Railway</i> , 141 U.S. 358 (1891) .....	22
<i>United States v. Stone</i> , 2 Wall. 525, 69 U.S. 525 (1864).....	21, 23
<i>VirtualAgility Inc. v. Salesforce.com, Inc.</i> , 759 F.3d 1307 (Fed. Cir. 2014).....	11
<i>Wellness Int’l Network, Ltd. v. Sharif</i> , 135 S. Ct. 1932 (2015).....	31

## CONSTITUTIONAL PROVISIONS

U.S. Const. art. III, § 1 .....	<i>passim</i>
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## STATUTES AND REGULATIONS

12 U.S.C. § 1818(b)(1).....	34
28 U.S.C. § 1254(1).....	1
35 U.S.C. § 141(c) .....	8
35 U.S.C. § 282 .....	8
35 U.S.C. § 314 .....	7
35 U.S.C. § 316(e) .....	8
35 U.S.C. § 318(b).....	2, 8
Patent Act of 1870, Section 46, R.S. § 4909 .....	17



## TABLE OF AUTHORITIES – Continued

	Page
37 C.F.R. § 42.8(b).....	7
37 C.F.R. § 42.15 .....	7
37 C.F.R. § 42.25 .....	7
37 C.F.R. § 42.51 .....	7
37 C.F.R. § 42.51(b)(2) .....	7
37 C.F.R. § 42.70 .....	7
37 C.F.R. § 42.73(b)(2) .....	8
37 C.F.R. § 42.108 .....	7
Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48,612 (Aug. 14, 2012).....	9
Office Patent Trial Practice Guide, 77 Fed. Reg. 48,761 (Aug. 14, 2012) .....	7

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Richard Baker, <i>America Invents Act Costs the U.S. Economy over \$1 Trillion</i> , Patently-O (June 8, 2015), <a href="http://patentlyo.com/patent/2015/06/america-invents-trillion.html">http://patentlyo.com/patent/ 2015/06/america-invents-trillion.html</a> .....	11
Stefan Blum, Note, <i>Ex Parte Reexamination: A Wolf in Sheep’s Clothing</i> , 73 Ohio St. L.J. 395 (2012).....	11
James E. Daily & F. Scott Kieff, <i>Benefits of Patent Jury Trials for Commercializing In- novation</i> , 21 Geo. Mason L. Rev. 865 (2014) .....	8, 26

## TABLE OF AUTHORITIES – Continued

	Page
Greg Dolin, <i>The Costs of Patent “Reform”: The Abuse of the PTO’s Administrative Review Programs</i> , Geo. Mason Univ. Ctr. for Prot. of Intell. Prop. (Dec. 2014), available at <a href="http://cpip.gmu.edu/wp-content/uploads/2014/04/Dolin-Abuse-of-PTO-Review-Programs.pdf">http://cpip.gmu.edu/wp-content/uploads/2014/04/Dolin-Abuse-of-PTO-Review-Programs.pdf</a> .....	11
<i>Final Written Decisions in IPRs (As of 2/5/2015)</i> , Patent Public Advisory Committee Meeting: Patent Trial and Appeal Board Update (Feb. 19, 2015), available at <a href="http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf">http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf</a> .....	10
Michael Rothwell, <i>Patents and Public Rights: The Questionable Constitutionality of Patents Before Article I Tribunals After Stern v. Marshall</i> , 13 N.C. J.L. & Tech. 287 (2012).....	12, 31
Paul R. Steadman <i>et al.</i> , <i>Post-Issuance Patent Review</i> , Intell. Prop. Magazine, Nov. 2011.....	11
Joseph Walker & Rob Copeland, <i>New Hedge Fund Strategy: Dispute the Patent, Short the Stock</i> , Wall St. J., Apr. 7, 2015, <a href="http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408">http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408</a> .....	10

**PETITION FOR A WRIT OF *CERTIORARI***

Petitioners J. Carl Cooper and eCharge Licensing LLC respectfully petition for a writ of *certiorari* to review the judgment of the United States Court of Appeals for the Federal Circuit, insofar as it rejected an Article III Separation of Powers challenge to *inter partes* review (“IPR”) – a Patent Office procedure designed to issue final determinations of the validity of private property rights amongst private litigants.

**OPINIONS BELOW**

The order of the United States Court of Appeals for the Federal Circuit (App. at 1a) is not reported. The decision of the United States District Court for the Eastern District of Virginia (App. at 3a) is reported at 86 F. Supp. 3d 480. The related decision in *MCM Portfolio LLC v. Hewlett-Packard Co.*, Case No. 2015-1091 (Fed. Cir. Dec. 2, 2015) is reported at 2015 U.S. App. LEXIS 20848 (App. at 25a).

**JURISDICTION**

The Federal Circuit issued its judgment on January 14, 2016. This Petition is thus timely. Jurisdiction is conferred by 28 U.S.C. § 1254(1).



## **STATUTORY AND REGULATORY PROVISIONS INVOLVED**

U.S. Const. art. III, § 1

The judicial power of the United States, shall be vested in one Supreme Court, and in such inferior courts as the Congress may from time to time ordain and establish. The judges, both of the supreme and inferior courts, shall hold their offices during good behaviour, and shall, at stated times, receive for their services, a compensation, which shall not be diminished during their continuance in office.

35 U.S.C. § 318(b)

(b) Certificate. –

If the Patent Trial and Appeal Board issues a final written decision under subsection (a) and the time for appeal has expired or any appeal has terminated, the Director shall issue and publish a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent by operation of the certificate any new or amended claim determined to be patentable.



## STATEMENT OF THE CASE

### I. Introductory Statement

This case raises a constitutional challenge to new post-grant patent proceedings. This Court has just granted certiorari to review statutory and discretionary matters within such proceedings. See *Cuozzo Speed Techs., LLC v. Lee*, No. 15-446 (*cert.* granted January 15, 2016). It stands to reason that the Court should, in addition, analyze constitutional validity. This Court may thus hear the two cases together, the one raising smaller issues (*Cuozzo*) alongside the one raising larger issues (this case). That would secure a more complete vetting of administrative agency authority.

Confusion over this Court's Article III "public rights" jurisprudence reached its apex with this case. The lower court here endorsed a spectacular anomaly. Congress may now delegate authority to an administrative tribunal to determine the validity of private property rights amongst private litigants embroiled in a private federal dispute of a type with clear historical antecedents to 1789. Under the lower court's decision, the "judicial power" is no longer reserved to Article III courts, unless a state law claim is in play. Under that reasoning, if Congress swoops in to regulate an area, the Separation of Powers question is decided in the negative at the moment Congress *does* regulate it, irrespective of whether it "originate[s] in a newly fashioned regulatory scheme or possess[es] a long line of common-law forebears." *Granfinanciera*,

*SA v. Nordberg*, 492 U.S. 33, 52 (1989) (citation omitted). Countless decisions of this Court direct otherwise.

In this case, the Court of Appeals for the Federal Circuit rejected a constitutional challenge to *inter partes* review, a process in which employees of the United States Patent and Trademark Office (the “Patent Office”) convene an adjudicatory tribunal to conduct a trial and decide whether to cancel (*i.e.*, invalidate) previously issued and fully vested private patent rights. Patent validity adjudications – even stand-alone invalidity petitions brought in the absence of an infringement counterclaim – existed in the common law courts since before the Founding. This is precisely the type of adjudication that Congress cannot place before an agency without conflicting with this Court’s precedents.

Never before has this Court, nor any court of appeals, approved such a deviation from Separation of Powers principles. No previous court has ever approved delegating validity-determination authority over common-law-adjudicated property rights to a non-Article III decisionmaker. The very fact that the lower court believed itself to be faithfully applying this Court’s latest “public rights” pronouncements indicates how deeply this area of law is in disrepair. Absent clarification, almost nothing remains of the high walls this Court has occasionally had to invoke to prevent Congressional encroachments on the Judicial branch.

Two powerful reasons thus support review in this Court.

Most obviously, as explained in detail below, the lower court's decision directly conflicts with this Court's long-standing precedent relating to agency actions affecting patents for both invention and land. See, e.g., *McCormick Harvesting Mach. Co. v. Aultman-Miller Co.*, 169 U.S. 606 (1898). This Court should review to confirm that final adjudications of patent validity may only occur in Article III trial courts. However, this is not to say that this Court must abolish the *inter partes* review process as a whole. Rather, this Court may make the process constitutionally sound by doing what it has always done under these circumstances: make the outcome of *inter partes* review advisory and subject to *de novo* treatment in an Article III trial court. So corrected, *inter partes* review may still identify and appropriately target "junk patents," though an Article III trial court will need to perform the final act of invalidation.

More deeply, this case presents a rare chance to clarify the Court's public rights jurisprudence, especially in the context of agency delegations. This significance extends beyond the patent system. Congress presently lacks clear guidelines on how it may, and how it may not, delegate decisionmaking powers to administrative agencies without offending the Constitution. Litigants caught within questionable tribunals are equally at sea in knowing whether and how to challenge them. And as this case shows,

the lower courts, believing themselves to be applying this Court's precedents, have reached absurd results. If something so obviously a "private right" under Article III jurisprudence, *i.e.*, a private dispute with roots in the common law courts of 1789, may be denominated a "public right" in order to shoehorn it into some of the less rigid statements by this Court about Article III, then something is wrong with this Court's past Article III guidance. The way forward lies in unambiguously reaffirming that the *Stern v. Marshall* "historical antecedents" test is a threshold question that applies not just to bankruptcy contexts, and not just state law, but to Congress's delegation of agency authority and to federal law issues as well.

## **II. Procedural Background**

### **A. The History and Nature of *Inter Partes* Review**

In 2011, Congress passed the America Invents Act ("AIA"). The President signed it into law on September 16, 2011 as Public Law 112-29. Among other things, the AIA enabled *inter partes* review, which is a wholly adjudicatory, adversarial proceeding conducted before the Patent Trial and Appeal Board ("PTAB") of the Patent Office.

An *inter partes* review begins when a private person (often the defendant in a pending infringement action) petitions the PTAB and submits 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, to counsel (June 3, 2014, 9:09 CST) (attached as Exhibit E to Petitioner’s motion for summary judgment before the district court, ECF No. 3-2, at 2). This is a panel of administrative law judges, *not* patent examiners (and *not* Article III judges). 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.

Procedurally, the trial proceeds much as it would in an Article III court. The Judicial Panel enters an initial scheduling order concurrent with the decision to institute a trial. 37 C.F.R. § 42.25. The parties then file mandatory notices regarding real parties-in-interest and related matters, *id.* § 42.8(b), and provide initial disclosures 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). Oral argument is also permissible. *Id.* § 42.70. At the end of this clearly 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 only intervene 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).

While *inter partes* review proceedings mirror Article III litigation in many ways, they depart from adjudication standards that have developed over centuries in Article III courts. For example, when an accused infringer raises invalidity 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 clear and convincing evidence. *See* 35 U.S.C. § 282; *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 PTAB construes claims under the “broadest reasonable interpretation,” rather than the “correct” one, as used by district courts – further tipping the scales in favor of invalidity. *See In re Cuozzo Speed Techs.*, 778 F.3d 1271, 1288 (Fed. Cir. 2015) (Newman, J., dissenting).

Not surprisingly, IPRs weaken competition in the general marketplace. They permit incumbents to squelch upstarts. Commentators have noted that *inter partes* reviews make it harder for new firms to enter and compete in markets. James E. Daily & 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.”).

The first 3½ years of results have indeed sent shockwaves through the innovation community. By latest count (as of December 9, 2015), the PTAB has issued approximately 637 invalidating IPR final written decisions. Use of the PTAB by accused infringers (and others) has proliferated beyond expectations. Upon passage of the AIA, the Patent Office expected 420 petitions to be filed in FY2013, and 450 petitions in FY2014 (*i.e.*, the first two years). *See* Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48,612, 48,651 (Aug. 14, 2012). As it turns out, patent challengers – many of whom were also defendants in pending district court infringement actions – filed 702 petitions in FY2013 and 1,539 in FY2014. And the numbers keep rising.

Over 80% of the petitions that get filed attack patents that patentees are trying to defend in infringement proceedings in federal court. In the typical course of events, trial courts will stay proceedings upon institution, essentially letting the agency take over the job of assessing validity. Thus, the very time when a startup or operating company needs certainty that it can protect its hard-won competitive position, that is the time when its rights get sent back to

the agency for non-Article III review, and likely revocation.

