

RECORD NUMBER: 15-1205

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

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

*Plaintiffs/Appellants,*

– v. –

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

*Defendants/Appellees.*

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

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**REPLY BRIEF OF APPELLANTS**

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

Pursuant to FRAP 26.1 and Local Rule 26.1,

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

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

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

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

Cascades Ventures, Inc.

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

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

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

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

Signature: /s/ Robert P. Greenspoon

Date: 3/3/2015

Counsel for: Appellants

**CERTIFICATE OF SERVICE**

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

/s/ Robert P. Greenspoon  
(signature)

3/3/2015  
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## I. REPLY INTRODUCTION

Chief Justice John Roberts wrote this May:

The Framers understood this danger [of slight Article III encroachments creating new boundaries from which legions of power can seek new territory to capture]. They warned that the Legislature would inevitably seek to draw greater power into its “impetuous vortex,” *The Federalist* No. 48, at 309 (J. Madison) . . . . In response, the Framers adopted the structural protections of Article III, “establishing high walls and clear distinctions because low walls and vague distinctions will not be judicially defensible in the heat of interbranch conflict.” *Plaut [v. Spendthrift Farm, Inc.]*, 514 U.S. 211, 239 (1995)]. As this Court once put it, invoking Frost, “Good fences make good neighbors.” *Id.*, at 240.

*Wellness Int’l Network Ltd. v. Sharif*, 575 U.S. \_\_\_, slip op. at 19-20 (2015) (Roberts, C.J., dissenting). The USPTO’s arguments on appeal rend vast holes in this Article III fence. This Court should stem the encroachment by reversing.

## II. *INTER PARTES* REVIEW VIOLATES THE CONSTITUTION BECAUSE IT PLACES ADJUDICATIONS THAT HISTORICALLY OCCURRED IN EIGHTEENTH CENTURY COURTS INTO AN ARTICLE I EXECUTIVE AGENCY WITHOUT A JURY

Appellants’ Principal Brief showed that *inter partes* review proceedings are an unconstitutional encroachment on the exclusive power of Article III courts, and violate Appellants’ Seventh Amendment right to have the issue of patent validity determined by a jury. In response, the USPTO neglects to even mention the dispositive question: whether the statutory claim at issue is newly fashioned, or whether it is “the subject of a suit at the common law, or in equity, or admiralty.” *See Stern v. Marshall*, 131 S. Ct. 2594, 2609 (2011) (citing *Murray’s Lessee v.*

*Hoboken Land & Improvement Co.*, 59 U.S. 272 (1856)). The USPTO presents only misleading, out-of-context quotes to argue that Congress can overcome constitutional limitations simply by regulating an area. As explained below, that position is fundamentally flawed.

**A. The USPTO Does Not Present Any Basis for Distinguishing This Case From *McCormick* Or Any of Appellants' Other Supreme Court Authority**

As shown in Appellants' Principal Brief, on numerous occasions the Supreme Court held unconstitutional what Congress later did when it created *inter partes* review proceedings. (Blue Br. at 16-22). *McCormick Harvesting Co. v. Aultman*, the most recent of those decisions, emphatically held that once a patent is issued, it is not subject to revocation or cancellation by any executive agent, including by any part of the USPTO. *See* 169 U.S. 606 (1898). Without even a hint of analysis, the USPTO brushes aside all of these binding decisions based on two broad (and provably false) assertions: 1) that *McCormick* and *United States v. American Bell Tel. Co.* based their decisions on the language of the Patent Act as it existed at the time (Red Br. 31-32), and 2) that Appellants' cases involving patents for land are somehow different, and therefore do not apply. (Red Br. 32-33).

The USPTO asserts that “*McCormick Harvesting* held only that the Patent Act itself provided no basis for cancelling an original patent based on the rejection of a later reissue application.” (Red Br. 31). But *McCormick* did not turn on any

alleged absence of statutory authority; its holding addresses constitutional principles rather than statutory interpretation. *See, e.g., McCormick*, 169 U.S. at 610 (“[T]o attempt to cancel a patent upon an application for reissue . . . 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.”). The USPTO points to nothing in the decision to the contrary.

Further, the USPTO is incorrect about statutory law when *McCormick* and *American Bell* were decided. At the time, reissue examiners acted under color of statutory authority to invalidate original patent claims during reissuance proceedings. *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 hold based on an absence of statutory authority; it held on constitutional grounds in the face of it.<sup>1</sup>

The USPTO also argues that the Supreme Court in *American Bell* “held that Congress in the Patent Act did not intend to authorize the Executive Branch to cancel a previously issued patent.” (Red Br. 32, citing 128 U.S. 315, 364 (1888)). According to the USPTO, the *American Bell* Court “explain[ed] that the patent statutes ‘show very clearly the sense of congress’ that if the power to cancel a

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<sup>1</sup> The USPTO relegates to footnote four a prior circuit court rationale attempting to distinguish *McCormick* on the theory that its holding does not apply to proceedings to correct governmental mistakes. Appellants’ opening brief demolished this rationale (Blue Br. 18-22), justifying the USPTO’s near abandonment of it.

patent is to be exercised, “it should be in the equity jurisdiction of the courts.” (Red Br. 32). In fact, the underlying proceeding of that case was *non-statutory* – involving the United States government suing in equity to invalidate two patents procured by fraud. *See American Bell*, 128 U.S. at 350. The Court’s “sense of Congress” comment simply confirmed that it was the *equity* (in distinction to law) courts that should be used when the government sues to revoke a patent. *Id.* at 364. The statutory text simply noted that Congress had likewise channeled appeals from patent-examination decisions into the equity courts of the day. *Id.* at 363-64.

