

No. 15-1330

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IN THE  
**Supreme Court of the United States**

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MCM PORTFOLIO LLC,  
*Petitioner,*

v.

HEWLETT-PACKARD COMPANY, ET AL.,  
*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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**BRIEF FOR RESPONDENT  
HEWLETT-PACKARD COMPANY  
IN OPPOSITION**

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## QUESTIONS PRESENTED

This Court has held that administrative agencies may adjudicate public rights without violating either Article III or the Seventh Amendment. Congress has authorized the U.S. Patent and Trademark Office (PTO) both to issue patents and, since 1980, to revoke patents that the PTO concludes it issued in error and should not have granted. The PTO held that four claims of petitioner's patent were unpatentable because they were obvious under 35 U.S.C. § 103, based in part on prior art that was not before the PTO when it issued the patent.

The question presented is whether the PTO's determination that a previously issued patent was unpatentable is an adjudication of public rights that Congress may assign to an agency without violating either Article III or the Seventh Amendment.

## **RULE 29.6 STATEMENT**

Effective November 1, 2015, Hewlett-Packard Company changed its name to HP Inc. HP Inc. is an independent, publicly traded company. HP Inc. has no parent corporation. No publicly held company owns 10% or more of HP Inc.'s stock.

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**BRIEF FOR RESPONDENT  
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Petitioner owns a patent that the U.S. Patent and Trademark Office (PTO) should never have granted. No one can patent an invention that was obvious in light of the “prior art” (the body of knowledge that a skilled person in the relevant field would have consulted). 35 U.S.C. § 103. When the PTO examined petitioner’s patent, it did not have the benefit of a key piece of prior art. Both the PTO itself and the Federal Circuit have now agreed that the patent is obvious in light of the complete prior art and that the PTO should not have issued it.

Petitioner contends that the Constitution precludes the PTO from making that straightforward determination—that although the PTO can grant a patent, only a federal district court can revoke one, and only after a full jury trial on any factual issues. Various litigants have made the same arguments ever since Congress first authorized the PTO to reconsider issued patents, more than 35 years ago. No court has ever agreed, because the arguments lack any merit. As this Court has consistently held, Congress may permissibly locate the adjudication of “public rights” in an expert agency within the Executive Branch. And the *validity* of a patent concerns a public right: patents are issued by an expert agency pursuant to statute, and in cancelling an erroneously issued patent, the agency applies exactly the same law and expertise that it applied in first granting the patent.

The questions presented do not warrant further review. The petition for certiorari should be denied.



## STATEMENT

This case involves the PTO's power, conferred by Congress, to reconsider its own decision to grant a patent. The most recent statutory framework for that reconsideration power is called *inter partes* review (IPR), *see* 35 U.S.C. § 311 *et seq.*, but the PTO has had the statutory power to cancel erroneously issued patents since 1980, when Congress created the procedure known as reexamination. *See* Act of Dec. 12, 1980, Pub. L. No. 96-517, § 1, 94 Stat. 3015-17 (35 U.S.C. § 301 *et seq.*).

HP requested that the PTO institute an IPR to reconsider four claims of U.S. Patent No. 7,162,549 (the '549 patent), which petitioner owns. As relevant here, HP's petition to the PTO contended that those four claims were unpatentable when they were issued. The Patent Act bars the PTO from issuing a patent if the claimed invention was obvious, considering the prior art known to skilled artisans at the time. 35 U.S.C. § 103. HP's petition explained that the invention was obvious in light of the prior art—including a key reference, an international patent application known as Kikuchi after the inventor, that the PTO had not considered when it originally examined the patent. The Patent Trial and Appeal Board (Board) agreed to decide whether those four claims were unpatentable as obvious when they were issued. Pet. App. 48a-54a.

### A. The *Inter Partes* Review Proceeding

During the IPR, petitioner argued that IPR proceedings violate the Constitution because Article III and the Seventh Amendment require patent validity to be decided by jury trial in federal court. Pet. App.

26a-27a. With regard to the validity of the challenged patent claims, petitioner relied solely on attorney argument and argued a single point of distinction between the prior art and its claims: the prior art combination disclosed two controller chips to perform all of the claimed functions while the challenged claims required a single controller chip. *Id.* at 32a-35a. The Board rejected petitioner's arguments. On the constitutional issue, the Board held that binding precedent established that reexaminations are constitutional, and that there are no constitutionally significant distinctions between reexaminations and IPRs. *Id.* at 27a (citing *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, *modified on other grounds on reh'g*, 771 F.2d 480 (Fed. Cir. 1985), and *Joy Techs., Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992), *cert denied*, 506 U.S. 829 (1992)). On the merits, the Board also held that all challenged claims were invalid as obvious over the prior art. *Id.* at 35a.

