

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.

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

—◆—
REPLY BRIEF
—◆—

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Petitioners request that the Court grant this Petition in view of *Cuozzo Speed Techs., LLC v. Lee*, No. 15-446 (argued April 25, 2016), in order that it may analyze the constitutional validity of *inter partes* review (“IPR”) in addition to *Cuozzo*’s less fundamental matters. In the alternative, Petitioners suggest that the Court hold this Petition long enough to be sure that it decides either this case or *MCM Portfolio LLC v. Hewlett-Packard Co.*, No. 15A872,¹ which raises related issues.



INTRODUCTION

The breadth and vigor of *amicus* briefing here and in *Cuozzo* show that this Petition’s constitutional questions merit review. Respondents appear to agree that reaching the right answer to the constitutional questions is profoundly important. But Respondents ignore almost all of Petitioners’ cited precedent from this Court. Such precedent deprives Congress of authority to allow the Patent Trial and Appeal Board (“PTAB”) to cancel patent claims in IPRs, unless administrative outcomes are deemed advisory and subject to *de novo* trial court review.

Respondents’ brief omits all discussion of this Court’s holding in *Stern v. Marshall*, 131 S. Ct. 2594 (2011): A right cannot be “public” if it has historical

¹ Chief Justice Roberts recused himself in No. 15A872.

antecedents in the common law, equity or admiralty courts of 1789. Rather than attempt to address the *Stern* holding, Respondents bury the “historical antecedents” test in favor of *Stern*’s statements explaining why prior holdings were in harmony. As predicted, the *Stern* majority’s attempt to harmonize the outcome of that case with the Court’s “not . . . entirely consistent” past decisions served only to muddy the waters. *Id.* at 2620-21 (Scalia, J., concurring). The Court of Appeals for the Federal Circuit likewise ignored *Stern*’s true holding. Respondents’ brief perpetuates the problem. This case presents an ideal opportunity to inject clarity for the lower courts and for Congress.



ARGUMENT

I. Respondents Advance Inapposite Legal Standards.

Respondents rely on two statements from *Stern* to propose that patents are public rights, and may therefore be adjudicated in an Article I tribunal. (Resp. Br. 11). Respondents’ brief misconstrues both the origins and the substance of those statements. Respondents assert that a private dispute “may implicate public rights if ‘the claim at issue derives from a federal regulatory scheme,’ or if ‘resolution of the claim by an expert government agency is deemed essential to a limited regulatory objective within the agency’s authority.’” (*Id.*, citing *Stern*, 131 S. Ct. at

2613). Respondents omit to mention that, for those factors, the *Stern* Court cited *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833 (1986), a decision the Petition treats extensively. When read in its entirety, *Schor* forecloses Respondents' position.

In *Schor*, the Court addressed whether the Commodity Futures Trading Commission ("CFTC") could entertain state common law counterclaims without violating Article III of the Constitution. *Id.* at 835-36. *Schor* was *not* a public rights versus private rights case; the rights were correctly treated as private. *Id.* at 853. The Court instead decided to what extent a dispute involving a *private right* may be heard by an Article I tribunal for advisory adjudication, subject to *de novo* district court review, without offending Article III, after the litigant consented to the administrative forum. The Court held that the grant of authority was permissible in that case (as distinct from previous cases), specifically because the relevant statute

leaves far more of the "essential attributes of judicial power" to Article III courts than did that portion of the Bankruptcy Act found unconstitutional in *Northern Pipeline [Constr. Co. v. Marathon Pipe Line Co.]*, 458 U.S. 50 (1982)]. The CEA scheme in fact hews closely to the agency model approved by the Court in *Crowell v. Benson*, 285 U.S. 22 (1932).

