

No. 15-1330

IN THE
Supreme Court of the United States

MCM PORTFOLIO LLC,
Petitioner,

v.

HEWLETT-PACKARD COMPANY, and
MICHELLE K. LEE, DIRECTOR, U.S. PATENT
& TRADEMARK OFFICE,
Respondents.

On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit

PETITIONER'S REPLY

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PETITIONER'S REPLY

The petition presents two questions that lie at the heart of Article III and the Seventh Amendment, and the health of the innovation economy hangs in the balance. Neither respondent seriously contests the significance of either question, and a diverse array of inventors, investors, universities, academics, and other stakeholders has filed eight amicus briefs confirming this case's importance. Moreover, neither respondent disputes that this case is an ideal vehicle to address these questions. Indeed, the government opposed the petition in *Cooper v. Lee*, No. 15-955, by arguing that this case presents the superior vehicle.

Instead, both respondents preview their merits argument, contending that patents are "public rights," such that allowing the Patent Trial and Appeal Board (PTAB) to invalidate vested patents in inter partes review (IPR) does not implicate either Article III or the Seventh Amendment. That argument is unpersuasive because for more than a century this Court has recognized that patent rights are property rights, and that property rights are quintessential private rights that can only be extinguished by a court. The implications of respondents' contrary argument are breathtaking because if patents are public rights, then Congress has plenary authority to modify them by abolishing judicial review altogether or imposing mandatory licensing requirements.

In any event, whatever the merits of the parties' arguments, this Court should grant certiorari to adjudicate them. When the stakes are this high, the resolution of foundational questions of separation of powers and constitutional rights should not be left to the lower courts alone. Although this Court addressed

certain features of IPR procedure in *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016)—thus recognizing the practical importance of the issue—the federal respondent correctly explains that “[t]he Court’s resolution of the statutory questions considered in *Cuozzo* does not affect the proper disposition of petitioner’s constitutional claims.” U.S. BIO 8 n.4. More broadly, only this Court has the ability to clarify its public rights jurisprudence, which has bedeviled lower courts and litigants for decades. Indeed, this Court granted once certiorari on the Seventh Amendment question, but had no chance to decide it. *See Am. Airlines, Inc. v. Lockwood*, 515 U.S. 1121 (1995). Since then, the law has been murky, causing even commentators who accept respondents’ view to agree that “the time is ripe for Supreme Court review.” Mark A. Lemley, *Why Do Juries Decide If Patents Are Valid?*, 99 Va. L. Rev. 1673, 1676 (2013).

I. Certiorari Is Warranted To Determine Whether Patents Are Private Or Public Rights, And Whether Juries Must Determine The Validity Of Granted Patents.

All apparently agree that the answers to both questions presented turn principally on whether patents fall within the “public rights” exception to the general rule vesting the judicial power in Article III courts. That is exactly the sort of bedrock legal issue that this Court should grant certiorari to decide—and it should decide that patents are private rights.

1. In *Stern v. Marshall*, 564 U.S. 462, 488 (2011), this Court acknowledged that its “discussion of the

public rights exception . . . has not been entirely consistent, and the exception has been the subject of some debate.” It then recited multiple different tests to determine whether rights are public. *See id.* at 488-92.

Respondents argue that under some of these tests, patents are public rights because “[p]rocedures for reviewing patents to ensure that they were properly issued are closely integrated into the public regulatory scheme of patent issuance, and therefore are a matter appropriate for agency resolution.” U.S. BIO 10 (quotation marks omitted); H.P. BIO 11. They concede, however, that “actions seeking annulment or cancellation of patents . . . were decided by courts of equity,” U.S. BIO 12, running headlong into *Stern’s* admonition that “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,’” because such cases involve private rights. 564 U.S. at 484 (quoting *Murray’s Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. (18 How.) 272, 284 (1856)) (emphasis added); *see also Thomas v. Union Carbide Agr. Prods. Co.*, 473 U.S. 568, 597 n.2 (1985) (“What clearly remains subject to Art. III are all private adjudications in federal courts within the States—matters from their nature subject to a ‘suit at common law or in equity or admiralty.’ . . . There is no doubt that when the Framers assigned the ‘judicial Power’ to an independent Art. III Branch, these matters lay at what they perceived to be the protected core of that power.”) (quoting *N. Pipeline Const. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 70 n.25 (1982) (plurality opinion)).

In light of respondents' concession, the most they can argue is that the various tests described in *Stern* produce conflicting results with respect to patents. But *Stern* never explained how courts should resolve such conflicts, and the Federal Circuit thus felt free to pick and choose among the tests to reach its preferred result. Certiorari is warranted so that this Court may now decide the question it created in *Stern*. Otherwise, there is simply no telling how lower courts will apply the public rights exception going forward.

2. The argument for certiorari is stronger still because respondents' contention (and the Federal Circuit's holding) that patents are public rights misreads this Court's precedents. Unlike the public rights that this Court discussed in cases like *Thomas* and *Commodity Futures Trading Commission v. Schor*, 478 U.S. 833 (1986), patents are not mere artifacts of a federal regulatory scheme. Instead, it is well-settled that patents are granted in "quasi judicial" legal proceedings, that they provide legal remedies, and that they are the legal property of their owners. *United States v. Am. Bell Tel. Co.*, 128 U.S. 315, 363 (1888).