## **B. The Federal Circuit Appeal**

A unanimous panel of the court of appeals affirmed the Board on all issues. Pet. App. 1a-22a.

The court agreed that the challenged claims would have been obvious over the prior art, *id.* at 22a, and held that the Constitution does not prohibit the PTO from cancelling the erroneously issued claims, *id.* at 7a-19a.

Under this Court's precedents, the adjudication of public rights may be assigned to an agency adjudicator rather than an Article III court that hears jury trials. Pet. App. 11a-13a. That has long been true of disputes between government and private parties, *Murray's Lessee v. Hoboken Land & Improvement*

Co., 59 U.S. (18 How.) 272, 284 (1856), but it is also true of disputes between private parties that concern public rights. *E.g.*, *Block v. Hirsh*, 256 U.S. 135, 158 (1921); *Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833, 854 (1986).

The Federal Circuit recognized that, based on this Court's precedents, review of patent *validity* (as opposed to claims seeking money damages for patent *infringement*) involves public rights because patents are derived from an extensive federal regulatory scheme. Pet. App. 13a. In a validity dispute, "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." *Id.* at 15a (quoting *Patlex*, 758 F.2d at 604). Congress, therefore, has the power to assign such review to the PTO, the agency charged with issuing patents in the first place, without violating Article III or the Seventh Amendment. *Id.* at 16a, 19a.

Indeed, the Federal Circuit explained, in that respect IPR is no different than the other procedures Congress has previously created to allow the PTO to review erroneously issued patents, *see* Pet. App. 10a. Since Congress created *ex parte* reexamination in 1980, the Federal Circuit had twice upheld that procedure against Article III and Seventh Amendment challenges, and this Court had denied certiorari. *Id.* at 14a-16a (citing *Patlex* and *Joy Technologies*).

Petitioner placed primary reliance on a 19th-century decision of this Court that did not involve Article III or the Seventh Amendment at all, but the lack of *statutory* authority to invalidate a patent. In that case, *McCormick Harvesting Machine Co. v. C.*

*Aultman & Co.*, 169 U.S. 606 (1898), the patentee submitted an application to the Patent Office seeking to have his patent reissued with new claims added. The Patent Office examiner rejected some of the *existing* claims, so the patentee withdrew the reissue application. *Id.* at 607-08. When she abandoned her application, she was “entitled to a return of [her] original patent precisely as it stood when such [reissue] application was made.” *Id.* at 610 (quoting Rev. Stat. § 4916 (1878)). The patentee then asserted infringement of claims that the examiner had rejected in the abandoned reissue application, and the trial court held there was no infringement because the asserted claims had been found invalid by the Patent Office in the reissue. *Id.* at 607. The question before this Court was whether the Patent Office’s action in the reissue affected the validity of the patent. *Id.*

As the Federal Circuit explained, Pet. App. 8a-10a, this Court decided the question on statutory grounds. The reissue statute provided that the original patent is surrendered only upon the issuance of the reissued patent. In *McCormick*, the patent was never reissued, and the original patent was never surrendered. Thus, the Court held that the Patent Office’s rejection of the claims during reissue was a nullity and the Patent Office lacked statutory authority to invalidate the original claims unless it had issued a reissued patent. 169 U.S. at 609-612. Thus, as the Federal Circuit recognized, *McCormick* did not implicate the Constitution at all. Once Congress properly delegated the PTO authority to decide patent validity issues, *McCormick* simply was no longer relevant. Pet. App. 10a.

Petitioner did not seek rehearing en banc.

## REASONS FOR DENYING THE WRIT

The decision below applied settled principles of law and does not warrant this Court's review. The PTO concluded, based on additional prior art, that it never should have issued the four relevant claims of the '549 patent because they were obvious. The PTO has been making similar invalidity decisions ever since Congress adopted the reexamination statute in 1980. The reexamination statute and the IPR statute are indistinguishable in the relevant sense: both of them merely authorize the PTO to determine entitlement to a governmentally conferred benefit—a public right, which under settled law an agency may adjudicate. No court has ever held that the Constitution deprives the PTO of the power to cancel an erroneously issued patent, and this Court has previously declined to review the question. For the reasons set out below and in the government's brief, the Court should do the same here.