Appellants also cited numerous Supreme Court land patent cases dealing with similarly unconstitutional Executive actions. (Blue Br. 19-22). The USPTO dismisses all of this binding authority as somehow inapposite. (Red Br. 32-33). But numerous decisions (including the USPTO’s principal authority) expressly foreclose that position. *See, e.g., American Bell*, 128 U.S. at 358-59 (“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 Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (“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.”) (quoting *Consolidated Fruit Jar Co. v. Wright*, 4 Otto 92, 96, 94

U.S. 92, 96, 24 L.Ed. 68 (1876)). Every USPTO effort to distinguish *McCormick* falls flat. No principled basis exists to call *inter partes* review constitutionally sound.

**B. Under Supreme Court Precedent, Patents Cannot Be Public Rights**

The USPTO nonetheless argues that patents *vel non* are public rights, because 1) patents are granted under authority of a federal statute, and 2) because the USPTO employs technical experts and does its work within a regulatory scheme. (Red. Br. 29). Neither argument withstands scrutiny.

First, the USPTO misstates the question. The issue is not whether the grant of a patent (or even the patent itself) is a public or private right; the issue is whether the patentee's right to *adjudication of invalidity of a previously issued patent* is a public or private right. Second, the USPTO omits the first and most important step in the analysis:

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 (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.

*Stern*, 131 S. Ct. at 2609 (emphasis added). Thus, if a particular action was in law or equity in 1789, it must be heard by an Article III court. Patent validity

adjudication undoubtedly fits this definition.

While public rights may be adjudicated in an Article I tribunal without a jury, rights are correctly called “public” only if the regulatory scheme is “newly fashioned,” and does not strip away a prior private right.

Congress may devise *novel* causes of action involving public rights free from the strictures of the Seventh Amendment if it assigns their adjudication to tribunals without statutory authority to employ juries as factfinders. But it lacks the power to strip parties contesting matters of private right of their constitutional right to a trial by jury. . . . [T]o hold otherwise would be to permit Congress to eviscerate the Seventh Amendment’s guarantee by assigning to administrative agencies . . . 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. . . . [*Congress cannot*] *conjure away the Seventh Amendment by mandating that traditional legal claims be . . . taken to an administrative tribunal.*

*Granfinanciera, SA v. Nordberg*, 492 U.S. 33, 51-52 (1989) (emphasis added) (internal citations, alterations, and quotation marks omitted); *id.* at 61 (“Congress cannot eliminate a party’s Seventh Amendment right to a jury trial merely by relabeling the cause of action to which it attaches and placing exclusive jurisdiction in an administrative agency . . .”). The brief of Amicus Affinity Labs of Texas ably explains this Supreme Court public rights jurisprudence. The USPTO ignores that amicus brief.

“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 *inter partes* review petitions), though commenced in chancery, a common law jury served as factfinder. *Id.* “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.)).

Further, like the fraudulent conveyance claim in *Granfinanciera*, 492 U.S. at 36, challenges to a patent’s validity are quintessentially “Suits at common law.” They therefore lie at the “protected core” of Article III judicial power. *Id.* at 56. Contrary to the USPTO’s chief argument, whether a statute regulates how the underlying right gets decided does not matter. “[T]he Seventh Amendment also applies to actions brought to enforce statutory rights that are analogous to common-law causes of action ordinarily decided in English law courts in the late 18th century . . . .” *Id.* at 42 (citing *Curtis v. Loether*, 415 U.S. 189, 193 (1974)); *cf. In re Tech.*, 423 F.3d at 1292 (Newman, J., dissenting) (“In *Parsons v. Bedford*, 28 U.S. (3 Pet.) 433, 447, 7 L.Ed. 732 (1830), the Court explained that the language of the Seventh Amendment, ‘Suits at common law,’ refers to ‘suits in which legal rights were to be ascertained and determined, in contradistinction to those, where equitable rights alone were recognized, and equitable remedies were administered.’”). As in *Granfinanciera*, which struck down an Article I

adjudication of a statutory right, “[t]he decisive point is that . . . Congress did not ‘create a new cause of action, and remedies therefor, unknown to the common law . . . .’” 492 U.S. at 60 (quoting *Atlas Roofing Co. v. Occupational Safety and Health Review Comm’n*, 430 U.S. 442, 461 (1977)).

Skipping this dispositive first step, and without addressing the purpose of the Separation of Powers doctrine, the USPTO argues that a right is automatically “public” if the claim derives from a federal regulatory scheme or if resolution by an expert agency is essential to a regulatory objective within the agency’s authority. (Red Br. 29). The USPTO’s position ignores *Granfinanciera* and *Stern*, and would always let Congress ignore Article III when it chooses to regulate an otherwise private area, regardless of whether it was the “subject of a suit at the common law, or in equity, or admiralty.” *See Stern*, 131 S. Ct. at 2609. The USPTO’s “expert adjudication” argument similarly fails. The USPTO has virtually no experience conducting adversarial trial proceedings – especially when compared to Article III courts. Its expertise is in conducting examinations, which it does not do in an *inter partes* review. (Blue Br. 26).

Moreover, the USPTO’s argument that patents *vel non* are public rights goes too far. If patents were public rights, Congress could permanently remove *all* patent-related issues from Article III courts entirely, and try them without a jury. That is plainly not the case. *See Markman v. Westview Instruments, Inc.*, 517 U.S.

370, 377 (1996) (“Equally familiar is the descent of today’s patent infringement action from the infringement actions tried at law in the 18th century, and there is no dispute that infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”) (citing *Bramah v. Hardcastle*, 1 Carp. P. C. 168 (K. B. 1789)); *In re Lockwood*, 50 F.3d 966, 976 (Fed. Cir. 1995) (“Under both English and American practice . . . it was the patentee who decided in the first instance whether a jury trial on the factual questions relating to validity would be compelled.”); *Patlex*, 758 F.2d at 603 (“The right to a jury trial on issues of patent validity that may arise in a suit for patent infringement is protected by the Seventh Amendment.”). The USPTO is simply incorrect that patents may be wholly removed from Article III courts.