This Court recently reaffirmed the long-established principle that a patent "confers upon the patentee an exclusive property in the patented invention." *Horne v. Dep't of Agric.*, 135 S. Ct. 2419, 2427 (2015) (quoting *James v. Campbell*, 104 U.S. 356, 358 (1882)). Cases embracing that proposition are legion. See, e.g., *Nautilus, Inc. v. Biosig Instrum., Inc.*, 134 S. Ct. 2120, 2124 (2014) (stating that the patent "monopoly is a property right") (quoting *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722,

730 (2002)); *Bd. of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 563 U.S. 776, 786 (2011) (“The presumptive owner of the property right in a patentable invention is the single human inventor”) (quoting 8 Chisum on Patents § 22.01, p. 22-2 (2011)); *Ford Motor Co. v. United States*, 405 U.S. 562, 576 n.11 (1972) (describing patents as “constitutionally protected property rights”). The amicus brief of 13 law professors lays out (at 4-10) in painstaking detail the lines of authority establishing that patents are, in fact, private property, entitled to the same legal protection as any other private property.

This Court also has held that for purposes of Article III, “[p]rivate rights’ have traditionally included . . . property rights.” *Spokeo, Inc. v. Robins*, 136 S. Ct. 1540, 1551 (2016). Indeed, the Court has noted time and again that property rights are private rights. *See Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 51 (1989) (“Wholly private tort, contract, and property cases, as well as a vast range of other cases, are not at all implicated” by the public rights exception) (quoting *Atlas Roofing Co. v. Occupational Safety & Health Review Comm’n*, 430 U.S. 442, 458 (1977)); *see also Wellness Int’l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1964 (2015) (Thomas, J., dissenting) (“Disposition of private rights to life, liberty, and property falls within the core of the judicial power, whereas disposition of public rights does not.”).

Putting these two settled principles together, it is unsurprising that in *McCormick Harvesting Machine*

Co. v. C. Aultman & Co., 169 U.S. 606 (1898), this Court recognized that:

“[W]hen a patent has received the signature of the secretary of the interior, countersigned by the commissioner of patents, and has had affixed to it the seal of the patent office, it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or canceled by the president, or any other officer of the government. It has become the property of the patentee, and as such *is entitled to the same legal protection as other property.*”

The *only authority* competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, *and not in the department which issued the patent.* And in this respect a patent for an invention stands in the same position and is subject to the same limitations as a patent for a grant of lands.”

Id. at 608-09 (citations omitted) (emphasis added).

Both respondents, as well as the court below, attempt to distinguish *McCormick* by arguing that it was discussing limitations on the patent office’s then-existing statutory authority, and not constitutional requirements. U.S. BIO 14, HP BIO 5-6. The amicus brief for InterDigital and Tessera spends nine pages (3-11) refuting this alleged distinction in detail, explaining that *McCormick* and the cases upon which it relied necessarily refer to the constitutional separation of powers. As Justice Thomas recently confirmed, the land patent cases upon which

McCormick was based stood for the proposition that “[a]lthough Congress could authorize executive agencies to dispose of *public* rights in land—often by means of adjudicating a claimant’s qualifications for a land grant under a statute—the United States had to go to the courts if it wished to revoke a patent.” *Sharif*, 135 S. Ct. at 1966 (Thomas, J., dissenting). Indeed, the Federal Circuit itself previously acknowledged—in a decision that both respondents cite repeatedly—that “[t]he Court in *McCormick* . . . , establishing *on constitutional grounds* that an applicant for a reissue of a patent need not acquiesce in any finding of invalidity or unpatentability by the reissue examiner, affirmed that an issued patent could not be set aside other than by an Article III court.” *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir.), *modified on reh’g* 771 F.2d 480 (Fed. Cir. 1985) (emphasis added) (cited at U.S. BIO 2, 5, 7, 19, and HP BIO 3, 4, 7, 8, 11).

Thus, this Court has already effectively held that patents are private rights. Even if *McCormick* does not itself settle the issue, the conclusion is inevitable in light of this Court’s long and unbroken lines of cases treating patents as property, and property as a private right. Under this Court’s precedents, the decision below should be reversed.

3. Respondents’ efforts to minimize the importance of patent rights are unpersuasive. When confronted with the long history of treating patents as property, respondents argue that they exist only by virtue of statute—and not common law. U.S. BIO 10-11; HP BIO 11. That is true, but Section 2 of the Statute of

Monopolies, which the federal respondent cites, provided that “all such . . . patents . . . and the force and validity of them . . . , ought to be, and shall be for ever hereafter examined, heard, tried, and determined, by and according to the common laws of this realm, and not otherwise.” Statute of Monopolies 1623, 21 Jac. 1, c. 3 § II (Eng.). Thus, while patent rights are clearly statutory, it is accurate to say that they derived from common law rights—and far more importantly for present purposes, that they confer property rights indistinguishable from common law property rights.*

Moreover, the mere fact that patent rights are statutory does not make them public rights. It is well-established that “Congress can create new private rights and authorize private plaintiffs to sue based simply on the violation of those private rights.” *Spokeo*, 136 S. Ct. at 1553. And when Congress first enacted the Patent Act, it conferred precisely such rights on inventors.