### **I. The Decision Below Rests On Principles That Have Been Settled For Many Years And Do Not Require Review By This Court**

Petitioner does not challenge the longstanding principle that public rights may be adjudicated by special-purpose tribunals created by Congress rather than by generalist Article III courts. Instead, petitioner merely disputes whether the determination of patent validity involves public rights. That question has been raised intermittently in the lower courts for more than three decades, and not even a single judge has ever adopted petitioner's view. Nor has any court read the 1898 *McCormick* decision as standing for the constitutional rule that petitioner advocates.

There is no reason for this Court to revisit settled law merely to confirm how it applies to patents. Although distinguishing between public rights and private rights may occasionally present some hard cases, patent validity is not one of them.

1. While some of the procedures of IPRs are new, the purpose of IPRs—correcting PTO errors in issued patents—is not new. Congress first gave the PTO such authority in 1980, when it created *ex parte* reexaminations. *See* Act of Dec. 12, 1980, Pub. L. No. 96-517, § 1, 94 Stat. 3015. That statute allows the PTO, upon a request by a third-party petitioner or by the patentee itself, to review claims of an issued patent to reconsider whether those claims should have been granted. *See* 35 U.S.C. §§ 302, 303(a). A third-party petitioner does not participate in an *ex parte* reexamination proceeding after the initial request. *See id.* § 305. In 1999, Congress expanded reexaminations to offer an *inter partes* procedure, so that petitioners could participate throughout the process. *See* Optional Inter Partes Reexamination Procedure Act of 1999, Pub. L. No. 106-113, Tit. IV, Subtit. F, 113 Stat. 1501A-567 to -572 (35 U.S.C. § 311 *et seq.* (2000)). IPR replaced the later procedure.

No judicial decision cast any doubt on either form of reexamination. To the contrary, in 1985, the Federal Circuit held that *ex parte* reexaminations did not run afoul of either Article III or the Seventh Amendment. *Patlex*, 758 F.2d at 604. The Federal Circuit observed that the reexamination statute was enacted to correct errors made by the government in issuing patents that should never have been granted.

*Id.* The Federal Circuit recognized that, even though patent validity is often litigated in disputes involving private parties, the threshold question of validity turns on whether the PTO properly granted the patent—an issue concerning public rights, not private rights. *Id.*<sup>1</sup>

In 1992, the Federal Circuit again upheld the constitutionality of the reexamination statute. *Joy Techs.*, 959 F.2d at 228. The Federal Circuit considered this Court’s post-*Patlex* decision in *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33 (1989), which involved the right to jury trial under the Seventh Amendment for a bankruptcy trustee’s claim for recovering a fraudulent conveyance. The Federal Circuit held that *Granfinanciera* had affirmed the basic underpinnings of *Patlex*—cases involving public rights, including patent validity, can be adjudicated by administrative agencies without implicating the Seventh Amendment. 959 F.2d at 228.

The patentee in *Joy Technologies* asked this Court to review essentially the same questions petitioner advances today.<sup>2</sup> This Court denied certiorari. 506 U.S. 829 (1992).

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<sup>1</sup> Petitioner improperly conflates validity and infringement decisions. Indeed, it cites (Pet. 24) a number of cases that were actions at law for infringement damages, and it never explains why those cases should inform the status of an action seeking to litigate *only* patent validity, not infringement.

<sup>2</sup> The questions presented in Joy’s petition for certiorari were:

1. If the Congress cannot take away a patent owner’s 7th Amendment right to a trial by jury in an Article III Court to determine the invalidity of his patent, may Congress take away the right to trial by jury by

In 2011, Congress replaced inter partes reexamination and authorized the PTO to review issued patents in IPRs, as well as other post-grant administrative proceedings. Leahy-Smith America Invents Act (AIA), Pub. L. No. 112-29, § 6(a), 125 Stat. 299-304 (35 U.S.C. § 311 *et seq.*); *see also id.* §§ 6(d), 18, 125 Stat. 305-11, 329-31. As this Court recently noted, IPRs carry out the same purpose as reexaminations: “to reexamine an earlier agency decision.” *Cuozzo Speed Techs., LLC v. Lee*, \_\_\_ U.S. \_\_\_, No. 15-446, slip op. 16 (Jun. 20, 2016). IPRs therefore are no less proper an exercise of administrative authority—both involve public rights—and congressional sponsors explained IPRs’ constitutionality by reference to those earlier procedures. *See* 157 Cong. Rec. S5374-76 (daily ed. Sept. 7, 2011) (letter from Hon. Michael W. McConnell, submitted by Sen. Kyl); *see also* Pet. App. 14a-16a; *Cooper v. Lee*, 86 F. Supp. 3d 480, 488 (E.D. Va. 2015) (summarizing similarities between reexaminations and IPRs for the purpose of constitutional analysis), *aff’d summarily*, No. 15-1483 (Fed. Cir. Jan. 14, 2016), *petition for cert. pending*, No. 15-955 (filed Jan. 21, 2016).