The USPTO further muddies the analysis by asserting that the public has a “public concern” in the issuance of valid patents. (Red Br. 29-30). Other than sharing the word “public,” a general “public concern” in a matter has nothing to do with the Supreme Court’s public rights jurisprudence. The public has an interest in the efficient workings of *all* Executive agencies (indeed, in all Branches of government and at all levels). The public has a similar “concern” in channeling the adjudication of wholly-private disputes into Article III courts, such as those involving fraudulent conveyances like those at issue in *Granfinanciera*. 492 U.S. at 36. But the public’s general “concern” notwithstanding, the *Granfinanciera* Court

deemed that right private, even though asserted under a federal statute. *Id.* at 55. Moreover, while the public has an interest in a reliable and efficient patent system as a whole, its interest in any one patent is exceedingly small. *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 840 (2015) (“Statutes, in general, address themselves to the general public; patent claims concern a small portion of that public.”). In short, amorphous public “concern” in the validity of a particular patent is a red herring.

Finally, the USPTO fails to acknowledge in its opposition brief that *McCormick*, *American Bell*, and all of Appellants’ other Supreme Court authority, came as many as forty-two years after “public rights” were announced in *Murray’s Lessee v. Hoboken Land & Improvement Co.*, but the Court did not even mention the doctrine in those decisions. The Court’s silence indicates just how far outside that doctrine patent rights lie.

**C. Patent Owners Indisputably Have a Seventh Amendment Right to a Jury on Patent Validity, and It Therefore Cannot Be a Public Right**

A Seventh Amendment right to a jury trial in a private dispute precludes a finding that the right at issue is “public.”

[I]f a statutory cause of action is legal in nature, the question whether the Seventh Amendment permits Congress to assign its adjudication to a tribunal that does not employ juries as factfinders requires the same answer as the question whether Article III allows Congress to assign adjudication of that cause of action to a non-Article III tribunal.

*Granfinanciera*, 492 U.S. at 53. The USPTO conceded this point in the district court. (See ECF No. 16 at 16-17). But the USPTO conveniently overlooks the corollary: Because Appellants have a Seventh Amendment right to jury adjudication of patent validity, the right *cannot* be “public.” *Granfinanciera*, 492 U.S. at 53; *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, 304 n.86 (2012) (“Conversely, if there is a . . . right to a jury, then there cannot be a public right. The logic is necessarily reciprocal.”). Working in tandem with public rights jurisprudence, the jury trial right bars Congress from removing from Article III courts claims that have deep roots in the common law, regardless of whether they are now granted by statute.

“Jury trials of issues of patent validity appear from the early days of the nation’s jurisprudence.” *In re Tech.*, 423 F.3d at 1293 (Newman, J. dissenting). “Under both English and American practice . . . it was the patentee who decided in the first instance whether a jury trial on the factual questions relating to validity would be compelled.” *In re Lockwood*, 50 F.3d at 976. In such cases, the patent owner’s election to seek (or in the case of a declaratory judgment, its decision *not to surrender*) a claim for damages for patent infringement controls. *In re Tech.*, 423 F.3d at 1289 (emphasis added) (citing *Lockwood*, 50 F.3d at 976); *id.* (“The *Lockwood* court looked at the declaratory judgment counterclaim as an inverted

action for infringement in which the patentee had not surrendered his right to a jury. Therefore, the patentee retained his right to a jury trial on the counterclaim.”). Eighteenth-century English practice controls this question. *Lockwood*, 50 F.3d at 976.

Here, Appellant eCharge Licensing LLC filed a lawsuit against Square, Inc. for patent infringement. *See* Case No. 1:13-cv-06445 (N.D. Ill.). eCharge sought damages and demanded a jury. *See id.*, ECF No. 1, at 8. Under all of the cases just cited, eCharge has a Seventh Amendment right to have a jury decide validity in those proceedings. However, through *inter partes* review, Congress gave the defendant in that action the ability—*after* being sued—to remove the question from a jury and instead have it decided by three Administrative Patent Judges. Where the administrative process grants the petitioner any requested relief, no jury will ever decide validity *or* infringement.<sup>2</sup>

**D. *Inter Partes* Review Differs from Previous Administrative Proceedings in Constitutionally Significant Ways**

The USPTO disagrees that any constitutionally significant differences exist between *ex parte* reexamination and *inter partes* review. (Red Br. 34-35). It derides Appellants’ argument as a veiled attack on *Patlex* and *Joy* to create a

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<sup>2</sup> The USPTO invites judicial myopia in arguing that Appellants had no right to seek damages in the administrative proceeding itself. (Red Br. 38). eCharge *did* seek damages in district court. The USPTO position transforms erosion of a patentee’s rights within the administrative forum into its own justification.

circuit split. (Red Br. 8). Ironically, the USPTO also asks this Court to view the private party adversarial nature of *inter partes* review as business-as-usual for a federal agency. (Red Br. 3-4).

But as pointed out in Appellants' opening brief and ignored by the USPTO, the Federal Circuit harmonized the tension between *ex parte* reexamination and then-recent Supreme Court authority *for the very reason* that it constituted a proceeding between the government and a person and not an adversarial proceeding between private parties. (Blue Br. 26, citing *Joy Techs., Inc. v. Manbeck*, 959 F.3d 226, 229 (Fed. Cir. 1992)). The Federal Circuit had a point.