Id. at 852. The Court continued,

CFTC orders, like those of the agency in *Crowell*, but unlike those of the bankruptcy

courts under the 1978 Act, are enforceable only by order of the district court. *See* 7 U.S.C. § 18(f); *Northern Pipeline, supra*, at 85-86. CFTC orders are also reviewed under the same “weight of the evidence” standard sustained in *Crowell*, rather than the more deferential standard found lacking in *Northern Pipeline*. *See* 7 U.S.C. § 9; *Northern Pipeline, supra*, at 85. The legal rulings of the CFTC, like the legal determinations of the agency in *Crowell*, are subject to *de novo* review.

Id. at 853. Respondents do not dispute that here, IPRs lack the same “advisory” nature, and do not receive *de novo* trial court review.

Thus, the factors set forth in *Schor* do not, as Respondents argue, provide support for calling a patent a public right. *Schor* invoked the “federal regulatory scheme / expert government agency” factors only in the context of asking whether “structural” interests blocked an agency tribunal from deciding, in a private dispute, a purely advisory opinion subject to district court *de novo* review. *Cf. Stern*, 131 S. Ct. at 2614 (citing *Schor*, 478 U.S. at 852-55, and setting forth multiple factors – including consent of the parties – that were critical to the Court’s holding). In sum, while the two factors urged by Respondents were indeed mentioned in the *Schor* opinion and quoted as part of the *Stern* majority’s attempt to synthesize prior cases, they provide no support for labelling patents as anything other than vested, private property.

In relying solely on two out-of-context statements from *Schor*, Respondents stretch the public rights doctrine beyond its limits, in conflict with longstanding Court precedents. See *Stern*, 131 S. Ct. at 2609 (“[W]e 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*.’”) (quoting *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1856) (emphasis added)). Under Respondents’ proposed “federal regulatory scheme / expert government agency” framework, Congress may assign all federal actions in equity and admiralty (even ancient ones) to an Executive agency merely by creating one with expertise in the area. One hundred fifty years of constitutional precedent may not be so lightly ignored. As this Court cautioned in *Granfinanciera v. Nordberg*, “to [accept Respondents’ position] 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.” 492 U.S. 33, 52 (1989) (internal citation omitted).

Respondents also rely on a recent dissent, wrongly contending it to state that *invention* patents “‘dispose of public rights held by the government on behalf of the people.’” (Resp. Br. 12, quoting *Teva*

Pharm. USA, Inc. v. Sandoz, Inc., 135 S. Ct. 831, 849 n.2 (2015) (Thomas, J., dissenting)). Respondents misquote this dissent. The cited footnote uses the term “public rights” to refer to the administrative act of *granting a land patent*. This dissent footnote attaches the label “public rights” to the pool of real property within the government’s ownership before disbursement (in part) as a land patent. *Id.* Such “public rights” terminology did not refer to post-issuance land patents, and certainly not *invention* patents in any respect. *Id.* Pre-disbursement government-owned land is 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).

Respondents also suggest that patents are somehow different from other property (and are thus less deserving of constitutional protection), because they are issued under a statutory regime. (Resp. Br. 14). To the contrary, this Court just reaffirmed that invention patents are constitutional private property. See *Horne v. Dept. of Agric.*, 576 U.S. __ (2015), slip op. 6. This Court also rejected Respondent’s rationale in *Granfinanciera*. See 492 U.S. at 36, 55-56 (holding that fraudulent conveyance claim must be adjudicated in an Article III court, despite Congress’ bringing it

within a statutory regime). Like statutory fraudulent conveyance claims, challenges to a patent’s validity are quintessentially “Suits at common law.” (See Pet. 30). They therefore lie at the “protected core” of Article III judicial power. *Granfinanciera*, 492 U.S. at 56; see also *id.* at 42 (“[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. . . .”) (citing *Curtis v. Loether*, 415 U.S. 189, 193 (1974)). As in *Granfinanciera*, “[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)). Where Congress “simply reclassifie[s] a preexisting, common law[, equity, or admiralty] cause of action,” it is still a private right that must receive Article III trial court review. *Id.*