For constitutional purposes, therefore, inter partes review presents no new issue. Pet. App. 14a-16a. Although petitioner spends much effort (Pet. 4-8) discussing procedural differences between reexami-

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assigning to the Patent and Trademark Office (PTO) the invalidity of the patent under the guise of patent reexamination?

2. For purposes of the 7th Amendment are the rights in an issued patent private common law rights or public rights?

Pet. for Cert. at i, *Joy Techs., Inc. v. Manbeck*, No. 91-2031 (June 17, 1992).



nations and IPRs, petitioner never argues that it is those distinctions that make IPRs uniquely unconstitutional in its view. Rather, petitioner’s argument—taken to its logical conclusion—would deprive the PTO of *any* power to reexamine an issued patent without the patentee’s consent (*see* Pet. 26 n.17), not even on the PTO’s own initiative in a proceeding to which only the government and the patent owner are parties.<sup>3</sup> Petitioner’s argument fails for the same reason that objections to reexamination failed: patent validity involves public rights, and the PTO can review patent validity without violating Article III or the Seventh Amendment once Congress confers the necessary statutory authority, as it has here.

2. Recent decisions such as *Stern v. Marshall*, 131 S. Ct. 2594 (2011), have not changed the test for separating public rights from private rights. Nor has any decision of this Court since reexamination was created given any reason to doubt that patent validity concerns public rights. *Compare, e.g., id.* at 2614 (considering a claim “under state common law,” which was not a public right because “Congress has nothing to do with it”). Just the opposite, *Stern* rein-

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<sup>3</sup> This Court’s recent decision in *Cuozzo* refutes much of petitioner’s attempt to classify an IPR as a purely private dispute between patent owner and challenger. As the Court noted, “challengers need not remain in the proceeding; rather, the Patent Office may continue to conduct an inter partes review even after the adverse party has settled.” Slip op. 15 (citing 35 U.S.C. § 317(a)). And as in *Cuozzo* itself, judicial review of the Board’s decision in an IPR may well take the form of an appeal governed by the Administrative Procedure Act, between the patent owner on one side and the PTO Director on the other. The Director can litigate alone “even if the private challengers drop out.” *Id.*

forced the same conception of “public rights” that drove the *Patlex* and *Joy* decisions. Pet. App. 12a-14a. In *Stern*, this Court confirmed two circumstances in which agencies may adjudicate “public rights” claims between two private parties: (1) where the claim derives from a federal regulatory scheme, and (2) where resolution of the claim by an expert governmental agency is deemed essential to a limited regulatory objective within the agency’s authority. 131 S. Ct. at 2613.

IPRs, like reexaminations, fit squarely within this exception under both rationales. First, patent rights exist only by virtue of a federal statutory scheme. Pet. App. 13a; *see, e.g., Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 657-58 (1834) (rejecting the notion that an inventor enjoys any *common-law* property right to a patent monopoly independent of the patent statute). Pursuant to 35 U.S.C. § 131, the PTO grants patents based on the standards set forth in federal statutes, such as 35 U.S.C. §§ 101 (patent eligibility), 102 (novelty), and 103 (non-obviousness). Second, patent validity falls within the technical expertise of the PTO, the same agency that examines patent applications in the first place. And post-grant proceedings, such as IPR, are essential to the limited regulatory objective within the PTO’s authority: to ensure that only proper patents are issued and to correct mistakes made in wrongly issuing patents.

In short, for several decades, the Federal Circuit has repeatedly and correctly rejected the argument that the Constitution prohibits the PTO from correcting its own error in issuing a patent that fails the

statutory requirements. And it has done so without even a hint of division.