Patentees are justified in believing that the agency puts its thumb on the scales. The Patent Office recently confirmed that, of petitions that result in review, 84% that go to a final written decision result in invalidated claims.<sup>1</sup> By comparison, of federal patent cases that reached a judgment or determination on patent validity since 2008, only 25.02% found claims invalid.<sup>2</sup>

To say that *inter partes* review unsettles reasonable investment backed expectations over innovation capital would be an understatement. Recently, groups backed by hedge funds have taken notice. Kyle Bass and entities with whom he is associated have begun petitioning for IPR against important public drug company patents, triggering a short-selling investment strategy that profits from the mere existence of the petition driving down share prices. Joseph Walker

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<sup>1</sup> See *Final Written Decisions in IPRs (As of 2/5/2015)*, Patent Public Advisory Committee Meeting: Patent Trial and Appeal Board Update (Feb. 19, 2015), available at [http://www.uspto.gov/sites/default/files/documents/20150219\\_PPAC\\_PTAB\\_Update.pdf](http://www.uspto.gov/sites/default/files/documents/20150219_PPAC_PTAB_Update.pdf) (slide 15, showing 188 out of 224).

<sup>2</sup> Source: Docket Navigator (December 10, 2015 search result comparing patent validity with patent invalidity dispositions in district court decisions and judgments). This 25.2% figure may actually overcount for comparison purposes, since it includes invalidation dispositions unavailable for use in IPRs, such as indefiniteness and lack of enablement.

& Rob Copeland, *New Hedge Fund Strategy: Dispute the Patent, Short the Stock*, Wall St. J., Apr. 7, 2015, <http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408>. All of these consequences flow without any trial court supervision or review over a single IPR outcome. In fact, the Federal Circuit has forbidden district courts from reviewing the strength of the agency's institution decision within the otherwise discretionary decision of whether to stay trial court proceedings. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307, 1313-14 (Fed. Cir. 2014).

These statistics are widely known, and have the effect of placing a cloud of uncertainty over the patents from the moment the PTAB grants the petition. Cf. Paul R. Steadman *et al.*, *Post-Issuance Patent Review*, *Intell. Prop. Magazine*, Nov. 2011, at 102; Stefan Blum, Note, *Ex Parte Reexamination: A Wolf in Sheep's Clothing*, 73 Ohio St. L.J. 395, 426 (2012) ("A cloud of uncertainty veils the patent during the pendency of the reexamination proceedings, severely undermining the inventor's opportunity to enforce, sell, license, or otherwise benefit from his property rights.") (citation omitted).

Criticism of the anti-patent bias of *inter partes* review, and of its distorted effect on the reward-for-innovation calculus, is legion. See, e.g., Richard Baker, *America Invents Act Costs the U.S. Economy over \$1 Trillion*, *Patently-O* (June 8, 2015), <http://patentlyo.com/patent/2015/06/america-invents-trillion.html>; Greg Dolin, *The Costs of Patent*

*“Reform”: The Abuse of the PTO’s Administrative Review Programs*, Geo. Mason Univ. Ctr. for Prot. of Intell. Prop. (Dec. 2014), available at <http://cpip.gmu.edu/wp-content/uploads/2014/04/Dolin-Abuse-of-PTO-Review-Programs.pdf>; 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 (2012).

This Court presciently predicted the ill effects of such a proceeding:

[A patent], instead of being the safe and assured evidence of ownership which they are generally supposed to be, would always be subject to the fluctuating, and in many cases unreliable, action of the [granting] office. No man could buy of the grantee with safety, because he could only convey subject to the right of the officers of government to annul his title. . . . The existence of any such power in the [granting] Department is utterly inconsistent with the universal principle on which the right to private property is founded.

*Moore v. Robbins*, 96 U.S. 530, 534 (1878).

## **B. Petitioners’ Challenge to *Inter Partes* Review**

In a concurrent proceeding in the Northern District of Illinois in which Mr. Cooper’s exclusive licensee (eCharge) sought a jury’s determination of

infringement, validity, and damages, the defendant in that action petitioned the PTAB to conduct an *inter partes* review of three of Mr. Cooper's patents. See *eCharge Licensing LLC v. Square, Inc.*, Case No. 1:13-cv-06445 (N.D. Ill.). The district court stayed that action pending the PTAB's decision. On May 15, 2014, the PTAB instituted trials of U.S. Patent Nos. 6,764,005; 7,828,207; and 8,490,875.

Petitioners promptly filed suit in the Eastern District of Virginia on June 5, 2014, seeking a declaratory judgment that IPR proceedings are unconstitutional on their face, and requesting relief in the form of an injunction barring the Patent Office from continuing its unconstitutional practices. On the same day they filed the Complaint, Petitioners moved for summary judgment in their favor. The Patent Office 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.

### **III. The District Court Decision**

On February 18, 2015, the district court granted the Patent Office's motion on administrative exhaustion grounds, reaching (but rejecting) whether *inter partes* review proceedings embody a clear constitutional violation. App. 3a-24a. In making this determination, the district court did not cite or attempt to distinguish *McCormick*, 169 U.S. 606. It also ignored this Court's recent *Stern v. Marshall* decision requiring

application of the “historical antecedents” test to Article III Separation of Powers questions. The district court also determined (incorrectly) that *inter partes* review “mirrors” *ex parte* reexamination, and therefore held that previous Federal Circuit authority upholding *ex parte* reexamination against a constitutional attack made it unlikely that Petitioners would succeed in their arguments that IPRs fail constitutional tests.

#### **IV. The Appeals Court Decision**

Petitioners timely appealed to the United States Court of Appeals for the Fourth Circuit. After the parties had completed briefing and were preparing for oral argument, the Fourth Circuit transferred the case to the Federal Circuit (*see* Case No. 15-1205 at ECF No. 52). On November 23, 2015, the Federal Circuit stayed the appeal pending resolution of *MCM Portfolio LLC v. Hewlett-Packard Co.*, Case No. 2015-1091, because the two cases involve “issues that are closely related,” and solicited the parties to submit views about how to proceed within 14 days of the *MCM Portfolio* decision (ECF No. 18 at 2).

On December 2, 2015, the Federal Circuit issued its opinion in *MCM Portfolio*, \_\_\_ F.3d \_\_\_, App. 25a-48a, upholding IPR proceedings against MCM’s constitutional challenge. On December 3, 2015, Petitioners filed an unopposed motion for summary affirmance, since the *MCM Portfolio* decision foreclosed the constitutional challenge raised in this case. The motion



preserved Petitioners' rights to seek further review, such as by this Petition. (ECF No. 19). The Federal Circuit issued its affirmance judgment on January 14, 2016 (App. 1a-2a), relying on its intervening *MCM Portfolio* decision (App. 25a-48a).

Though this Petition analyzes and criticizes Federal Circuit decisionmaking in the *MCM Portfolio* case, this Court may address such issues when reviewing the judgment of this case. For example, this Court recently reviewed the Federal Circuit's *en banc Lighting Ballast* analysis concerning the level of appellate deference to give district court patent claim interpretation, even though it conducted such review through the vehicle of a co-pending case, *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831 (2015), raising the same issues.

The Federal Circuit's *MCM Portfolio* decision itself addressed the constitutional question by ignoring relevant legal standards, and developing new ones in direct conflict with this Court's Article III jurisprudence. This led to the unsupportable result highlighted within this Petition: fully approving Congress's creation of a tribunal empowered to adjudicate with finality the validity of private property rights embroiled in a purely private legal dispute with 1789-era common law antecedents.

The Federal Circuit attempted to distinguish *McCormick*. The *McCormick* Court had held:

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.

169 U.S. at 609 (emphasis added). The Court underscored this holding again, stating that

to attempt to cancel a patent upon an application for reissue when the first patent is considered invalid by the examiner would be to deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive.

*Id.* at 612.

The Federal Circuit nonetheless gave controlling weight to a factor not actually relevant to the *McCormick* holding – the patentee’s voluntary exit from Patent Office proceedings years after failing to appeal the relevant claim rejection that invalidated the original patent claims. The Federal Circuit attempted to rewrite this holding. It altered this Court’s text to put controlling weight on the fact that a consensual “surrender” never happened:

*Because [the surrender] did not occur*, “[t]he 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.”

(App. 35a, quoting but altering *McCormick*, emphasis added to the part supplied by the Federal Circuit).

As altered, the quotation makes no sense; how can the language “for any reason whatever” be subject to a condition of whether “surrender” has occurred or not? The Federal Circuit likewise rewrote the holding condemning Patent Office cancellation actions that constitute “invasion of the judicial branch of the government by the executive.” In this case, it blue-lined that such “invasion” of the judicial function is only foreclosed when it is “[w]ithout statutory authorization.” (App. 35a). This adds yet further illogic. The full context of the quoted *McCormick* language presupposed that cancellation by the Executive occurred “upon an application for reissue,” *i.e.*, *under* a statutory regime, and *without regard* to withdrawal of consent that might happen later. Indeed, at the time, reissue examiners acted under color of statutory authority to invalidate original patent claims during reissuance proceedings (just like IPRs today). *See* Patent Act of 1870, Section 46, R.S. § 4909 (providing that “any claim” – whether original or added – may be rejected twice during reissue, and rejection is final for appeal purposes). *McCormick* did not curtail executive action based on an *absence* of statutory authority; it held on constitutional grounds *in the face of it*.

Denominating *McCormick* a statutory authority decision, rather than a constitutional one, also conflicts with the Federal Circuit’s own prior examination of the decision. Thirty years ago, the Federal Circuit correctly identified *McCormick* as deciding against the Patent Office on constitutional grounds: “The Court in *McCormick* . . . , establishing *on constitutional grounds* that an applicant for a reissue patent need not acquiesce in any finding of invalidity or unpatentability by the reissue examiner, affirmed that an issued patent could not be set aside other than by an Article III court.” *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985). Strangely, the Federal Circuit in *MCM Portfolio* relied heavily on *Patlex*, without apparent recognition that its analysis of *McCormick* foreclosed the *MCM Portfolio* outcome.

After positing that it had accurately distinguished *McCormick* (which it had not), the *MCM* decision moved on to address current Article III jurisprudence. There, the Federal Circuit’s discussion defending *inter partes* review did not acknowledge the controlling test from *Stern v. Marshall*: whether the underlying dispute is of a type familiar to the law courts of 1789. Overlooking this Court’s holding to the contrary in *Granfinanciera*, 492 U.S. at 52, the Federal Circuit held that Congress may at any time usurp the judicial branch’s authority to decide any matter that is not wholly state law (App. 36a-40a).



## REASONS FOR GRANTING THE PETITION

This case presents an ideal vehicle for clarifying this Court’s prior Article III Separation of Powers jurisprudence. While it does so, the Court may simultaneously right the constitutional wrong left in place by the lower court. The existence of Patent Office revocation tribunals that have final say on patent invalidity has undermined faith in every issued patent. Such tribunals subvert the important purposes of the patent system itself.

### **I. The Lower Court Decision Conflicts Directly With This Court’s Patent Precedent, and Imperils the Innovation Economy**

A patent, upon issuance, is not supposed to be subject to revocation or cancellation by any executive agent (*i.e.*, the Patent Office or any part of it, such as the PTAB). *McCormick*, 169 U.S. at 609. The Federal Circuit labored under the misimpression that an issued patent involves “public rights.” (App. 36a-40a). To the contrary, to take away a patent after issuance invokes “private” rights – namely, fully vested property rights. *See United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 370 (1888) (“[The invention] has been taken from the people, from the public, and made the private property of the patentee. . .”).

This Court decided on numerous occasions during the nineteenth century that a patent for either invention or land, once issued, is private property that has left the authority of the granting office. Patents for

invention and patents for land are treated the same way under the relevant law. *See id.* at 358-59 (comparing Art. I, § 8, para. 8, with Art. IV, § 3, para. 2 and reasoning, “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. . . .”); *Patlex*, 758 F.2d at 599 (“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.”) (citing *Consolidated Fruit Jar Co. v. Wright*, 4 Otto 92, 96, 94 U.S. 92, 96 (1876)); *cf. Horne v. Dept. of Agriculture*, 135 S. Ct. 2419, 2427 (2015) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882), for the proposition that “[a] patent confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser.”) (original alterations omitted).

In the context of both patents for invention and patents for land, this 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)).