Where the federal government is not a party, the public rights exception is “limited to 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.” *Stern*, 131 S. Ct. at 2613 (emphasis added). As shown above, patent invalidity adjudications have never “derived from” federal regulations, since they “derive from” antecedents that pre-date the founding (*e.g.*, as defenses raised before juries in the English common law courts, or as writs of *scire facias* brought in the English chancery courts in the name of the king that might, if facts were disputed, be referred to such common law juries). *See In re Tech.*, 423 F.3d at 1292-93 (Newman, J. dissenting). Likewise, for the same reasons, it has never been

“essential” for USPTO employees to adjudicate invalidity of issued patents. The courts have played that role for over 200 years.<sup>3</sup>

The USPTO ignores decisional standards that apply when the government is not a party. Yet those standards easily distinguish how the Federal Circuit reached its result in *Patlex* and *Joy*. In those cases, the Federal Circuit had no need to weigh the historical-antecedents question. The presence of the government as a party within the proceedings in question cut off that inquiry. That *ex parte* reexamination involved the government as a party, and re-opened the patent examination and initial-granting process, meant that the analysis differed. When the government is a party, rights are “public” when they arise “between the Government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments.” *See Stern*, 132 S. Ct. at 2612.

Finally, the USPTO notes in a footnote that if this Court adopts Appellants’ interpretation of *McCormick*, its decision would squarely conflict with *Patlex* and *Joy*. (Red Br. 31 n. 4). While the USPTO is correct that the decisions would be in tension, this Court owes no deference to the Federal Circuit on purely

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<sup>3</sup> Patent “examination” as we know it today did not begin until the Patent Act of 1836. Before then, inventors acquired patents through a registration process, and the courts made initial patentability determinations.



constitutional questions.<sup>4</sup> Moreover, the *Patlex* and *Joy* courts' "error by the government" mode of reasoning reflects *de facto* overruling of Supreme Court authority in order to save the agency proceedings of the day. The USPTO argues to extend that reasoning to *inter partes* review. But what the USPTO does not (and logically, *cannot*) do is explain how *McCormick's* express language can be aligned with *Patlex's* rationale, *i.e.*, that any patent that is later invalidated was thus a "governmental mistake" that can be corrected outside the protections of Article III courts. In short, under *Patlex* there are no patent validity-adjudication rights left for *McCormick* to protect. The USPTO offers no argument to the contrary.

**E. Justice Thomas's Recent Dissenting Opinions Indicate He Would Hold that Issued Patents Carry Private Rights**

The USPTO argues that Justice Thomas's recent dissenting opinions indicate that he believes issued patents are public rights, and that this Court should hold the same on this basis. (Red Br. 33-34). The USPTO is incorrect; Justice Thomas would conclude that patent invalidity adjudication of an already-issued patent is a private right.

First, it is undisputed that Justice Thomas would find a Separation of Powers bar if private rights are involved. (*See* Red Br. 34, citing *B&B Hardware, Inc. v. Hargis Indus., Inc.*, 135 S. Ct. 1293, 1316, 1317 (2015) (Thomas, J., dissenting)).

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<sup>4</sup> Several Federal Circuit judges acknowledged that *Lockwood* likely overruled its earlier *Patlex* decision. *In re Lockwood*, 50 F.3d at 981-83 (Nies, C.J., joined by two other judges, dissenting from denial of rehearing *en banc*).

Second, as the USPTO concedes, Justice Thomas rested his conclusion in *B&B Hardware* “that trademark infringement suits might implicate private rights on the fact that the ‘exclusive right to use a trademark *was not created by an act of Congress*’ but rather ‘existed long anterior to [the Lanham Act].’” (Red Br. 34, citing *B&B Hardware*, 135 S. Ct. at 1317 (Thomas, J., dissenting)). The same is true of patents. *See* U.S. Const. art. I, cl. 8, § 8 (“To promote the progress of science and useful arts, by securing for limited times to authors and inventors *the exclusive right* to their respective writings and discoveries[.]”) (emphasis added). Both patents *and* trademarks rest on rights that existed “anterior” to the statutes that govern them – the U.S. Constitution’s Intellectual Property Clause in the case of patents, plus hundreds of years of English court practice before then. At the very least, the right to adjudication of invalidity rested on such antecedents. Justice Thomas’s opinion would be the same in this case.

Third, the USPTO repeatedly misquotes Justice Thomas. For example, it argues that Justice Thomas “referr[ed] to invention patents as ‘public rights’” in footnote 2 of his dissenting opinion in *Teva Pharmaceuticals*. (Red Br. 28, 33, 34, citing 135 S. Ct. at 848 n.2 (Thomas, J., dissenting)). But the Justice’s use of the term “public rights” referred to the administrative act of *granting a land patent*. He described as a public right the pool of real property within the government’s ownership before disbursement (in part) as a land patent. 135 S. Ct. at 848 n.2

(Thomas, J., dissenting). His “public rights” terminology did not refer to post-issuance land patents, and certainly not invention patents in any respect. *Id.*

If anything, pre-disbursement land patents are recognizably public whereas pre-patented inventions are categorically private. The pool of original inchoate ideas whose legal rights eventually become encapsulated in an invention patent belong to private inventors as the fruits of their intellectual labor. *See* Adam Mossoff, *Who Cares What Thomas Jefferson Thought about Patents? Reevaluating the Patent “Privilege” in Historical Context*, 92 Cornell L. Rev. 953, 992 (2007) (“*Jefferson*”) (“In this way . . . a patent secured for an inventor the right to ‘enjoy the fruits of his invention’ because ‘it is his property.’”) (quoting *Hawes v. Gage*, 11 F. Cas. 867, 867 (C.C.N.D.N.Y. 1871)); *id.* at 995 (“This ‘inchoate property which is vested by the discovery,’ . . . is ‘perfected by the patent.’”) (quoting *Evans v. Jordan*, 8 F. Cas. 872, 873 (C.C.D. Va. 1813) (Marshall, Circuit Justice)).