II. Petitioners’ Cited Cases Were Decided on Constitutional Grounds.

Respondents also misunderstand all of Petitioners’ cited authority as being guided by statutory, rather than constitutional, principles. For example, Respondents argue, “The Court in *McCormick Harvesting* [*Machine Co. v. Aultman*, 169 U.S. 606 (1898)] held only that the Patent Act itself provided no basis for cancelling an original patent based on the rejection of a later reissue application. . . . The Court . . .

did not address Article III. . . .” (Resp. Br. 13, internal citation and quotation marks omitted). Not so. As Petitioners pointed out (and Respondents failed to rebut), 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. (Pet. 17). At the time, reissue examiners acted under color of statutory authority to invalidate original patent claims during reissuance proceedings (just like IPRs today). (*Id.*, citing Patent Act of 1870, Section 46, R.S. § 4909). *McCormick* did not curtail Executive action based on an *absence* of statutory authority; it held on constitutional grounds *in the face of it*. 169 U.S. at 610 (“[T]o attempt to cancel a patent upon an application for reissue . . . would be in fact an invasion of the judicial branch of the government by the executive.”). The Federal Circuit at one time agreed (*see* Pet. 18), and until 1977, the United States Patent and Trademark Office (“USPTO”) thought *McCormick* barred it from *any* statements on the possible invalidity of a patent (*see* Security People *Amicus* Br. 9).

Petitioners also attempt to distinguish this Court’s decisions striking down unconstitutional Executive actions in the land-patent context. (Pet. 23-25). Respondents argue, “The other 19th century decisions that petitioners cite – all of which involved patents for land – likewise do not suggest that Article III prevents Congress from authorizing the PTO to cancel erroneously issued patents. Like *McCormick*

Harvesting and *American Bell*, those cases were decided on statutory rather than constitutional grounds.” (Resp. Br. 14).²

Respondents’ suggestion that Petitioners’ land-patent cases were decided on statutory grounds is incorrect. While all of those cases involved patents that were granted under Acts of Congress, that fact did not come into play when the Court issued its sweeping holdings that certain executive actions were invalid as invading the judicial power. *See Iron Silver Mining Co. v. Campbell*, 135 U.S. 286, 293 (1890) (“[Patent validity] is always and ultimately a question of judicial cognizance.”); *Moore v. Robbins*, 96 U.S. 530, 533 (1878) (“[T]he 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.”); *United States v. Stone*, 69 U.S. (2 Wall.) 525, 535 (1865) (“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.*”) (emphasis added).

Respondents also assert that land-patent cases are all distinguishable “because patents for land

² *American Bell*, cited *infra*, actually confirmed *non*-statutory government standing to sue in equity to void a patent for fraud.

involve transfers of real property that is owned, but not created, by the federal government, whereas patents for inventions ‘exist only by virtue of statute.’” (Resp. Br. 14, citation omitted). Respondents’ proposed distinction has never been endorsed by this or any other court. Further, such a distinction would overturn countless decisions of this Court. *E.g.*, *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 358-59 (1888) (land and invention patents possess the “same nature, character and validity”). Patents for invention and patents for land stand on the same legal footing. (See Pet. 19-20; see also generally Mosoff *Amicus* Br.). If anything, patents for invention are more “private” than patents for land. The original rights enveloped within a patent document are the fruits of the inventor’s mental labors that would, in the absence of the disclosure-for-patent *quid pro quo*, exist as a trade secret. Patents for land envelop real estate that the “public” once held, and thus were never as “private” as inventions.