The Court revisited the issue ten years later in *McCormick*, and held that it is an invasion of the province of Article III courts for the Executive branch to revoke or cancel a patent as invalid. *McCormick*, 169 U.S. at 612. While *McCormick* involved patent claims that were cancelled during reissuance proceedings, the opinion makes clear that the Court's reasoning is not so limited:

[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 (emphasis added) (additional citations omitted). The Court also made clear that while “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.” *McCormick*, 169 U.S. at 609 (emphasis added) (citing *United States v. Missouri, Kansas & Texas Railway*, 141 U.S. 358 (1891)). 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 reached the same conclusion multiple times in the land context prior to both *McCormick* and *American Bell*. For example, in *United States v. Stone*, the Court considered whether an Article I tribunal had the authority to void a patent for land where evidence of fraud, mistake, or absence of legal authority was presented. 69 U.S. 525, 535 (1864). The Court unequivocally rejected that proposition. *Id.* at 535-38. And, as cited above, *Stone*'s reasoning protected patents for invention against the same type of Executive overreach more than twenty years later in *American Bell*.

Thirteen years after *Stone*, the Court decided *Moore v. Robbins*, which was a dispute as to 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 (1878). The Court was similarly unwavering in its reasoning that Article III courts are the sole venue for adjudication once a patent has been issued and become the private property of the patentee.

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). Thirteen years after *Moore*, the Court used the same reasoning 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.”). 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 arguably should not have been issued to the patentee. Granting the same piece of land to two separate individuals is a particularly egregious example of such a governmental mistake. A patent for an invention that is arguably invalid as anticipated or obvious, is an analogous situation. But the Court's treatment remained consistent: mistake on the part of the granting office does not in any way excuse a violation of Separation of Powers principles. Any dispute as to the patentee's private property must be heard by an Article III tribunal.

This Court has explained the harm to the rule of law that arises whenever persons other than Article III judges wield the judicial power. *See Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 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* at 885-86.

Despite all this, in its decision the Federal Circuit made numerous analytical mistakes in attempting to distinguish *McCormick*. Chiefly, as explained above, it treated the decision as a “statutory authority” case, contrary to its own view of the decision in its *Patlex* opinion. It held that the abandonment of the reissue application within the *McCormick* factual milieu, long after expiry of the time for appealing the examiner rejection of the original patent claims, had controlling significance by depriving the Patent Office of statutory authority over the property (App. 34a-35a). But that is not what the holdings of any of the cases just recited actually say. This viewpoint is, in fact, incommensurable with the language used by this

Court in all of the cases discussed above. For example, under this Court's *McCormick* language, the original patent claims were immune from cancellation by the agency "upon application for reissue," notwithstanding occurrences after the application, such as the patentee's voluntary exit from the procedure.

Equally unsupported was the Federal Circuit's reliance on the fact that the patentee declined to "surrender" the original patent, signaling its non-consent to cancellation of its original patent claims. If anything, this aligns the facts of *McCormick* more closely with *inter partes* review. It underscores the nonconsensual, involuntary nature of IPR-based patent cancellation. The Federal Circuit had it completely backwards; the unconsented nature of Patent Office actions in *McCormick* brings the facts at bar closer to, not farther from, those in *McCormick*.

## **II. The Lower Court Decision Conflicts With This Court's Public Rights Jurisprudence**

Even if the Federal Circuit's conflict with and incorrect attempts to distinguish *McCormick* could be brushed aside, the Federal Circuit's decision magnifies the confusion within this Court's Article III jurisprudence. The ruling provides Congressional leeway to place any and all federal issues into agency tribunals under the public rights exception, even for "final" disposition. This holding conflicts with *Granfinanciera*, 492 U.S. at 52 ("[T]o hold otherwise

would be to permit Congress to eviscerate the Seventh Amendment’s guarantee by assigning to administrative agencies or courts of equity all causes of action not grounded in state law, whether they originate in a newly fashioned regulatory scheme or possess a long line of common-law forebears. The Constitution nowhere grants Congress such puissant authority.”) (internal citation omitted). The Federal Circuit’s holding also conflicts with the *Stern v. Marshall* analytical framework, *i.e.*, that such tribunals are prohibited if the federal claim had antecedents in the common law in 1789. It further conflicts with the holding of *Crowell v. Benson*, 285 U.S. 22 (1932), that agency tribunals acting as factfinder in private disputes must receive plenary review in an Article III court to be considered constitutionally sound.

*Stern v. Marshall* announced one straightforward legal standard to inform future “public rights” analyses: the “historical antecedents” test. If a claim existed at common law in 1789, its resolution implicates the “judicial power,” and a non-Article III tribunal may not finally adjudicate it at the trial level.

Article III could neither serve its purpose in the system of checks and balances nor preserve the integrity of judicial decisionmaking if the other branches of the Federal Government could confer the Government’s “judicial Power” on entities outside Article III. That is why we have long recognized that, in general, Congress may not “withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common

law, or in equity, or admiralty.” *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. 272, 18 How. 272, 284, 15 L.Ed. 372 (1856). When a suit is *made of “the stuff of the traditional actions at common law tried by the courts at Westminster in 1789,”* *Northern Pipeline*, 458 U.S., at 90, 102 S. Ct. 2858 (Rehnquist, J., concurring in judgment), and is brought within the bounds of federal jurisdiction, the responsibility for deciding that suit rests *with Article III judges in Article III courts*. The Constitution assigns that job – resolution of “the mundane as well as the glamorous, matters of common law *and statute* as well as constitutional law, issues of fact as well as issues of law” – to the Judiciary. *Id.*, at 86-87, n.39, 102 S. Ct. 2858 (plurality opinion).

131 S. Ct. at 2609 (emphases added).

The decision nonetheless went on to recognize that Article III precedent “has not been entirely consistent,” leading it to expend considerable effort to show that after applying the “historical antecedents” test to the facts at bar, the result ended up consistent with “the various formulations of [the ‘public rights’ exception] that appear in this Court’s opinions.” *Id.* at 2611. Here lies the problem. As Justice Scalia’s concurrence foreshadows, this summation of how the *Stern v. Marshall* outcome harmonized with every “not . . . entirely consistent” holding of the past has led reasonable jurists to believe that there were no less than seven distinct legal standards announced in

the majority opinion. *See id.* at 2621 (Scalia, J., concurring). After ignoring the “historical antecedents” holding and seizing on two or three of the six other “formulations” discussed in the walkthrough, it is no wonder that the Federal Circuit’s analysis ended up incorrect.

Nor is there any question that *inter partes* review fits the “historical antecedents” test. “Patent validity was a common law action tried to a jury in Eighteenth Century England. An action to repeal and cancel a patent was pled as the common law writ of *scire facias*.” *In re Tech. Licensing Corp.*, 423 F.3d 1286, 1292-93 (Fed. Cir. 2005) (Newman, J., dissenting) (listing cases). In repeal actions (which analogize to IPR proceedings), though commenced in chancery, a common law jury served as factfinder. *Id.* And in the United States, “jury trials of issues of patent validity appear from the early days of the nation’s jurisprudence.” *Id.* (citing *Ex parte Wood*, 22 U.S. (9 Wheat.) 603, 614-15 (1824) (Story, J.)).

The opportunity now exists, through this case, to clear the air and prevent future lower court (or Congressional) confusion. The *Stern v. Marshall* dissent disagreed with what it called the majority’s “formulaic” approach, and instead of the “historical antecedents” standard would have applied the “pragmatic” standard announced in *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833 (1986). *Id.* at 2625-26 (Breyer, J., dissenting) (describing five factors that should be weighed together). Commentators have held the respective standards of the majority and



dissent to be incommensurable foils of one another. *E.g.*, Rothwell, *supra*, at 332 n.243. However, *Schor* itself reveals that they both may exist side-by-side.

The respective standards harmonize in the context of waiver and consent. In *Schor*, the Court reached and applied the five-factor standard only after drawing a distinction between “personal” right aspects of Article III, and “structural” right aspects. The Court held that waiver or consent had occurred on the facts of the case, and thus the “personal” right aspect was no longer in play. The five-factor standard – under which it is more difficult to show an Article III violation – acts as a backstop when waiver exists, to protect structural interests of our system of government notwithstanding the actions of private litigants. Thus, where there has been no waiver or consent to an improper tribunal (as with the facts of *Stern v. Marshall*), *Schor* remains entirely consistent with application of the “historical antecedents” test to protect the “personal” rights at stake. Conversely, when there is waiver or consent, the pragmatic *Schor* factors still hold sway. This explains why the *Schor* factors came back into play in *Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1942-47 (2015), where this Court tackled how bankruptcy courts should treat a waived “*Stern* claim.”

This case falls on the *Stern v. Marshall* side of the fence, in the sense that no one disputes that Petitioners had no choice about being dragged into a Patent Office tribunal by a litigation adversary. As such, the Court should use this case to make explicit

the analysis above, and resolve once and for all that the supposed conflict between the *Stern* “historical antecedents” standard and the *Shor* five factor standard is illusory. At the same time, the Court has the opportunity to restore certainty about the “historical antecedents” test itself, holding with absolute clarity that this single standard applies to Congressional agency delegations, no less than Congressional bankruptcy delegations. And it applies to federal law claims that meet the test, no less than state law claims. This would prevent future confusion of the type that led to the Federal Circuit’s erroneous and dangerous deviation from correct constitutional law.

The Federal Circuit’s decision also conflicts with *Crowell*, 285 U.S. at 22, which placed Article III limits on a federal agency applying federal (admiralty) law, as well as with this Court’s numerous prior pronouncements about the limitations on non-Article III actors wielding the judicial power. This Court has confirmed explicitly that state law claims are not the only claims that may be considered “private rights.” *Granfinanciera*, 492 U.S. at 52.

Indeed, all of the Federal Circuit’s Supreme Court citations invoked within *MCM Portfolio* to reject the argument that *inter partes* review is unconstitutional addressed inapposite scenarios. These included, in order of appearance: *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. 272 (1855) (involving adjudication of a customs agent’s property owed the government); *Crowell*, 285 U.S. at 22 (involving an agency operating as an adjunct to a

district court, where the district court had plenary review authority over issues of law and some issues of fact); *Block v. Hirsch*, 256 U.S. 135 (1921) (involving Congress’s police power over landlord/tenant relationships in the District of Columbia, a takings case raising no Article III issue); *Ex parte Bakelite Corp.*, 279 U.S. 438 (1929) (involving whether a “legislative court” over customs questions has jurisdiction limited to “cases in controversy” just like an Article III “constitutional court,” but raising no other Article III issue); *Thomas v. Union Carbide Agric. Prods. Co.*, 473 U.S. 568 (1985) (involving whether a newly-created right to compensation under a pesticide information registration regulation had to be adjudicated by an Article III court); and *Schor*, 478 U.S. 833 (involving whether state law counterclaims addressing the same pool of funds as a newly-created federal broker reparations scheme claim had to be adjudicated by an Article III court).

Justice Scalia, after restating his belief that “public rights” must “at a minimum arise between the government and others,” sounded the warning in his concurring opinion in *Stern* that the Federal Circuit’s confusion could arise in later cases.

The sheer surfeit of factors that the Court was required to consider in this case should arouse the suspicion that something is seriously amiss with our jurisprudence in this area. I count at least seven different reasons given in the Court’s opinion for concluding

that an Article III judge was required to adjudicate the lawsuit. . . .

*Id.* at 2620-21 (listing seven rationales). And contrary to the Federal Circuit’s approach, Justice Scalia noted: “Article III gives no indication that state-law claims have preferential entitlement to an Article III judge.” *Id.* Justice Scalia cogently observed: “The multifactors relied upon today seem to have entered our jurisprudence almost randomly.” *Id.* at 2621. Though confusion entered randomly, the time is ripe to clarify the law deliberately.

### **III. The Circuits are Split on the Proper Adjudicatory Framework in the Wake of This Court’s Inadequate Guidance**

The circuits have also split on proper application of Article III Separation of Powers limitations on agency tribunal authority. Some circuit courts have erred in the same way the Federal Circuit did here. And some have limited agency power the way the Federal Circuit should have here.

In *Simpson v. Office of Thrift Supervision*, 29 F.3d 1418 (9th Cir. 1994), *cert. denied*, 513 U.S. 1148 (1995), the Ninth Circuit relied on *Schor* to permit the Office of Thrift Supervision to adjudicate restitution claims that would hold a former bank president liable for harm he caused the bank. *Id.* at 1422-23 (upholding OTC action under 12 U.S.C. § 1818(b)(1), as revised in 1989). The *Simpson* decision labeled the restitution claims a “public” right under *Schor*, even

though the OTC convened its tribunal in the wake of unsuccessful settlement discussions between the former bank president and the bank over the bank's state law claims to the same funds. *Id.* at 1421.