This is also what Justice Thomas meant when he noted in *Teva* that patents were considered “privileges.” *See id.* at 971-72 (explaining that during that era the word “privilege” was used to refer to a Lockean civil right, *i.e.*, a private property right *returned to* the inventor by the state, as part of the social contract). James Madison in The Federalist No. 43 held that the civil right of a patent would exist on equal footing under our Constitution as the natural right of a copyright. The

Federalist No. 43, at 271-72 (James Madison) (Clinton Rossiter ed. 1961).<sup>5</sup> This is the quintessence of a private right.

Finally, contrary to the USPTO's assertion, patent rights were not widely viewed as a "public embarrassment" akin to government-sanctioned franchises. (Red Br. 28). During the period referred to by Justice Thomas, courts drew a sharp line between American legal treatment of a patent as property, versus some English sources that treated it as a royal prerogative. *McKeever v. United States*, 14 Ct. Cl. 396, 420 (1878) (citing U.S. Constitution's guarantee of "exclusive rights"); Mossoff, *Jefferson*, 92 Cornell L. Rev. at 989-90. In fact, as emphatically reiterated by the Supreme Court this June, patent rights are and were considered by United States courts to be constitutional private property subject to a takings analysis. *Horne v. Dep't. of Agriculture*, 575 U.S. \_\_\_, slip op. at 6 (2015) (citing *James v. Campbell*, 104 U.S. 356, 358 (1882)); see also *James*, 104 U.S. at 358 ("[W]hen [the Government] grants a patent the grantee is entitled to it as a matter of right, and does not receive it, as was originally supposed to be the case in England, as a matter of grace and favor.").

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<sup>5</sup> In one of the only remarks by any Framers on the Intellectual Property Clause, Madison wrote: "The utility of this power will scarcely be questioned. The copyright of authors has been solemnly adjudged in Great Britain to be a right of *common law*. The right to useful inventions seems *with equal reason* to belong to the inventors." *Id.* (emphasis added).

### III. THIS COURT HAS THE POWER TO REACH THE CONSTITUTIONAL QUESTIONS

In seeking to avoid this constitutional scrutiny, the USPTO sidesteps the actual judgment on review. The district court ruled based on administrative exhaustion. The USPTO does not defend the exhaustion judgment. This silence effectively concedes reversible error in the actual judgment on appeal.

Instead, the USPTO offers an alternative ground for affirmance. The USPTO contends this alternative ground (implied statutory preclusion, or channeling) shows lack of subject matter jurisdiction. But that is not so. In fact, the USPTO waived that alternative ground. And the issue does not implicate subject matter jurisdiction. But even if it did, the USPTO is incorrect that preclusion or channeling applies here.

#### A. The USPTO Waived Its Preclusion and Channeling Arguments

In proceedings below, the USPTO argued only statutory and/or prudential administrative exhaustion. *See* ECF Nos. 16, 27. The district court ruled solely on that ground. (JA 327-37). The USPTO mentioned preclusion in passing in a footnote. ECF No. 16, at 12-13 n.6. But that same footnote made it clear that the USPTO was unsure whether preclusion existed. *Id.* (“Indeed, it is at least questionable whether § 314(d)’s preclusion of district court jurisdiction over an interlocutory PTAB decision instituting *inter partes* review – again, the very decision on which plaintiffs rest their standing to present the instant claims –

similarly precludes this Court from exercising jurisdiction over this interlocutory action.”). The USPTO now flip-flops, ignoring its previous doubts. It now puts preclusion center stage. Since it did not raise it below, the USPTO has waived this alternative ground for affirmance.

Of course, defects in subject matter jurisdiction may be raised at any time, even if otherwise waived. Anticipating this, the USPTO casts preclusion as an issue of subject matter jurisdiction. However, the USPTO cites no decision in which any court called statutory limits on the venue for initially bringing a facial constitutional challenge to an administrative process “jurisdictional,” where the challenge would leave intact any administrative outcome. (*See* Section III.B.1, below). If there were a statutory hurdle, that does not necessarily mean it is jurisdictional.

This Court has acknowledged that a statute concerned with administrative review must contain a “clear statement” about subject matter jurisdiction in the district courts before any statutory limitation on the claim will be considered “jurisdictional.” *Long Term Care Partners, LLC v. United States*, 516 F.3d 225, 238-39 (4th Cir. 2008) (Williams, C.J., concurring-in-part) (citing *Arbaugh v. Y&H Corp.*, 546 U.S. 500 (2006)); *id.* at 232 (panel decision) (assuming without deciding under *Arbaugh* that lack of a clear statement about jurisdiction made “statutory limitation on coverage” of a statute nonjurisdictional). This principle

also applies to preclusion theories, such as exhaustion. *Munsell v. Dept. of Agriculture*, 509 F.3d 572, 575 (D.C. Cir. 2007).

These rules foreclose excusing waiver of the implied statutory preclusion argument. If an appellee raises a statutory limitation for the first time on appeal as a ground for affirmance, and if Congress did not, in a “bright-line” manner, mark out that statutory limitation as jurisdictional, then the appellee waived it. *See Sharkey v. Quarantillo*, 541 F.3d 75, 87-88 (2d Cir. 2008). That happened here. It is difficult to conjure any “implied” statutory limitation that would meet *Arbaugh*’s criterion of being “clearly stated” as a jurisdictional limitation.<sup>6</sup> Here, the USPTO does not attempt to show that any part of the America Invents Act contains a “bright line” label of any alleged statutory preclusion of district court venue as “jurisdictional.”