Petitioner’s attempt to liken this case to *Cuozzo*—arguing essentially (Pet. 17-18) that this Court is obliged to review any question sufficiently foundational to IPRs—merely underscores the contrast between the two cases. *Cuozzo* involved the interpretation of the 2011 AIA and the question whether the subsequent rulemaking by the PTO was entitled to deference. And the case split the Federal Circuit right down the middle, drawing a 2 to 1 vote on the merits and a 6 to 5 vote on rehearing, with dissents. *Cuozzo*, slip op. 7. In this case, by contrast, the constitutional objections are conceptually no different than the constitutional objections made to reexamination over its 35-year history. And those objections have gotten nowhere in the lower courts. Just because this Court agreed to *interpret* the IPR statute in *Cuozzo* does not mean it must also take up petitioner’s ill-founded demand to *invalidate* that statute.<sup>4</sup>

## II. Inter Partes Reviews Are Strengthening The Patent System

Petitioner falls back on rhetoric, insisting (Pet. 13-18) that review by this Court is warranted because IPRs are diminishing patent rights. Not only is that

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<sup>4</sup> This Court’s affirmance of the Federal Circuit on both grounds in *Cuozzo* also moots petitioner’s cryptic (and improper) suggestion that it might seek a remand depending on the outcome of the *Cuozzo* case (Pet. 13 n.11). The petition in this case does not present either of the questions decided in *Cuozzo*, see Pet. i; *Wood v. Allen*, 130 S. Ct. 841, 851 (2010), and no remand would be appropriate.

a policy argument better addressed to Congress, it is simply wrong. The fundamental purpose of IPRs is to strengthen the patent system and improve patent quality. In *Cuozzo*, this Court confirmed IPRs' important role in protecting the public's interest in policing the validity of issued patents. Slip op. 16 (“[I]nter partes review helps protect the public’s ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’”) (citation omitted). IPRs are achieving this objective.

Before the enactment of the AIA, the number of patent-infringement lawsuits was increasing and many of the asserted patents were of questionable validity. See H.R. Rep. No. 98, 112th Cong., 1st Sess., Pt. 1, at 39 (noting “a growing sense that questionable patents are too easily obtained and are too difficult to challenge”). Congress undertook to strengthen the patent system by enacting the AIA and providing for IPR. See *id.* at 45, 48 (explaining that the statute merely seeks to “improve patent quality and restore confidence in the presumption of validity that comes with issued patents”). IPRs, like reexaminations, allow the PTO to have a second look at the earlier grant of a patent, correct errors, and help “protect the public’s ‘paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope.’” *Cuozzo*, slip op. 16 (citation omitted).

As Congress intended, IPRs offer a more efficient means for resolving validity issues compared to lengthy and expensive litigation. For example, in high-stakes patent litigation, the median litigation cost is \$5 million; in contrast, in IPRs, the median cost is \$275,000. AIPLA 2015 Report of the Economic Survey 37-38 (2015). And, a typical patent litiga-

tion case in district court takes 2.5 years to reach trial, *see* PwC, 2014 Patent Litigation Study 16 (July 2014); in contrast, an IPR must be concluded within a year of institution, *see* 35 U.S.C. § 316(a)(11).

While petitioner asserts that the PTO has invalidated “almost ten thousand patent claims” (Pet. 14), it fails to mention that the PTO only institutes an IPR on about half of all petitions requesting IPR. *See* PTO, PTAB Statistics 10 (Apr. 30, 2016), <http://www.uspto.gov/sites/default/files/documents/2016-4-30%20PTAB.pdf> (out of 3009 total petitions, 1511 trials were instituted). And less than a quarter of the claims challenged in IPRs were found unpatentable by the Board. *Id.* at 13 (out of 45,623 total claims challenged, 10,175 claims were held unpatentable). Thus, it appears that IPRs are functioning the way Congress intended: “screen[ing] out bad patents while bolstering valid ones.” 157 Cong. Rec. H4425 (daily ed. June 22, 2011) (remarks of Rep. Goodlatte).

Further, a number of petitioner’s complaints about IPR could have been made about reexaminations at any point since 1980. For example, petitioner’s argument (Pet. 16-17) that IPRs “created unintended consequences,” such as allowing petitions by hedge funds and others who are not defendants in litigation, is not unique to IPRs. Any third party can request an *ex parte* reexamination, *see* 35 U.S.C. § 302, or could have requested an *inter partes* reexamination, *see* 35 U.S.C. § 311(a) (2006). Patentees, therefore, incurred similar “additional costs and risks” (Pet. 15) in reexamination proceedings as in IPRs.

Petitioner’s basic complaint is that IPR “harm[s]” patent owners. Pet. 16 n.13. But petitioner’s mere

disagreement with Congress's policy judgment is not a reason for this Court to take up a constitutional argument that the lower courts have repeatedly and correctly rejected based on settled law.

**CONCLUSION**

The petition for a writ of certiorari should be denied.

Respectfully submitted.

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