Meanwhile, in *Tennessee Valley Authority v. Whitman*, 336 F.3d 1236 (11th Cir. 2003), *cert. denied*, 541 U.S. 1030 (2004), the Eleventh Circuit correctly refused to enforce Environmental Protection Agency Administrative Compliance Orders that lacked trial court review. *Id.* at 1258-60. While it based its decision on due process grounds arising from the lack of a "full and fair hearing," the *TVA* court went on to hold that "adjudication" within the agency prior to issuing such orders would make things even less constitutionally sound. *Id.* That is because pre-order adjudication within the agency "would only highlight another constitutional problem with the CAA: the statutory scheme unconstitutionally delegates judicial power to a non-Article III tribunal." *Id.* (citing this Court's holdings that circuit court review in the first instance is not meaningful enough to cure the Separation of Powers violation).

In yet another appeals court, the outcome still hangs in the balance. In *Bahlul v. United States*, 792 F.3d 1 (D.C. Cir. 2015), a panel of the District of Columbia Circuit held that the purely domestic crime of inchoate conspiracy may not be tried before an Article I military commission, nor may the violation be waived because of the "structural" governmental interests in play. *Id.* at 3-22. The panel reasoned that the law of war did not encompass purely domestic

violations. The full court then vacated that decision and ordered rehearing *en banc*. 2015 U.S. App. LEXIS 16967 (Sept. 25, 2015). While not a “public rights” case, *Bahlul* reflects significant uncertainty over this Court’s Article III Separation of Powers jurisprudence.

#### **IV. This Case Is an Ideal Vehicle for Clarifying Article III Jurisprudence, and for Fixing the Constitutional Damage to the Patent System**

This case presents an ideal vehicle for clarifying the Court’s Article III Separation of Powers jurisprudence. It would also be the first time in 30 years (since *Schor*) for this Court to address directly the constitutional limits on the growth of the administrative state. In the process, the Court may restore needed certainty over the validity of valuable patent rights that companies at all levels of the economy need to compete on an even playing field.

Further, though the district court here ruled on administrative exhaustion grounds, this case may reach the constitutional questions directly. The district court necessarily reached (and rejected) the unconstitutionality argument, recognizing that a showing of clear unconstitutionality simultaneously triggers relief requiring a constitutional remedy, and negates any administrative exhaustion defense (App. 18a-21a). Thus, this Court’s review would directly address the district court’s rationale for entering judgment, and

would also directly address the constitutional violation.

The issue has also percolated as much as it ever will. Since this appeal arises from the Federal Circuit, no other circuit court will likely weigh in on the constitutionality of IPRs. Even here, the Fourth Circuit transferred the underlying appeal to the Federal Circuit, on the grounds that the constitutional challenge lies within its exclusive jurisdiction. Virtually no chance exists that the Federal Circuit will pick up the issue again and change its mind, since a panel of that court has already spoken. At the Federal Circuit, once a panel rules on a contested issue surrounding AIA administration, future panels have a practice of issuing affirmances without opinion under that court's Federal Circuit Rule 36 in subsequent challenges seeking to change the original holding.

The constitutional violations shown here are also capable of repetition. It is happening essentially every day. Patent claim invalidation through IPRs has now reached the rate of approximately 1.27 fully- or partially-invalidating determinations per day. Infringers are using the IPR procedure with greater frequency all the time, and thus unconstitutional invalidations are on the rise from even these high numbers.

Finally, Petitioners recognize the possibility that MCM itself might come before this Court with its own petition. Nonetheless, this case would be the better

vehicle. This is so if for no other reason than the patent system urgently needs this Court's prompt attention. Attackers are threatening vested property rights with rising frequency, such that the Patent Office expects to receive 1,667 requests for review by the end of FY2015, taking unconstitutional actions according to its procedures.

And unlike Petitioners here, MCM has also consistently asked for an unnecessary remedy – abolition of the *inter partes* review process entirely. By contrast, Petitioners here present a tailored remedy (non-binding status of final decisions) that would keep *inter partes* review in place in a constitutionally sound manner. As already stated, *Crowell v. Benson* applied such a remedy by construing a statutory grant narrowly to avoid Article III unconstitutionality, and *McCormick* did as well by deeming an examiner's final rejection of original patent claims to be advisory-only in future court proceedings.

At a minimum, Petitioners respectfully suggest that the Court hold this Petition long enough to be sure that it decides either one or the other of the two cases. It may hold this case in the event that it grants review in the *MCM Portfolio* case. Conversely, it may hold the *MCM Portfolio* case while it decides this one, or hear them together in parallel. The better course would be to grant review here without delay as it did when it granted Teva's 2014 petition to review *Lighting Ballast* while *Lighting Ballast* itself was still on the way to this Court (for an eventual GVR).





**CONCLUSION**

For the foregoing reasons, the petition for a writ of *certiorari* should be granted.

Respectfully submitted,

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*eCharge Licensing LLC*

NOTE: This order is nonprecedential.

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

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**J. CARL COOPER, ECHARGE LICENSING, LLC,**  
*Plaintiffs-Appellants*

**v.**

**MICHELLE K. LEE, Director, U.S.  
Patent and Trademark Office, in her  
capacity as Deputy Director of the  
United States Patent and Trademark Office,**  
*Defendant-Appellee*

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2015-1483, 2016-1071

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Appeals from the United States District Court for  
the Eastern District of Virginia in No. 1:14-cv-00672-  
GBL-JFA, Judge Gerald Bruce Lee.

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**ON MOTION**

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Before MOORE, LINN, and WALLACH, *Circuit  
Judges*. LINN, *Circuit Judge*.

**ORDER**

Appellants move for summary affirmance of the  
district court's decision in these appeals. The Director

of the United States Patent and Trademark Office responds in support of summary affirmance.

Appellants and the PTO agree that this court's decision in *MCM Portfolio LLC v. Hewlett-Packard Co.*, No. 2015-1091, \_\_\_ F.3d \_\_\_ (Fed. Cir. Dec. 2, 2015) rejected the constitutional arguments concerning *inter partes* review proceedings that appellants wished to raise in their appeals.

Accordingly,

IT IS ORDERED THAT:

- (1) The motion for summary affirmance is granted.
- (2) Each party shall bear its own costs.

FOR THE COURT

/s/ Daniel E. O'Toole

\_\_\_\_\_  
Daniel E. O'Toole

Clerk of Court

IN THE UNITED STATES DISTRICT COURT  
FOR THE EASTERN DISTRICT OF VIRGINIA  
ALEXANDRIA DIVISION

J. CARL COOPER, *et al.*,            )  
Plaintiff,                                )  
v.    )  
MICHELLE K. LEE, Deputy            )  
Under Secretary of Commerce        ) Case No. 1:14-cv-  
for Intellectual Property and         ) 00672-GBL-JFA  
Deputy Director of the United        )  
States Patent and Trademark         )  
Office,                                    )  
Defendant.                                )

**MEMORANDUM OPINION & ORDER**

THIS MATTER is before the Court on Plaintiffs J. Carl Cooper (“Cooper”) and eCharge Licensing, LLC’s (“eCharge”) (collectively “Plaintiffs”) Motion for Summary Judgment (Doc. 3) and Defendant Michelle K. Lee’s (“Defendant”) Motion for Summary Judgment (Doc. 14). This case arises from Plaintiffs’ contention that the United States Patent and Trademark Office’s (“PTO”) *inter partes* review proceedings, which occur before the Patent Trial and Appeal Board (“PTAB”), are unconstitutional as they deprive Plaintiffs of their right to have the matter adjudicated before an Article III tribunal. The issue before the Court is whether Plaintiffs’ challenge of *inter partes* review is properly before the Court. The Court

DENIES Plaintiffs' Motion for Summary Judgment (Doc. 3) and GRANTS Defendant's Motion for Summary Judgment (Doc. 14) because Plaintiffs have not exhausted administrative remedies before seeking judicial relief.

## I. BACKGROUND

Cooper is an inventor and owner of numerous United States patents. eCharge is an entity that helps inventors license their intellectual property. (Doc. 4 at 2.) Cooper granted eCharge an exclusive license to a number of his patents, including the right to license and, if necessary, file suit against alleged infringers. (*Id.*)

On September 9, 2013, eCharge filed a Complaint in the United States District Court for the Northern District of Illinois against Square, Inc. ("Square") for infringement of several Article 1-reviewed patents. (*eCharge Licensing LLC v. Square, Inc.*, Case No. 1:13-cv-06445 (N.D.Ill.)). (Doc. 1 ¶ 23.) eCharge sought both monetary damages and a permanent injunction prohibiting future infringement of the patents, and demanded trial by jury. (*Id.* ¶ 23.) On November 18, 2013, Square filed a petition to institute an *inter partes* review of certain claims of the Article 1-reviewed patents under 35 U.S.C. § 311. (*Id.* ¶ 24.) On January 16, 2014, the United States District Court for the Northern District of Illinois entered a stay of proceedings pending the PTAB's

decision in the *inter partes* review proceeding. (*Id.* ¶ 25.)

Although Plaintiffs had previously objected to the constitutionality of the *inter partes* review proceedings, on May 14, 2014, the PTO instituted an *inter partes* review of the Article 1-reviewed patents under 35 U.S.C. § 314. Plaintiffs are now before the Court contesting the constitutionality of *inter partes* review.

## II. DISCUSSION

### A. Standard of Review

Under Federal Rule of Civil Procedure 56, the Court must grant summary judgment if the moving party demonstrates that there is no genuine issue as to any material fact, and that the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c).

In reviewing a motion for summary judgment, the Court views the facts in a light most favorable to the non-moving party. *Boitnott v. Corning, Inc.*, 669 F.3d 172, 175 (4th Cir. 2012) (citing *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986)). Once a motion for summary judgment is properly made and supported, the opposing party has the burden of showing that a genuine dispute exists. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986); *Bouchat v. Baltimore Ravens Football Club, Inc.*, 346 F.3d 514, 522 (4th Cir. 2003) (citations omitted). “[T]he mere existence of some alleged

factual dispute between the parties will not defeat an otherwise properly supported motion for summary judgment; the requirement is that there be no genuine issue of material fact.” *Emmett v. Johnson*, 532 F.3d 291, 297 (4th Cir. 2008) (quoting *Anderson*, 477 U.S. at 247-48).

A “material fact” is a fact that might affect the outcome of a party’s case. *Anderson*, 477 U.S. at 248; *JKC Holding Co. v. Wash. Sports Ventures, Inc.*, 264 F.3d 459, 465 (4th Cir. 2001). Whether a fact is considered to be “material” is determined by the substantive law, and “[o]nly disputes over facts that might affect the outcome of the suit under the governing law will properly preclude the entry of summary judgment.” *Anderson*, 477 U.S. at 248; *Hooven-Lewis v. Caldera*, 249 F.3d 259, 265 (4th Cir. 2001).

A “genuine” issue concerning a “material” fact arises when the evidence is sufficient to allow a reasonable jury to return a verdict in the nonmoving party’s favor. *Res. Bankshares Corp. v. St. Paul Mercury Ins. Co.*, 407 F.3d 631, 635 (4th Cir. 2005) (quoting *Anderson*, 477 U.S. at 248). Rule 56(e) requires the nonmoving party to go beyond the pleadings and by its own affidavits, or by the depositions, answers to interrogatories, and admissions on file, designate specific facts showing that there is a genuine issue for trial. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986).

## **B. Analysis**

The Court DENIES Plaintiffs' Motion for Summary Judgment and GRANTS Defendant's Motion for Summary Judgment because Plaintiffs have not exhausted administrative remedies before seeking judicial relief. Furthermore, the Federal Circuit's decisions in *Patlex v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985), and *Joy Techs., Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992), suggest that Plaintiffs' challenge will ultimately fail. Before discussing the exhaustion doctrine, an overview of the statutory schemes for administrative review of the issuance of patents is appropriate. Administrative review of the issuance of patents can be broken up into two time periods: pre-Leahy-Smith America Invents Act ("AIA"), Pub.L. No. 112-29, 125 Stat. 284, and post-AIA.