**B. Even if Waiver Could Be Excused, No Statute Precludes District Court Constitutional Scrutiny of *Inter Partes* Review**

Even if this Court addresses preclusion, the USPTO’s cited decisions on appeal each concern a type of claim not raised in this case. They involved constitutional attacks to unwind a prior adverse agency action explicitly subject to subsequent administrative review. In contrast, the constitutional claim here is

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<sup>6</sup> Though *Thunder Basin Coal v. Reich*, 510 U.S. 200, 210 (1994) (discussed below) labeled its preclusion holding as addressing “subject matter jurisdiction,” that was before the Court’s recognition in *Arbaugh* that it had been “profligate” and “less than meticulous” about its use of that term, thus imposing the “bright line” rule going forward. *Arbaugh*, 546 U.S. at 510-11.

against a review process itself, designed for a private third party to reverse an earlier *favorable* agency action (patent issuance), where a successful constitutional challenge *may leave intact* all subsequent adverse final agency actions. In short, no authority requires an implied statutory preclusion inquiry for such claims as these, and the strong presumption in favor of district court constitutional review of agency actions stands unrebutted.

**1. Appellees' Authorities are Inapposite to Claims of Unconstitutionality of a Review Process That Would Still Allow Adverse Final Agency Actions to Exist If Unconstitutionality is Found**

The USPTO's preclusion authorities do not apply to a case such as this in the first instance. All of the USPTO's implied venue-channeling authorities engage the rubric of a legislative intent analysis for situations distinct from that here. All such authorities concern a prior unfavorable agency decision, action or directive. In all such cases, the aggrieved party had a choice either to comply or to challenge. If it chose to challenge, statutes set forth a clearly-discernible agency (or circuit court) venue for attacks against the correctness of the prior decision, action or directive.<sup>7</sup>

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<sup>7</sup> *Elgin v. Dep't of Treasury*, 132 S. Ct. 2126, 2130-33 (2012) (prior termination of federal employee, MSPB review available); *Thunder Basin*, 510 U.S. at 210 (prior instruction to post notice in mine, MSHA review available); *United States v. Ruzicka*, 329 U.S. 287, 294 (1946) (prior adverse Agricultural Marketing Agreement Act order, petition to Secretary of Agriculture available); *Semper v. Gomez*, 747 F.3d 229, 242 (3d Cir. 2014) (prior termination of probation officer,



Here, no prior unfavorable agency decision, action or directive exists. Appellants instead had quietly enjoyed the benefits of a prior *favorable* agency decision – the issuance of a patent. Neither an agency as an enforcer, nor Appellants as parties aggrieved by an agency, had occasion or right to commence any statutory agency proceeding. Instead, under *inter partes* review, a private third-party adversary dragged Appellant property holders into an agency by commencing proceedings to undo the prior *favorable* agency decision. Interrupted in their quiet enjoyment of favorably-issued private property rights, Appellants had no choice but to enter the agency fray. No preclusion inquiry is necessary.

Nor do such authorities reach abstract challenges that, if successful, would leave intact the agency's final decision, making it only advisory. No Supreme Court decision has ever turned away, on preclusion grounds, a Separation of Powers or Seventh Amendment challenge brought against an agency in federal

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employment dispute resolution plan available); *Blitz v. Napolitano*, 700 F.3d 733, 740 (4th Cir. 2012) (prior adverse TSA checkpoint screening order, circuit court review available); *Pregis Corp. v. Kappos*, 700 F.3d 1348, 1357-58 (Fed. Cir. 2012) (prior patent-issuance unfavorable to infringer challenged under APA counterclaim, *ex parte* USPTO reexamination and adversarial declaratory judgment of invalidity suit available); *Nat'l Taxpayers Union v. Soc. Sec. Admin.*, 376 F.3d 239, 243 (4th Cir. 2004) (prior threatened enforcement action against deceptive use of "Social Security" in marketing, SSA review available); *NationsBank Corp. v. Herman*, 174 F.3d 424, 426-27 (4th Cir. 1999) (prior adverse OFCCP on-site actions, Labor Department review available); *Virginia v. United States*, 74 F.3d 517, 521-22 (4th Cir. 1996) (prior EPA letter finding commonwealth's Clean Air Act procedures insufficient, circuit court review available); *Denberg v. U.S. R.R. Retirement Bd.*, 696 F.2d 1193, 1195 (7th Cir. 1983) (prior benefits reduction determination, circuit court review available).

district court. In fact, the opposite is true. *See Thomas v. Union Carbide Ag. Prods. Co.*, 473 U.S. 568, 579-82 (1985) (rejecting ripeness attack because challenge concerned “the [agency] tribunal’s authority to adjudicate the dispute.”); *Crowell v. Benson*, 285 U.S. 22, (1932) (hearing Separation of Powers claim brought in district court against agency proceedings). Neither did *Thunder Basin* nor *Elgin* reach or address Separation of Powers or the Seventh Amendment, *i.e.*, constitutional claims against the abstract structural features of an administrative review system itself that do not seek reversal of any final decision.<sup>8</sup> In a footnote, *Thunder Basin* noted that its decision did *not* reach abstract constitutional attacks against the review process itself. *Thunder Basin*, 510 U.S. at 218 n.22. The procedural path of the USPTO’s primary authority, *Patlex*, itself began as a collateral district court suit against the USPTO, and proceeded without any statutory preclusion concerns. *Patlex Corp. v. Mossinghoff*, 585 F. Supp. 713, 716, 720-22 (E.D. Pa. 1983) (rejecting nonstatutory exhaustion defense).