III. This Case Is an Excellent Vehicle.

Respondents argue that this case is not the proper vehicle to decide the Article III issue because “petitioners’ challenge was appropriately rejected on procedural grounds, making it unnecessary to decide the merits. . . .” (Resp. Br. 7). Respondents overlook the district court’s plain holding that exhaustion turned on whether Petitioners could demonstrate that the “statute is ‘patently unconstitutional or [that the] agency has taken a clearly unconstitutional

position' ['clear right' exception]." (Pet. App. 18a, second alteration in original). Respondents then recharacterize the district court's holding as one of implied statutory preclusion, or channeling, to suggest that this Court cannot settle this dispute and should thus deny the Petition. These arguments fail scrutiny. Indeed Respondents themselves obtained an appeals court stay by arguing that *MCM Portfolio* "present[s] the same constitutional question pressed by Cooper here" (ECF No. 17), thus acknowledging that Petitioners win under their view of the Constitution.

Further, the PTAB's Final Written Decisions were affirmed without opinion by the Federal Circuit on April 14, 2016 (*Cooper v. Square, Inc.*, Nos. 2015-1925, 2015-1942, 2015-1943 (Fed. Cir.)). Thus, Petitioners have no further administrative remedies available to them, and total "exhaustion" has occurred. Additionally, the district court spent several pages in its order considering the constitutionality of IPRs under Respondents' cited precedent from the Federal Circuit. (*See* Pet. App. 18a-21a; Resp. Br. 5). Respondents' assertion that the district court never reached the constitutional issue (Resp. Br. 4) is incorrect. Additionally, the Federal Circuit implicitly rejected Respondents' request to affirm on the basis that "Congress channeled judicial review of inter partes review decisions to this Court on direct appeal from the Patent and Trademark Office, and 'preclude[d] judicial review of the constitutionality of inter partes review' through APA actions outside of that scheme." (ECF No. 20). The Court of Appeals

correctly rejected that position by not adopting it. (ECF No. 22).

Respondents cite no decision in which any court “channeled” jurisdiction over constitutional challenges through a futile administrative process instead of the district courts, where the challenge would leave intact any administrative outcome. Recall Petitioners’ remedy will lie in making such outcomes advisory and subject to *de novo* review, not in obliterating them. None of this Court’s decisions has ever turned away, on preclusion grounds, a Separation of Powers challenge brought against an agency in federal district court. In fact, the opposite is true. *See Free Enterprise Fund v. Pub. Co. Accounting Oversight Bd.*, 561 U.S. 477, 489-91 (2010) (rejecting preclusion argument and holding that lower court had jurisdiction to decide constitutionality issue in collateral suit against agency); *Thomas v. Union Carbide Agric. 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*, 285 U.S. at 22 (hearing Separation of Powers claim brought in district court against agency proceedings). In fact, Respondents’ (and the lower courts’) primary authority for their merits position (a case styled *Patlex Corp. v. Mossinghoff*) began as a collateral district court suit against the USPTO, and proceeded without any statutory preclusion concerns. *See* 585 F. Supp. 713, 716, 720-22 (E.D. Pa. 1983) (rejecting nonstatutory exhaustion defense).

Respondents also urge that the Petition be denied because a favorable outcome in the direct appeal from the IPR would render Petitioners' constitutional claims moot. (Resp. Br. 10). Again, not so. As previously stated, the PTAB's patent cancellation decisions were recently affirmed.

If Respondents' district-court-waived and Court-of-Appeals-rejected "channeling/preclusion" argument gave this Court any pause at all, the Court may still easily reach a "clean" vehicle for hearing this challenge. The Court may choose to grant the Petition and review the constitutional challenge from the direct agency appeal (No. 2015-1925 (Fed. Cir.)) under Supreme Court Rule 11. Respondents agree that the issue was properly preserved in that case. (Resp. Br. 10). As shown by the numerous *amicus* briefs filed here and in *Cuozzo*, a valid, constitutionally sound IPR process is of "imperative public importance." As Petitioners previously stated (Pet. 3), it stands to reason that the Court should analyze the constitutional validity of IPRs along with review in *Cuozzo* of statutory and discretionary matters within those proceedings.



CONCLUSION

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

Respectfully submitted,

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