### **1. Pre-AIA Administrative Review**

#### **a. Patent Examination**

An individual who seeks a patent on a particular invention must file an application with the PTO that contains a specification and an oath by the applicant declaring that they believe they are the original inventor of the invention at issue. *See* 35 U.S.C. §§ 111(a), 115. Next, a PTO patent examiner reviews the application and determines whether the application presents any patentable claims. *Id.* § 131. If "it appears that the applicant is entitled to a patent," the PTO "shall issue a patent." *Id.*



**b. Patent Reexamination****i. “*Ex Parte*” Reexamination**

Before 1980, the only way a party could challenge the validity of an issued patent was through the courts – there was no administrative system within which patents could be challenged. *See Patlex v. Mossinghoff*, 758 F.2d 594, 601 (Fed. Cir. 1985). Thus, the federal courts were inundated with patent challenges. In an effort to lower the amount of patent challenges filed in federal courts, in 1981 Congress created an administrative alternative to federal court litigation known as “*ex parte* reexamination.” *Ex parte* reexamination authorized a patent owner or third parties to request that the PTO reexamine “the substantive patentability” of an issued patent. 35 U.S.C. § 302. In the *ex parte* reexamination scheme, if the PTO accepted a third-party’s request to reexamine an issued patent, only the patent owner and the PTO were party to the reexamination proceedings. *See* 35 U.S.C. §§ 304-05; *Syntex (USA), Inc. v. USPTO*, 882 F.2d 1570, 1573 (Fed. Cir. 1989) (“The statute gives third-party requesters no further, specific right to participate in the reexamination proceeding. Indeed, the statute specifically prohibits further participation by third-party requesters during reexamination.”).

If the examiner conducting the reexamination proceedings concluded that the claims were not actually patentable, the examiner would issue a final office action rejecting those patent claims. 35 U.S.C.

§ 305. Once issued, only the patent owner could seek administrative appellate review of the rejection/cancellation of its former patent claims at the PTAB. 15 U.S.C. § 134. The decision of the PTAB could then be appealed to the Federal Circuit under 15 U.S.C. § 306(b).

## ii. “*Inter Partes*” Reexamination

In the years following the creation of *ex parte* reexamination proceedings, Congress found that individuals and entities were not utilizing the existing reexamination procedure because “a third party who requests reexamination cannot participate at all after initiating the proceedings.” H.R. CONF. RPT. 106-464, at 133 (Nov. 9, 1999). Consequently, in 1999 Congress created the *inter partes* reexamination procedure, which authorized third-party requesters to participate in the reexamination proceedings. *See* 35 U.S.C. § 314. Just like in an *ex parte* reexamination, if the *inter partes* reexamination examiner determined that the relevant claims were not patentable, the examiner issued an office notice rejecting, and thus cancelling, those patents. *Id.* § 314(a). However, unlike *ex parte* reexaminations, in *inter partes* reexaminations both the patent owner *and* the third-party requester could seek review of the examiner’s decision to the PTAB and the Federal Circuit. *See* §§ 315(a)-(b).

## **2. Post-AIA Administrative Review – *Inter Partes* Review and Post-Grant Review**

By 2011, Congress recognized that despite the improvements that it had made to the procedure for the review of issued patents, the “[r]eexamination proceedings are [ ] often costly, taking several years to complete.” H.R. RPT. 112-98, at 45 (2011). Consequently, through the AIA, Congress created two new types of administrative proceedings through which an individual or entity could obtain a PTO-review of an issued patent: (1) *inter partes* review, and (2) post-grant review.<sup>1</sup> Because the issue before the Court concerns *inter partes* review, the Court focuses its attention there.

The AIA introduced *inter partes* review as a new form of *ex parte* reexamination. *See CDX Diagnostics, Inc. v. U.S. Endoscopy Grp., Inc.*, No. 13-cv-05669 (NSR), 2014 WL 2854656, at \*2 (S.D.N.Y. June 20, 2014). *Inter partes* review is initiated “to attempt to determine that the challenged claims are invalid under 35 U.S.C. §§ 102 (prior art) and/or 103 (obviousness).” *CDX Diagnostics*, 2014 WL 2854656, at \*1. An individual or entity may only petition for *inter partes* review after (a) the initial nine month period from patent issuance, or (b) the termination of a post-grant review proceeding – whichever is later. *See* 35 U.S.C. § 311(b). Further, “[t]o obtain [*inter partes*

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<sup>1</sup> *See generally* 35 U.S.C. §§ 321-29.

review], a petitioner must show that ‘there is a reasonable likelihood that the petitioner will prevail with respect to at least 1 of the claims challenged in the petition.’” *LELO, Inc. v. Std. Innovation (U.S.) Corp.*, No. 13-cv-1393-JD, 2014 WL 2879851, at \*2 (N.D. Cal. June 24, 2014) (quoting 35 U.S.C. § 314(a)).

*Inter partes* review proceedings are conducted entirely by the PTAB. *See* 35 U.S.C. § 316(c). The PTAB must adjudicate a petition seeking to “institute an *inter partes* review” within three months of the filing of a response to the petition. *Id.* § 314(b). The PTAB’s decision of whether to institute *inter partes* proceedings is “final and nonappealable.” *Id.* § 314(d); *Versata Dev. Corp. v. Rea*, 959 F. Supp. 2d 912, 920 (E.D. Va. 2013). The patent owner and the challenger are both entitled to take limited depositions in order to assist the PTAB in conducting its review function. 35 U.S.C. § 316(a)(5). The *inter partes* review proceedings, including the PTAB’s final written determination regarding the validity of the challenged patent claims, must be completed within one year of the institution of the proceeding. *See id.* § 316(a)(11). Finally, Congress provided for appellate review at the Federal Circuit after the conclusion of *inter partes* review proceedings. *See id.* § 319 (“A party dissatisfied with the final written decision of the [PTAB] . . . may appeal the decision. . . .”).

### **3. Exhaustion Doctrine as Applied to *Inter Partes* Review**

The Court DENIES Plaintiffs' Motion for Summary Judgment and GRANTS Defendant's Motion for Summary Judgment because Plaintiffs have not exhausted administrative remedies before seeking judicial relief. Specifically, Plaintiffs' Motion for Summary Judgment is DENIED because (1) Congress intended that the exhaustion doctrine applied to *inter partes* review; (2) the exhaustion doctrine applies to constitutional claims; and (3) the exceptions to the exhaustion doctrine are inapplicable here.

#### **i. Exhaustion Doctrine and *Inter Partes* Review**

The Court holds that the exhaustion doctrine applies to *inter partes* review because of (1) the express language of the AIA; (2) the procedures for *inter partes* review proceedings defined by Congress and the statutory scheme for administrative and judicial review of said proceedings; and (3) the AIA expressly permitting judicial review of the PTAB's decisions only once the PTAB's "final written decision" has issued. *See* 35 U.S.C. § 318(a). "[N]o one is entitled to judicial relief for supposed or threatened injury until the prescribed administrative remedy has been exhausted." *McKart v. United States*, 395 U.S. 185, 194 (1969) (citing *Myers v. Bethlehem Shipbuilding Corp.*, 303 U.S. 41 (1938)). The exhaustion doctrine affords administrative agencies with the opportunity to resolve matters under consideration in an efficient

fashion. As the Supreme Court stressed in *McKart*, a primary purpose of the exhaustion doctrine is:

the avoidance of premature interruption of the administrative process. The agency, like a trial court, is created for the purpose of applying a statute in the first instance. Accordingly, it is normally desirable to let the agency develop the necessary factual background upon which decisions should be based. And since agency decisions are frequently of a discretionary nature or frequently require expertise, the agency should be given the first chance to exercise that discretion or to apply that expertise. And of course it is generally more efficient for the administrative process to go forward without interruption than it is to permit the parties to seek aid from the courts at various intermediate stages.

*Id.* at 193-94; *see also Woodford v. Ngo*, 548 U.S. 81, 89 (2006) (declaring that the exhaustion doctrine “protects administrative agency authority” and “promotes efficiency” (internal citations and quotation marks omitted)). Courts should take particular care to adhere to the exhaustion doctrine when “the function of the agency and the particular decision sought to be reviewed involve exercise of discretionary powers granted the agency by Congress, or require application of special expertise.” *McKart*, 395 U.S. at 194.

“There are three ways by which the AIA evinces clear congressional intent to preclude actions that seek judicial intervention” prior to the conclusion of

*inter partes* review proceedings, and thus demonstrate the requirement that administrative remedies must first be exhausted before seeking judicial relief – express language, detailed procedures, and timeline for review. *Versata Dev. Corp. v. Rea*, 959 F. Supp. 2d 912, 919-20 (E.D. Va. 2013). First, the Court finds that the express language of the statute prohibits judicial review of the PTAB’s decision to institute *inter partes* review proceedings. See 35 U.S.C. § 314(d) (providing that the PTAB’s decision as to whether an *inter partes* review should proceed is “final and unappealable”).

Second, the Court finds that Chapter 31 of the AIA provides detailed procedures for *inter partes* review and a detailed scheme for administrative and judicial review of those *inter partes* review proceedings. See 35 U.S.C. §§ 312-319. Chapter 31 describes *inter partes* review requirements as follows: filing of the initial petition (§ 312); patent owner’s right to file preliminary response (§ 313); threshold requirements for institution of *inter partes* review (§ 314); relation to other proceedings or actions (§ 315); conduct of *inter partes* review (§ 316); termination of *inter partes* review in the event of settlement (§ 317); PTAB actions related to the final decision (§ 318), and the right to appeal (§ 319). See also *Volvo GM Heavy Truck Corp. v. Dep’t of Labor*, 118 F.3d 205, 211-12 (4th Cir. 1997) (“By vesting the implementation of the Act in the administrative agencies, Congress was aware that exhaustion is required before a litigant may challenge final agency action in federal court.”).

Congress assigned the PTO the role of administering the *inter partes* review proceedings. The determination of whether *inter partes* review should occur, and whether a patent claim potentially be canceled, “falls squarely within the [PTO’s] expertise.” *Alexandria Resident Council, Inc. v. Alexandria Redev. & Hous. Auth.*, 11 F. App’x 283, 286 (4th Cir. 2001). Plaintiffs are essentially seeking to remove *inter partes* reviews from the PTO and have the claims litigated solely in an Article III tribunal. Allowing Plaintiffs to bypass the aforementioned *inter partes* review scheme would “weaken [the] agency’s effectiveness by encouraging disregard of its procedures.” *McCarthy v. Madigan*, 503 U.S. 140, 144-45 (1992). Furthermore, such a circumvention of the PTO’s administrative remedies would “undermine the statutory scheme, which is based on ‘the notion, grounded in deference to Congress’ delegation of authority to coordinate branches of Government, that agencies, not the courts, ought to have primary responsibility for the programs that Congress has charged them to administer.’” *Alexandria Resident Council*, 11 Fed. App’x at 286 (quoting *McCarthy*, 503 U.S. at 145).

Third, the Court finds that the AIA specifies how a disappointed party may appeal the PTAB decision, demonstrating Congress’ intent to restrict the forums for challenging *inter partes* review determinations. See 35 U.S.C. §§ 141(c), 314(a) (“A party to an *inter partes* review . . . who is dissatisfied with the final written decision of the [PTAB] . . . may appeal the



*Board's decision only to the United States Court of Appeals for the Federal Circuit.*" (emphasis added)); *Versata*, 959 F. Supp. 2d at 920.

Collectively, the language of the statute, its statutory scheme and procedures for appellate review, and the designation of the Federal Circuit as the tribunal for judicial review, together evince congressional intent that the administrative process shall conclude before any judicial review of the PTAB's decisions. Accordingly, requiring full exhaustion of all administrative processes before seeking Article III judicial review is consistent with Congress' intent. Because Plaintiffs have not yet exhausted all administrative processes, Plaintiffs' Motion for Summary Judgment must be DENIED.

ii. Exhaustion Doctrine Applies to Constitutional Claims

The Court holds that the exhaustion requirement applies to Plaintiffs' constitutional claims because the Fourth Circuit has consistently held that exhaustion is required when an administrative litigant challenges the constitutionality of a statute that an agency is charged with implementing. The Fourth Circuit has repeatedly rejected the contention that constitutional claims should be exempt from the exhaustion requirement. *Nationsbank Corp. v. Herman*, 174 F.3d 424, 429 (4th Cir. 1999) (citing *Volvo GM*, 118 F.3d at 215 (applying exhaustion doctrine to due process claims); *Thetford Props. IV Ltd. P'ship v. HUD*, 907

F.2d 445, 448 (4th Cir. 1990) (rejecting argument that “as a general rule, exhaustion is not necessary where administrative litigants raise constitutional challenges”); *Guerra v. Scruggs*, 942 F.2d 270, 276 (4th Cir. 1991) (“The doctrine of requiring exhaustion . . . applies to cases like the present one where constitutional claims are made.”); see *cf. United States v. Clintwood Elkhorn Min. Co.*, 553 U.S. 1, 9 (2008) (“Congress has the authority to require administrative exhaustion before allowing a suit against the Government, even for a constitutional violation.”). The Fourth Circuit so holds because “[t]he prudential considerations underlying the exhaustion doctrine are ‘no less weighty when an administrative litigant raises a constitutional challenge to a statute which an agency is charged with enforcing.’” *Volvo GM*, 118 F.3d at 215 (quoting *Thetford*, 907 F.2d at 448).