Nor did *Thunder Basin* or *Elgin* concern constitutional claims that do not seek to reverse any eventual (or past) final agency action. *Vietnam Veterans of Am.*

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<sup>8</sup> Several district court decisions have distinguished *Thunder Basin* and/or *Elgin* as not necessarily restricting “broad facial and systematic” challenges in district court to the constitutional authority of the agency over the subject matter. *See Hill v. Securities and Exchange Commission*, No. 1:15-CV-1801-LMM, 2015 U.S. Dist. LEXIS 74822, at \*17-27 (N.D. Ga. June 8, 2015); *Chau v. SEC*, No. 14-cv-1903 (LAK), 2014 U.S. Dist. LEXIS 171658 (S.D.N.Y. Dec. 11, 2014); *Elk Run Coal Co. v Dep’t of Labor*, 804 F. Supp. 2d 8, 21 (D.D.C. 2011).

v. CIA, 288 F.R.D. 192, 211 n.12 (N.D. Cal. 2012), *aff'd in pertinent part*, Nos. 13-17430, 14-15108, 2015 U.S. App. LEXIS 11193 (9th Cir. June 30, 2015) (distinguishing *Elgin* because plaintiffs were not challenging any “individual veteran’s claim for benefits” but instead were challenging benefit *procedures* under the Constitution). As explained in Appellants’ opening brief, the proper constitutional remedy for this case might leave intact adverse final written decisions, but simply supply them with a different role.<sup>9</sup> The proper constitutional remedy would hold that patent cancellation under 35 U.S.C. § 318 no longer has effect, leaving district courts discretion over how to treat any PTAB “final written decision.” (Blue Br. 46-47, noting the Supreme Court imposed this remedy in *McCormick*).

This case therefore is not a collateral attack against any outcome that might or might not occur within the administrative process. It is an attack against the process, not the outcome. Even the USPTO’s own authorities distinguish this case from those which might be venue-channeled, since this case is one “in which the plaintiff challenges the validity of the agency’s enabling statute in an action wholly independent of the agency’s enforcement of a substantive provision.” *Nat’l*

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<sup>9</sup> This also distinguishes *Virginia v. United States*, 74 F.3d 517 (4th Cir. 1996). (Red Br. 19). In that case, “although [the complaint] seeks a ruling that certain parts of the [Clean Air Act] are unconstitutional, the practical objective of the complaint is to nullify final actions of the EPA.” *Id.* at 523. Here, the constitutional remedy sought would make USPTO outcomes constitutionally firm as *McCormick*-style advisory decisions.

*Taxpayers Union v. Soc. Sec. Admin.*, 376 F.3d 239, 244 n.3 (4th Cir. 2004).

Since this case does not seek to nullify potential adverse actions subject to an administrative review scheme, the standards announced in cases like *Thunder Basin* or *Elgin* for determining if implied statutory preclusion exists do not apply. As a result, no legislative intent analysis need occur. Instead, the “strong presumption that Congress intends judicial review of administrative action” should stand unrebutted. *See Bowen v. Michigan Academy of Family Physicians*, 476 U.S. 667, 670 (1986).

## **2. No Legislative Intent to Impose Implied Statutory Preclusion Exists**

Even if this Court were to apply the standards announced in *Thunder Basin* and *Elgin*, it should not find preclusion. Neither the text, structure nor purpose of the administrative processes within *inter partes* review demonstrates any legislative intent to preclude district court constitutional review. In addition, the lack of meaningful appellate review of constitutional claims through the administrative process, the wholly collateral nature of constitutional review to the existing appellate review scheme, and the lack of agency expertise over the constitutional questions raised here, each confirm the absence of implied preclusion.

First, the statutory text and structure of the America Invents Act lack any suggestion that abstract constitutional challenges to *inter partes* review must

channel exclusively through the administrative process. That the Act does contain channeling language for other issues shows that Congress knew how to channel when it wanted to. For example, the Act states that the decision whether to institute proceedings shall be nonreviewable and nonappealable. 35 U.S.C. § 314(d). Likewise, the Act states that review of any “final written decision” must go “only” to the Court of Appeals for the Federal Circuit. 35 U.S.C. § 141(c). No other text concerning appellate review exists in the Act. In each case, Congress left out constitutional claims, particularly those that attack the structure or processes of the Act itself. The USPTO therefore incorrectly asserts that the same provisions somehow “prohibit parties embroiled in ongoing inter partes review proceedings from challenging those proceedings in a collateral APA action in federal district court.” (Red Br. 16). These provisions expressly refer only to “institution decisions” or “final written decisions,” not the processes leading up to them.<sup>10</sup>

The legislative history (overlooked by the USPTO) also shows that the introduction of this appellate-review language into the legislation addressed purposes unrelated to constitutional scrutiny. The only relevant history on these

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<sup>10</sup> In *Elgin*, the reviewing court had plenary statutory power to set aside “any” agency action not in accordance with law, distinct from here where the reviewing court solely reviews the correctness of a “final written decision.” See *Elgin*, 132 S. Ct. at 2130-31 (quoting 28 U.S.C. § 7703(a)(1), (c)); see also *Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*, 130 S. Ct. 3138 (2010) (reaching Separation of Powers issue and finding violation after determining that appellate review provision did not cover facial constitutional challenge).

points is the March 8, 2011 remarks of Senator Kyl. In those remarks, he notes that the administrative patent judges will be those “whose decisions are appealable directly to the Federal Circuit.” 157 Cong. Rec. S 1366 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl). This remark concerns “decisions,” saying nothing about facial constitutional challenges to the processes that engender those decisions.