“Requiring exhaustion is particularly appropriate when the administrative remedy may eliminate the necessity of deciding constitutional questions,” *Am. Fed’n of Gov’t Emps., AFL-CIO v. Nimmo*, 711 F.2d 28, 31 (4th Cir. 1983), because exhaustion “may very well lead to a satisfactory resolution of [the] controversy without having to reach [the] constitutional challenge.” *Thetford*, 907 F.2d at 448; see also *Ticor Title Ins. Co. v. FTC*, 814 F.2d 731, 741 (D.C. Cir. 1987) (proclaiming that the exhaustion doctrine “would conserve judicial resources for those cases in which judicial involvement is absolutely necessary for resolution of the controversy”); *cf. Boumediene v. Bush*, 553 U.S. 723, 787 (2007) (“[W]e are obligated to

construe the statute to avoid [constitutional] problems if it is fairly possible to do so.” (citations and internal quotation marks omitted)) (doctrine of constitutional avoidance).

Applying the Fourth Circuit’s maxim to this case, where Plaintiffs’ challenge the constitutionality of *inter partes* review, the Court holds that Plaintiffs’ constitutional claim remains subject to the exhaustion requirement.

iii. Exceptions to the Exhaustion Doctrine

The Court holds that no exceptions to the exhaustion requirement apply here. There are two exceptions to the general rule that individuals and entities must exhaust administrative remedies before seeking judicial relief: (1) when a statute is “patently unconstitutional or an agency has taken a *clearly* unconstitutional position” [“clear right” exception]; and (2) where the litigant will suffer “irreparable injury” without immediate judicial review [“irreparable injury” exception]. See *Renegotiation Bd. v. Bannerkraft Clothing Co.*, 415 U.S. 1 (1974) (citations omitted) (“irreparable injury” exception); *Thetford Props. IV Ltd. P’ship v. HUD*, 907 F.2d 445, 448-49 (4th Cir. 1990) (“clear right” exception); *Ticor Title Ins. Co. v. FTC*, 814 F.2d 731, 740 (D.C. Cir. 1987) (concluding that the “clear right” exception applies where Congress “disregard[s] a specific and unambiguous statute, regulation, or constitutional directive”).

First, the Court holds that the clear right exception does not apply because the Federal Circuit has twice upheld the constitutionality of PTO administrative proceedings concerning the reexamination of issued patents that are similar to *inter partes* review. “Congress vested the Federal Circuit with exclusive jurisdiction over ‘an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part,’ on an action arising under federal patent law.” *Holmes Grp., Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829 (2002) (quoting 28 U.S.C. § 1338); *see also Tafas v. Dudas*, 511 F. Supp. 2d 652, 661 (E.D. Va. 2007) (observing that the “Federal Circuit . . . regularly hears questions of patent law”). Thus, although not the final authority on patent law, the rulings of the Federal Circuit on the constitutionality of patent reexamination proceedings are certainly persuasive in determining whether *inter partes* review is unconstitutional.

In both *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985), and *Joy Techs., Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992), the Federal Circuit upheld the constitutionality of *ex parte* reexamination proceedings. The Supreme Court declined to grant certiorari on the constitutionality of the reexamination proceedings. *See Joy Techs., Inc. v. Manbeck*, 506 U.S. 829 (1992).

The Court finds that the *ex parte* reexamination proceedings at issue in *Patlex* and *Joy* are essentially predecessors to the *inter partes* review proceedings at

issue here. *See supra* Section II(b)(1)-(2). The schemes for *ex parte* reexamination and *inter partes* review mirror each other in three key ways. First, both authorize the PTO to review the validity of an issued patent despite the availability of federal court review of that patent. *Compare* 30 U.S.C. § 302 (“Any person at any time may file a request for reexamination by the [PTO] of any claim of a patent on the basis of any prior art cited under the provisions of section 301.”) (*ex parte* reexamination), *with* 35 U.S.C. § 311 (“[A] person who is not the owner of a patent may file with the [PTO] a petition to institute an *inter partes* review of the patent.”).

Second, both *ex parte* reexamination and *inter partes* review do not give an issued patent a presumption of validity and construe the claims of an issued patent using their broadest reasonable interpretation. *See* 35 U.S.C. § 316(e) (“In an *inter partes* review instituted under this chapter, the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.”). Finally, 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. *See* 35 U.S.C. §§ 306, 319.

Said differently, the Court holds that there is no constitutionally-significant distinction between the system of *ex parte* reexamination at issue in *Patlex* and *Joy* and the *inter partes* review system at issue here. (*See* Doc. 16 at 9.) This suggests to the Court that Plaintiffs’ constitutional challenge will ultimately fail.

Furthermore, the “clear rights” exception does not apply where “[t]he constitutionality of the Act has been upheld by at least one court. . . .” See *Thetford Props. IV Ltd. P’ship v. HUD*, 907 F.2d 445, 449 (4th Cir. 1990). Because the Federal Circuit has upheld the constitutionality of reexamination proceedings, which are a predecessor to *inter partes* review proceedings, the Court holds that the “clear right” exception does not apply.

Second, the Court holds that the “irreparable injury” exception does not apply because litigation expenses do not constitute “irreparable injury.” The only cognizable “injury” that Plaintiffs are “suffering” is the cost associated with the *inter partes* review proceedings. (Doc. 1 ¶ 3.) However, the Supreme Court has held that “[m]ere litigation expense, even substantial and unrecoupable cost, does not constitute irreparable injury.” *Renegotiation Bd. v. Bannerkraft Clothing Co.*, 415 U.S. 1, 24 (1974). Because Plaintiffs are not suffering irreparable injury, the Court holds that this exception does not apply.

The Court holds that the clear right exception does not apply because the Federal Circuit has twice upheld the constitutionality of PTO administrative proceedings concerning the reexamination of issued patents. Furthermore, the “irreparable injury” exception does not apply because Plaintiffs’ litigation expenses do not constitute irreparable injury. Accordingly, because neither exception to the exhaustion requirement applies here, the Court holds that the

exhaustion requirement applies to Plaintiffs' challenge of the constitutionality of *inter partes* review.

iv. Exhaustion Requirement Precludes Judicial Review of Constitutionality of *Inter Partes* Review

Since the Court has decided that the exhaustion doctrine applies to *inter partes* review, that the exhaustion requirement applies to Plaintiffs' constitutional claim, and that no exceptions to the exhaustion requirement apply, the Court is left with the comparatively simple question of whether Plaintiffs have exhausted all available administrative remedies before seeking judicial relief. Because the PTO proceedings are still ongoing, the Court holds that the exhaustion requirement precludes judicial review of the constitutionality of *inter partes* review. *Cf. Rosenthal & Co. v. Bagley*, 581 F.2d 1258 (7th Cir. 1978) (rejecting, on exhaustion grounds, a constitutional claim against CFTC authority).

The specific *inter partes* review proceedings that spurred this litigation are still ongoing before the PTO. Two things can occur moving forward. First, the PTAB could rule in Plaintiffs' favor and hold that the three patents at issue are indeed patentable. Second, if the PTAB rules against Plaintiffs', they can appeal that decision directly to the Federal Circuit. *See* 15 U.S.C. § 319. The constitutional challenge to the *inter partes* review proceedings would be properly raised therein, and not with the district court, as the

administrative processes under the AIA would be exhausted. *See* 35 U.S.C. §§ 141(c), 314(a) (“A party to an *inter partes* review . . . who is dissatisfied with the final written decision of the [PTAB] . . . *may appeal the Board’s decision only to the United States Court of Appeals for the Federal Circuit.*” (emphasis added)); *see also Synopsys, Inc. v. Lee*, No. 1:14cv674 (JCC/IDD), 2014 WL 5092291 (E.D. Va. Oct. 9, 2014) (holding that the court did not have jurisdiction to “review of a USPTO decision to institute ‘partial’ *inter partes* review proceedings . . . because Congress vested exclusive jurisdiction over such judicial review in the United States Court of Appeals for the Federal Circuit”).

The Court holds that the exhaustion requirement precludes judicial review of the constitutionality of *inter partes* review because the PTO proceedings are still ongoing. Accordingly, Plaintiffs’ Motion for Summary Judgment must be DENIED and Defendants’ Motion for Summary Judgment must be GRANTED.

#### IV. CONCLUSION

The Court DENIES Plaintiffs’ Motion for Summary Judgment and GRANTS Defendants’ Motion for Summary Judgment because Plaintiffs have not exhausted administrative remedies before seeking judicial relief. Accordingly, it is hereby

**ORDERED** that Plaintiffs J. Carl Cooper and eCharge Licensing, LLC’s Motion for Summary Judgment (Doc. 3) is **DENIED**; and it is further





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

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**MCM PORTFOLIO LLC,**  
*Appellant*

**v.**

**HEWLETT-PACKARD COMPANY,**  
*Appellee*

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2015-1091

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Appeal from the United States Patent and Trade-  
mark Office, Patent Trial and Appeal Board, in No.  
IPR2013-00217.

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Decided: December 2, 2015

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Before PROST, *Chief Judge*, DYK, and HUGHES, *Circuit Judges*.

DYK, *Circuit Judge*.

MCM Portfolio LLC (“MCM”) owns U.S. Patent No. 7,162,549 (“the ’549 patent”), which claims methods and systems for coupling a computer system with a flash memory storage system. Hewlett-Packard Co. (“HP”) filed a petition with the Patent and Trademark Office (“PTO”) requesting inter partes review of claims 7, 11, 19, and 21 of the ’549 patent. The Patent Trial and Appeal Board (“Board”) determined that HP’s petition demonstrated a reasonable likelihood that the challenged claims of the ’549 patent were invalid as obvious and instituted an inter partes review. Thereafter, the Board issued a final decision holding that the challenged claims would have been obvious. MCM appeals.

We hold that we lack jurisdiction to review the Board’s decision that the institution of inter partes

review was not barred by 35 U.S.C. § 315(b), but we conclude that we can review the question of whether the final decision violates Article III and the Seventh Amendment. On the merits, we reject MCM's argument that inter partes review violates Article III and the Seventh Amendment, and we affirm the Board's decision that claims 7, 11, 19, and 21 of the '549 patent would have been obvious over the prior art.

#### BACKGROUND

The '549 patent, entitled "Multimode Controller for Intelligent and 'Dumb' Flash Cards," issued on January 9, 2007, and claims a priority date of July 6, 2000. The patent claims methods and systems for coupling flash memory cards to a computer utilizing a "controller chip." '549 patent at Abstract. In general, a controller is a device that performs the physical transfer of data between a computer and a peripheral device, such as a monitor, keyboard, or, as here, a flash memory card. See Allan Freedman, *The Computer Glossary* 75-76 (9th ed. 2001).

The primary purpose of the controller here is to achieve error correction. See '549 patent col. 28, ll. 37-54. Error correction tests for accurate data transmission in order to "present a flawless medium to the system, in a specific format, so the computer [] sees an error-free storage medium [], rather than a flash [memory] that may have certain defects." *Id.* at col. 28, ll. 37-41; see also Freedman, *supra*, at 135. As described in the patent, removable flash memory

cards are commonly used in digital cameras to store image or video files and enable the convenient transfer of those files to a computer using a card reader. '549 patent at col. 1, ll. 50-56. At the time the '549 patent was filed, flash memory cards were made by various companies and came in many shapes and formats, such as CompactFlash, Secure Digital, and Memory Stick. *Id.* at col. 2, ll. 28-55. The specification describes a need for a flash memory card reader that can be used with flash memory cards of several different formats, and, relevant here, a controller on the card reader “that can work with multiple types of flash memory cards that have controllers, and also with flash memory cards that do not have controllers.” *Id.* at col. 3, l. 53 to col. 4, l. 22.

The patent claims improvements to flash memory card readers, including a controller chip that can determine whether the flash memory card has an onboard controller for error correction, and if it does not, using firmware to manage error correction for the flash memory card.

Claims 7 and 11 are illustrative:

7. A method comprising:

using a controller chip to interface a flash storage system with or without a controller to a computing device, the controller chip comprising a flash adapter, wherein the flash storage system comprises a flash section and at least a medium ID;

determining whether the flash storage system includes a controller for error correction; and

in an event where the flash storage system does not have a controller for error correction, using firmware in the flash adapter to perform operations to manage error correction of the flash section, including bad block mapping of the flash section in the flash storage system that is coupled to the flash adapter section.

11. A system comprising:

a computing device;

a flash storage system comprising a flash section and at least a portion of a medium ID; and

a controller chip coupled between the computing device and the flash storage system to interface the flash storage system to the computing device, the controller chip comprising an interface mechanism capable of receiving flash storage systems with controller and controllerless flash storage systems, a detector to determine whether the flash storage system includes a controller for error correction and a flash adapter which comprises firmware to perform, in an event where the flash storage system does not have a controller for error correction, operations to manage error correction of the flash section, including bad block mapping of the flash

section in the flash storage system that is coupled to the flash adapter section.

*Id.* at col. 30, ll. 23-37, 48-65. Claims 19 and 21, which depend from claims 7 and 11, respectively, further require that the flash adapter comprise a plurality of interfaces capable of receiving a plurality of flash storage systems. *Id.* at col. 32, ll. 1-3, 7-9.

On March 27, 2013, HP petitioned for inter partes review of claims 7, 11, 19, and 21 of the '549 patent under 35 U.S.C. § 311, asserting that those claims were anticipated by, or obvious over, five prior art references. MCM filed a preliminary response on June 27, 2013. MCM argued, *inter alia*, that institution of inter partes review was barred under 35 U.S.C. § 315(b). MCM argued that HP was a privy of Pandigital, Inc. ("Pandigital"), because HP was reselling allegedly infringing digital picture frames manufactured by Pandigital. Because MCM had filed suit for infringement of the '549 patent against Pandigital more than one year before HP filed the petition for inter partes review, MCM argued that § 315(b) barred inter partes review.

On September 10, 2013, the Board instituted inter partes review with respect to claims 7, 11, 19, and 21 of the '549 patent. The Board found that there was a reasonable likelihood that HP would prevail with respect to at least one of the challenged claims based on obviousness over two prior art references: U.S. Patent No. 6,199,122 ("Kobayashi") and WO 98/03915 ("Kikuchi"). The Board rejected MCM's

argument that it could not institute inter partes review under 35 U.S.C. § 315(b), holding that the fact that Pandigital and HP were successive owners of the same allegedly infringing property was not sufficient to confer privity for the purposes of § 315(b).

MCM filed a patent owner response on December 9, 2013, and HP filed the petitioner's reply to the patent owner response on March 10, 2014. After conducting a trial hearing, the Board issued its final written decision on August 6, 2014. The Board rejected MCM's argument that inter partes review proceedings violate Article III and the Seventh Amendment. On the merits, the Board concluded that HP had shown by a preponderance of evidence that claims 7, 11, 19, and 21 would have been obvious over a combination of the Kobayashi and Kikuchi prior art references. MCM appealed. The PTO intervened. We have jurisdiction to review the Board's final decision under 28 U.S.C. § 1295(a)(4)(A). We review constitutional, statutory, and legal issues de novo, and the Board's factual findings for substantial evidence. *Giorgio Foods, Inc. v. United States*, 785 F.3d 595, 600 (Fed. Cir. 2015); *In re Morsa*, 713 F.3d 104, 109 (Fed. Cir. 2013).

## DISCUSSION

### I

We first address MCM's contention that the Board improperly instituted inter partes review. 35 U.S.C. § 315(b) provides that "[a]n 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 . . . or privy of the petitioner is served with a complaint alleging infringement of the patent.” MCM asserts that it filed a complaint alleging infringement of the ’549 patent on Pandigital more than one year prior to HP’s petition, and that, contrary to the Board’s determination, Pandigital is a privy of HP. MCM argues on appeal that the Board therefore erred in instituting inter partes review.

The law is clear that there is “no appeal” from the decision to institute inter partes review. 35 U.S.C. § 314(d). Section 314(d) provides that “[t]he determination . . . whether to institute an inter partes review under this section shall be final and nonappealable.” *Id.* We have held that a patent owner cannot appeal the Board’s decision to institute inter partes review, even after a final decision is issued. *In re Cuozzo Speed Techs.*, 793 F.3d 1268, 1273-74 (Fed. Cir. 2015). Specifically, in *Achates Reference Publishing, Inc. v. Apple Inc.*, 803 F.3d 652, 658 (Fed. Cir. 2015), we held that “§ 314(d) prohibits this court from reviewing the Board’s determination to initiate inter partes review proceedings based on its assessment of the time-bar of § 315(b).” *Achates* controls here. Review of whether the PTO properly instituted inter partes review is forbidden by § 314(d).

## II

MCM next argues that inter partes review is unconstitutional because any action revoking a patent must be tried in an Article III court with the protections of the Seventh Amendment. Here there is no bar to review, under § 314(d), of MCM's claim that the Board lacked authority to issue a final decision. Jurisdiction exists because MCM challenges only the final decision of the Board, not its decision to institute proceedings.

In support of its constitutional argument, MCM urges that the Supreme Court's decision in *McCormick Harvesting Machine Co. v. Aultman* ("*McCormick II*"), 169 U.S. 606 (1898), bars the PTO from invalidating patents in inter partes review proceedings and that only an Article III court can exercise that authority.

In *McCormick II*, the owner of U.S. Patent No. 159,506, a patent on automatic twine binders for harvesting machines, brought suit for infringement of claims 3, 10, 11, 25, and 26 against two accused infringers. See *McCormick Harvesting Mach. Co. v. Aultman* ("*McCormick I*"), 69 F. 371, 388 (6th Cir. 1895). The defendants pointed out that the patentee had submitted to the Patent Office an application for reissue including both claims in the original patent and newly added claims. *McCormick II*, 169 U.S. at 607. The examiner rejected five of the original claims (the same as those asserted in the infringement suit) as invalid, but allowed other claims, both old and

new. *Id.* at 607-08. The patent owner subsequently withdrew the application for reissue, and the original patent was returned by the Patent Office. *Id.* The trial court held that there was no infringement liability because the amended claims had been found invalid by the Patent Office. *Id.* at 607. On appeal the Sixth Circuit certified the question as to the effect of the Patent Office action. *McCormick I*, 69 F. at 401.<sup>1</sup>

The Supreme Court held that the original patent claims were not invalid because the reissue statute provided that the “surrender [of the original patent] shall take effect upon the issue of the amended patent,” Rev. Stat. § 4916 (1878), and that “until the amended patent shall have been issued the original stand[s] precisely as if a reissue had never been applied for . . . and must be returned to the owner upon demand. . . . If the patentee abandoned his application for reissue, he is entitled to a return of his original patent precisely as it stood when such application was made.” *McCormick II*, 169 U.S. at 610 (citation omitted). Because the patentee had never surrendered the original patent, the Patent Office’s

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<sup>1</sup> The certified question asked: “If a patentee applies for a reissue of his patent, and includes among the claims under the new application the same claims as those which were included in the old patent, and the examiner of the patent office rejects some of such claims, and allows others, both old and new, does the patentee, by abandoning his application for a reissue, and by procuring a return of his original patent, hold his patent invalidated as to those claims which the examiner rejected?” *McCormick I*, 69 F. at 401.

rejection of the original claims was a nullity. Only the patentee's decision to surrender the original patent and to accept the reissued patent without the rejected claims would have eliminated the claims found to be invalid. Because that did not occur, "[t]he 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.* at 609. Without statutory authorization, an "attempt [by the Commissioner of Patents] to cancel a patent upon an application for reissue when the first patent is considered invalid by the examiner . . . would be to deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive." *Id.* at 612; *see also United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 364-65 (1888) (noting lack of statutory authority for the Patent Office to cancel patents).

*McCormick II* did not address Article III and certainly did not forbid Congress from granting the PTO the authority to correct or cancel an issued patent. Congress has since done so by creating the ex parte reexamination proceeding in 1980; the inter partes reexamination procedure in 1999; and inter partes review, post-grant review, and Covered Business Method patent review in 2011. *See* Bayh-Dole Act, Pub. L. No. 96-517, 94 Stat. 3015 (1980) (codified as amended at 35 U.S.C. §§ 302-07); Intellectual Property and Communications Omnibus Reform Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501 (codified

as amended at 35 U.S.C. § 311 *et seq.* (1999)); Leahy-Smith America Invents Act (“AIA”), Pub. L. No. 112-29, § 6(a), 125 Stat. 284, 299-304 (2011) (codified at 35 U.S.C. §§ 311 *et seq.* (2013)). Supreme Court precedent demonstrates that these statutes, and particularly the inter partes review provisions, do not violate Article III.

As early as in *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. 272, 284 (1855), the Court recognized that “there are matters, involving public rights, which may be presented in such form that the judicial power is capable of acting on them . . . but which congress may or may not bring within the cognizance of the courts of the United States, as it may deem proper.” *Id.* at 281; *see also Crowell v. Benson*, 285 U.S. 22, 50 (1932). That is, Congress has the power to delegate disputes over public rights to non-Article III courts. The public rights exception was first applied to disputes between the government and private parties, as in *Murray’s Lessee*. More recently, the Court has extended the doctrine to disputes between private parties concerning public rights. In *Block v. Hirsh*, 256 U.S. 135, 158 (1921), the Court upheld the constitutionality of a District of Columbia statute authorizing an administrative agency to determine fair rents for holdover tenants as provided by the statute. In *Ex parte Bakelite Corp.*, 279 U.S. 438, 460-61 (1929), the Court held that an adversarial proceeding by a company against a competitor for unfair importation practices under federal law did not need to be heard in an Article III court.

In *Thomas v. Union Carbide Agricultural Products Co.*, 473 U.S. 568, 571 (1985), the Court upheld the binding arbitration scheme of the Federal Insecticide, Fungicide, and Rodenticide Act (“FIFRA”). Under FIFRA, pesticide manufacturers seeking to register a pesticide were required to submit health, safety, and environmental data to the EPA. *Id.* at 571-72. That data could be utilized by the EPA in approving registrations by other manufacturers, but compensation for its use was owed to the earlier registrant. *Id.* The amount could be determined by agency arbitration instead of in an Article III court. *Id.* at 573-74. *Thomas* held that this statutory scheme does not violate Article III, noting that “[m]any matters that involve the application of legal standards to facts and affect private interests are routinely decided by agency action with limited or no review by Article III courts.” *Id.* at 583. It followed that “Congress, acting for a valid legislative purpose to its constitutional powers under Article I, may create a seemingly ‘private’ right that is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution with limited involvement by the Article III judiciary.” *Id.* at 593-94. So too the Court later upheld the constitutionality of adversary proceedings in the Commodity Futures Trading Commission (“CFTC”), for customers of commodity brokers to seek reparations from their brokers for violation of the Commodity Exchange Act (“CEA”) or agency regulations. *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 854 (1986).

More recently, the Court expounded on the public rights doctrine in *Stern v. Marshall*, 131 S. Ct. 2594 (2011). *Stern* explained that the Court continued to apply the public rights doctrine to disputes between private parties in “cases in which the claim at issue derives from a federal regulatory scheme, or in which resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency’s authority. . . . [W]hat makes a right ‘public’ rather than private is that the right is integrally related to particular federal government action.” *Id.* at 2613.

In *Stern*, however, the Court held that, under Article III, a bankruptcy court could not enter judgment on a state law counterclaim sounding in tort, because state law counterclaims “[do] not flow from a federal statutory scheme,” *id.* at 2614, “[are] not completely dependent upon adjudication of a claim created by federal law,” *id.* (quotation marks omitted), and do not involve “a situation in which Congress devised an expert and inexpensive method for dealing with a class of questions of fact which are particularly suited to examination and determination by an administrative agency specially assigned to that task,” *id.* at 2615 (quotation marks omitted).