Senator Kyl further addressed the purpose of stating that “only” the Federal Circuit reviews final written decisions: compression of the appellate process. “[B]y reducing two levels of appeal to just one, this change will substantially accelerate the resolution of *inter partes* review.” *Id.* at S 1376. These remarks paint a contrast with “*inter partes* reexamination” – the procedure that *inter partes* review replaced – which at the time had two appellate layers of review (first to the Board of Patent Appeals and Interferences, and then to the Federal Circuit). The word “only” simply underscored the purpose of removing one administrative appellate layer, compared to before. Such remarks did not demonstrate any purpose of channeling constitutional attacks on the process itself to specific venues.<sup>11</sup>

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<sup>11</sup> The broader purpose of the AIA cited at page 17 of the USPTO brief – streamlining the patent system and limiting litigation costs – is not relevant, since it does not specify the purpose of the *review* provisions. In any case, the rarity of abstract constitutional challenges means that district court review would not undermine these purposes. *See Doe v. Nelson*, 703 F. Supp. 713, 718-19 (N.D. Ill. 1988) (allowing constitutional challenge notwithstanding preclusion argument that relied on legislative purpose of streamlined administrative determinations, after holding that “the threat of repetitive litigation is substantially lessened” when constitutional challenges are “without regard to the facts in individual cases”).

Under *Thunder Basin* and *Elgin*, courts still reject contentions of implied statutory preclusion if it would foreclose all meaningful judicial review, if the suit is wholly collateral to a statute's review provisions, and if the claims are outside the agency's expertise. Those are also indeed the case here. *Hill v. Securities and Exchange Commission*, 2015 U.S. Dist. LEXIS 74822, at \*17-27 (N.D. Ga. June 8, 2015) is instructive. In *Hill*, each of these conditions applied. They apply here for the same reasons.

For instance, appellate review to the Federal Circuit within the administrative scheme would not be "meaningful" because "Plaintiff's claims go to the constitutionality of Congress's entire statutory scheme . . . . If Plaintiff is required to raise his constitutional law claims following the administrative proceeding, he will be forced to endure what he contends is an unconstitutional process." *Id.* at \*18.

Likewise, this underlying suit is "wholly collateral" to the existing review scheme because "Plaintiff is not challenging any agency decision; Plaintiff is challenging whether the [USPTO's] ability to *make* that decision was constitutional. What occurs at the administrative proceeding and the [USPTO's] conduct there is irrelevant to this proceeding which seeks to invalidate the entire statutory scheme." *Id.* at \*25.

Finally, the constitutional claims are not within the USPTO's expertise.

Separation of Powers and Seventh Amendment issues “do not require technical considerations of agency policy. These claims are not part and parcel of the ordinary [patent validity review] case, and there is no evidence that (1) Plaintiff’s constitutional claims are the type the [USPTO] routinely considers, or (2) the agency’s expertise can be brought to bear on Plaintiff’s claims as they were in *Elgin*.” *Id.* at \*26-27 (internal quotations and citations omitted).

For all these reasons, this Court has the power, if not the obligation, to entertain Appellants’ constitutional challenges to *Inter Partes* Review.

#### **IV. THE USPTO’S TRANSFER ARGUMENTS ARE BOTH IMPROPER AND WRONG**

The parties fully briefed the USPTO’s transfer motion several months ago. The USPTO did not seek, and this Court did not grant, permission for supplemental reply briefing. Appellants respectfully request that Appellees’ Argument Section I be disregarded.

In any event, the USPTO continues to misapply the controlling decision on the question of appellate court jurisdiction: *Gunn v. Minton*, 133 S. Ct. 1059 (2013). As Appellants’ motion-opposition arguments pointed out, it is not enough to ask, as the USPTO does, only if an action relates to issues of patent law that are “substantial.” Instead, the Court must determine as well whether Patent Act questions are “necessarily raised” and “actually disputed.” Here, the USPTO points to no dispute between the parties over the meaning or application of any provision



of the current Patent Act. Whether patent rights are “public” or “private” raises constitutional questions, not Patent Act interpretation or application questions.

Likewise, the USPTO miscites *Madstad Engineering, Inc. v. U.S. Patent and Trademark Office*, 756 F.3d 1366 (Fed. Cir. 2014). The USPTO contends that it stands for the proposition that all constitutional scrutiny of provisions in the Patent Act must end up at the Federal Circuit. (Red Br. 7, 14). But this is not so. That case carefully held that only those questions meeting the *Gunn* criteria – that is, where parties “actually dispute” respective interpretations of terms within the current Patent Act – invoke that court’s appellate jurisdiction. *Id.* at 1369-71.

## V. CONCLUSION

For the foregoing reasons, this Court should reverse the judgment, with instructions to enter summary judgment for Appellants.

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July 6, 2015

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

No. 15-1205

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

CERTIFICATE OF COMPLIANCE WITH RULE 28.1(e) or 32(a)

Type-Volume Limitation, Typeface Requirements, and Type Style Requirements

- 1. Type-Volume Limitation: Appellant’s Opening Brief, Appellee’s Response Brief, and Appellant’s Response/Reply Brief may not exceed 14,000 words or 1,300 lines. Appellee’s Opening/Response Brief may not exceed 16,500 words or 1,500 lines. Any Reply or Amicus Brief may not exceed 7,000 words or 650 lines. Counsel may rely on the word or line count of the word processing program used to prepare the document. The word-processing program must be set to include footnotes in the count. Line count is used only with monospaced type.

This brief complies with the type-volume limitation of Fed. R. App. P. 28.1(e)(2) or 32(a)(7)(B) because:

- [x] this brief contains 6975 [state number of] words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii), or
[] this brief uses a monospaced typeface and contains [state number of] lines of text, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

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This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because:

- [x] this brief has been prepared in a proportionally spaced typeface using Microsof Word 2010 [identify word processing program] in Times New Roman 14 pt. [identify font size and type style]; or
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(s) Robert Greenspoon

Attorney for appellants

Dated: 7/06/2015

## CERTIFICATE OF SERVICE

I certify that on 7/06/2015 the foregoing document was served on all parties or their counsel of record through the CM/ECF system if they are registered users or, if they are not, by serving a true and correct copy at the addresses listed below:

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