Patent reexamination and inter partes review are indistinguishable from the agency adjudications held permissible in *Thomas* and *Schor*, and wholly distinguishable from the review of state law claims at issue in *Stern*. Here, as in *Thomas* and *Schor*, the agency’s sole authority is to decide issues of federal

law. The patent right “derives from an extensive federal regulatory scheme,” *Stern*, 131 S. Ct. at 2613, and is created by federal law. Congress created the PTO, “an executive agency with specific authority and expertise” in the patent law, *Kappos v. Hyatt*, 132 S. Ct. 1690, 1696 (2012), and saw powerful reasons to utilize the expertise of the PTO for an important public purpose – to correct the agency’s own errors in issuing patents in the first place. Reacting to “a growing sense that questionable patents are too easily obtained and are too difficult to challenge,” Congress sought to “provid[e] a more efficient system for challenging patents that should not have issued” and to “establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs.” H.R. Rep. No. 112-98, at 39-40. There is notably no suggestion that Congress lacked authority to delegate to the PTO the power to issue patents in the first instance. It would be odd indeed if Congress could not authorize the PTO to reconsider its own decisions.

The Board’s involvement is thus a quintessential situation in which the agency is adjudicating issues under federal law, “Congress [having] devised an ‘expert and inexpensive method for dealing with a class of questions of fact which are particularly suited to examination and determination by an administrative agency specially assigned to that task.’” *Stern*, 131 S. Ct. at 2615 (quoting *Crowell*, 285 U.S. at 46). The teachings of the Supreme Court in *Thomas*,



*Schor*, and *Stern* compel the conclusion that assigning review of patent validity to the PTO is consistent with Article III.

Our conclusion that the inter partes review provisions do not violate Article III also finds support in our own precedent. We had occasion to consider the constitutionality, under Article III, of the ex parte reexamination statute in *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985), *modified on other grounds on reh'g*, 771 F.2d 480 (Fed. Cir. 1985), and upheld the statute. We followed Supreme Court precedent that affirmed “the constitutionality of legislative courts and administrative agencies created by Congress to adjudicate cases involving ‘public rights.’” *Id.* at 604 (quotation marks omitted). We found that “the grant of a patent is primarily a public concern. Validity is often brought into question in disputes between private parties, but the threshold question usually is whether the PTO, under the authority assigned to it by Congress, properly granted the patent. At issue is a right that can only be conferred by the government.” *Patlex*, 758 F.3d at 604 (citing *Crowell*, 285 U.S. at 50). *Patlex* also distinguished *McCormick II*. We held that *McCormick II* did not “forbid [] Congress [from] authoriz[ing] reexamination to correct governmental mistakes, even against the will of the patent owner. A defectively examined and therefore erroneously granted patent must yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes.” *Id.* at 604.

We again considered an Article III challenge to ex parte reexamination in *Joy Technologies v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992). We concluded that “*Patlex* is controlling authority and has not been impaired by . . . subsequent Supreme Court cases,” *id.* at 229, and again held that “the issuance of a valid patent is primarily a public concern and involves a ‘right that can only be conferred by the government’ even though validity often is brought into question in disputes between private parties,” *id.* at 228 (quoting and citing *Patlex*, 758 F.3d at 604).

We are bound by prior Federal Circuit precedent “unless relieved of that obligation by an en banc order of the court or a decision of the Supreme Court.” *Deckers Corp. v. United States*, 752 F.3d 949, 959 (Fed. Cir. 2014). We see no basis to distinguish the reexamination proceeding in *Patlex* from inter partes review. Indeed, Congress viewed inter partes review as “amend[ing] ex parte and inter partes reexamination,” and as a descendant of an experiment began “[n]early 30 years ago, [when] Congress created the administrative ‘reexamination’ process, through which the USPTO could review the validity of already-issued patents on the request of either the patent holder or a third party, in the expectation that it would serve as an effective and efficient alternative to often costly and protracted district court litigation.” H.R. Rep. No. 112-98, at 45. Supreme Court authority after *Patlex* and *Joy Technologies* (discussed above) casts no doubt on those cases. Rather, it confirms their correctness. Governing Supreme

Court and Federal Circuit authority require rejection of MCM's argument that inter partes review violates Article III.

### III

MCM argues as well that it has a right to a trial by jury under the Seventh Amendment, which is not satisfied by the system of inter partes review. The Seventh Amendment provides that, “[i]n Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved. . . .” U.S. Const. amend. VII. The Supreme Court has stated that “the Seventh Amendment is generally inapplicable in administrative proceedings, where jury trials would be incompatible with the whole concept of administrative adjudication and would substantially interfere with [the agency’s] role in the statutory scheme.” *Curtis v. Loether*, 415 U.S. 189, 194 (1974). *Curtis* upheld “congressional power to entrust enforcement of statutory rights to an administrative process or specialized court of equity free from the structures of the Seventh Amendment.” *Id.* at 195. Similarly, the Court held in *Atlas Roofing Co., Inc. v. Occupational Safety & Health Review Commission*, 430 U.S. 442, 455 (1977), that “when Congress creates new statutory ‘public rights,’ it may assign their adjudication to an administrative agency with which a jury trial would be incompatible, without violating the Seventh Amendment’s injunction that jury trial is to be ‘preserved’ in ‘suits at common law.’ Congress is not required by the Seventh

Amendment to choke the already crowded federal courts with new types of litigation or prevented from committing some new types of litigation to administrative agencies with special competence in the relevant field.” See also *Tull v. United States*, 481 U.S. 412, 418 n.4 (1987) (“[T]he Seventh Amendment is not applicable to administrative proceedings.”). Here, when Congress created the new statutory right to inter partes review, it did not violate the Seventh Amendment by assigning its adjudication to an administrative agency.<sup>2</sup>

Under Supreme Court decisions such as *Curtis* and *Atlas Roofing*, there is no basis for MCM’s contention that it has a right to a jury trial. Indeed, we have previously addressed the jury trial argument in the context of a challenge to ex parte reexamination proceedings in *Patlex* and *Joy Technologies*. In *Patlex*, in addition to rejecting the argument that ex parte reexamination violated Article III, we also held that ex parte reexamination does not violate the Seventh Amendment because “the Constitution does not require that we strike down statutes . . . that invest

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<sup>2</sup> *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996), in stating that patent infringement actions in district court are subject to the Seventh Amendment, does not suggest that there is a jury trial right in an administrative adjudication of patent validity. See also *Ex parte Wood & Brundage*, 22 U.S. 603 (1824). Nor does *In re Lockwood*, 50 F.3d 966 (Fed. Cir.), vacated sub nom. *Am. Airlines, Inc. v. Lockwood*, 515 U.S. 1182 (1995), imply that there is a right to a jury trial in an agency proceeding.

administrative agencies with regulatory functions previously filled by judge and jury.” 758 F.2d at 604-05.

Seven years later, the patent owner in *Joy Technologies* argued that the intervening Supreme Court decision in *Granfinanciera v. Nordberg*, 492 U.S. 33 (1989), cast doubt on the validity of *Patlex. Joy Techs.*, 959 F.2d at 228. In *Granfinanciera*, the Court held that a bankruptcy trustee was constitutionally entitled to a jury trial in bankruptcy court on an action to recover a fraudulent conveyance, as such suits are matters of private rights. 492 U.S. at 55-56. The Court noted, however, that Congress “may assign [the] adjudication [of statutory public rights] to an administrative agency . . . without violating the Seventh Amendment[.]” *Id.* at 51 (quotation marks omitted) (quoting and citing *Atlas Roofing*, 430 U.S. at 455). We determined that *Granfinanciera* “affirms the basic underpinning of *Patlex*, viz., that cases involving ‘public rights’ may constitutionally be adjudicated by legislative courts and administrative agencies without implicating the Seventh Amendment right to a jury trial.” *Joy Techs.*, 959 F.2d at 228.

Because patent rights are public rights, and their validity susceptible to review by an administrative agency, the Seventh Amendment poses no barrier to agency adjudication without a jury.

## IV

We turn finally to the Board's holding on the question of obviousness. We review the Board's legal conclusions de novo and its factual findings for substantial evidence. *Randall Mfg. v. Rea*, 733 F.3d 1355, 1362 (Fed. Cir. 2013).

HP contends that a combination of two prior art references renders the challenged claims of the '549 patent obvious. Those two references are Kobayashi and Kikuchi. The Board found that Kobayashi discloses "a memory device for a computer with a converter that converts serial commands of the computer to parallel commands that are then used to control a storage medium (which can be a flash-memory card)." J.A. 5. One embodiment of Kobayashi depicts a flash memory card reader that can be used to read flash memory cards both with and without controllers. A sensor determines whether the flash memory card inserted includes a controller. If a controller is detected, a selector routes the data from the flash memory card to the computer; but if no controller is detected, the selector connects the flash memory card with an ATA controller, a controller based on the ATA interface standard that can read and write data on the memory card. Kobayashi does not disclose a controller that performs error correction.

Kikuchi describes a flash memory card with a one-chip ATA controller. See J.A. 7-9; Kikuchi, fig. 1. The Kikuchi ATA controller includes an error controller that "performs error control for read and write

operations.” See J.A. 8; Kikuchi, fig. 2. Dr. Banerjee, HP’s expert, testified that the Kikuchi ATA controller could be placed in an external adapter, similar to the Kobayashi flash memory card reader. Dr. Banerjee also testified that “it would have been obvious to one of ordinary skill in the art . . . to incorporate Kikuchi’s error correction and bad block mapping in ATA controller techniques into the ATA controller 124 of Kobayashi . . . [and] would be motivated [to do so] in order to ‘reliably retain stored data.’” J.A. 442.

MCM argues that Kobayashi does not disclose combining different functionalities into a single chip as required by the ’549 patent claims. MCM asserts that it would not have been obvious, when combining the teachings of Kobayashi and Kikuchi, to integrate their functionality into a single chip. The Board found that the “evidence supports a determination that one of ordinary skill in the art would have had both the knowledge and the inclination to place the functionality taught by Kobayashi and Kikuchi on a single chip.” J.A. 10. Notably, MCM conceded at the oral hearing before the Board that it was “common practice” to put multiple functions into a single chip. J.A. 10.

MCM now reframes its argument on appeal and argues that combining the two references cannot yield a single controller chip because Kobayashi requires that its controller be able to be placed on

either the reader or the card.<sup>3</sup> However, we have consistently held, as the Board recognized, that “[t]he test for obviousness is not whether the features of a secondary reference may be bodily incorporated into the structure of the primary reference; nor is it that the claimed invention must be expressly suggested in any one or all of the references. Rather, the test is what the combined teachings of the references would have suggested to those of ordinary skill in the art.” *In re Keller*, 642 F.2d 413, 425 (CCPA 1981); *see also In re Mouttet*, 686 F.3d 1322, 1333 (Fed. Cir. 2012).

Even if physical incorporation of the Kikuchi ATA controller into the Kobayashi ATA controller would have conflicted with Kobayashi’s instruction that its ATA controller could be arranged on the memory card or on the reader, the Board did not err in determining

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<sup>3</sup> MCM also argues on appeal that Kobayashi relies on a physical/optical detector to determine whether there is a controller on the flash card and that this form of detection cannot be incorporated into a single chip. However, MCM candidly admits that it only raised this argument in a few scattered sentences at the oral hearing below. We have found that “if a party fails to raise an argument before the trial court, or presents only a skeletal or undeveloped argument to the trial court, we may deem that argument waived on appeal.” *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 582 F.3d 1288, 1296 (Fed. Cir. 2009). We deem MCM’s argument waived.

MCM additionally argues that the ATA controllers in Kobayashi and Kikuchi only work with flash cards without their own ATA controllers, and not with flash cards that have ATA controllers. MCM provides no citation to this proposition. This argument was not made below and was waived.



that the claimed subject matter – a single controller chip with error correction functionality on a flash card reader – would have been obvious to a person of ordinary skill. MCM did not argue that there were any secondary considerations of nonobviousness that weighed against a finding of obviousness.

The Board determined that HP had shown “by a preponderance of the evidence [ ] that the challenged claims would have been obvious over the combination of Kobayashi and Kikuchi” and “a preponderance of the evidence demonstrates that a person of ordinary skill in the art would have combined the Kobayashi and Kikuchi references.” J.A. 9, 12.

We find that the Board’s factual findings are supported by substantial evidence. We affirm the Board’s conclusions that it would have been obvious to combine Kobayashi and Kikuchi, and that the challenged claims of the ’549 patent would have been obvious over a combination of the prior art references.

**AFFIRMED**

COSTS

Costs to appellee.

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