The federal respondent alone argues that not all property rights are private rights, drawing an analogy to bankruptcy proceedings, which also dispose of property. U.S. BIO 14-15. But this Court first held

* For a detailed and thoughtful explanation of the many ways in which patent rights, although nominally referred to as “privileges,” have been treated as common law property rights—which expressly refutes HP’s reliance on *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591 (1834)—see Adam Mossoff, *Who Cares What Thomas Jefferson Thought About Patents? Reevaluating the Patent “Privilege” In Historical Context*, 92 Cornell L. Rev. 953 (2007).

that the bankruptcy courts were unconstitutional because they “vest[ed] all ‘essential attributes’ of the judicial power of the United States” in non-Article III judges. *N. Pipeline*, 458 U.S. at 84-85. Congress then revised the bankruptcy statute so that in any non-core matter, the district court exercised de novo review. *See Stern*, 564 U.S. at 475. There is no de novo review from IPR. And while respondents may argue that review of a patent’s validity is analogous to a “core” bankruptcy proceeding, it is not. The Constitution empowers Congress to “enact uniform Laws on the subject of Bankruptcies throughout the United States.” U.S. Const. art. I, § 8, cl. 4. Congress’s power vis-à-vis patents is narrower: it has the power “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.” U.S. Const. art. I, § 8, cl. 8. As the petition explained (at 25-26 & n.17), the power to “secur[e]” rights is not the same as the power to abrogate vested rights; and the fact that the stated intent of IPR is to correct errors in the grant process does not change the result.

Similarly, the federal respondent’s argument that administrative agencies can sometimes dispense money and adjudicate claims relating to those dispensations has no bearing on patent rights because the right to receive money from the public treasury is a quintessential public right under any test.

4. Respondents characterize IPR as a mere continuation of the prior inter partes reexamination regime. U.S. BIO 10, 19; HP BIO 7-10, 13-14. Even if respondents’ comparisons were correct, that would not

mean that IPR is constitutional—it may instead mean that reexamination was unconstitutional. Contrary to respondents’ suggestion that the constitutionality of reexamination is uncontroversial, a panel of the Federal Circuit held that it violated the Seventh Amendment; the petition for rehearing in that case provoked dissents arguing that *Patlex* had been overruled; and this Court granted certiorari. *In re Lockwood*, 50 F.3d 966 (Fed. Cir.), *cert. granted sub nom. Am. Airlines, Inc. v. Lockwood*, 515 U.S. 1121, *and judgment vacated* 515 U.S. 1182 (1995). As the amicus interest and commentary about this case demonstrate, that controversy continues today, and this case presents an ideal vehicle to resolve it.

In any event, as the petition explained, there are constitutional differences between IPR and reexamination. Although, as this Court recognized in *Cuozzo*, the two procedures address the same objective, they differ substantially in approach: in reexamination, patentees and examiners worked together to strengthen patents, invalidating them only if necessary; in IPR, the patentee does not have the benefit of any further input from examiners, because no examiners are involved—and invalidation is the overwhelmingly likely result once proceedings are initiated.

Moreover, at the time the cases upon which respondents rely—*Patlex* and *Joy Technologies, Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992)—were decided, patentees could seek de novo review of reexaminations in district court. This fact partially motivated the district court in *Patlex* to hold reexamination

constitutional. See *Patlex Corp., Inc. v. Mossinghoff*, 585 F. Supp. 713, 725 (E.D. Pa. 1983) (holding that in light of the availability of both appeals and de novo review, “[a]ssuming plaintiffs do have a right to invoke the jurisdiction of an article III court, that right has not been abolished by the new reexamination scheme.”). No de novo review is available from IPR.

Ultimately, even if the differences between reexamination and IPR are subtle, those subtleties matter. “We cannot compromise the integrity of the system of separated powers and the role of the Judiciary in that system, even with respect to challenges that may seem innocuous at first blush.” *Stern*, 564 U.S. at 503. Thus, even if the Court is sympathetic to the view that the prior reexamination system was constitutional, it should still grant certiorari to review IPR.

5. HP argues (at 12-15) that IPR is strengthening the U.S. patent system. The petition refutes this policy argument—but in any event it misses the point. Whether IPR is ultimately good or bad, there can be no doubt that its effect on patentees and on the economy has been massive, and it is the magnitude of that effect that makes this case important enough to warrant this Court’s review.

HP’s evidence also does not prove its claims. Instead, the evidence HP cites shows only that a substantial number of claims have been invalidated, and that the cost to challengers of invalidating claims has gone down substantially. As the petition and the amicus briefs showed, however, those same trends have been profoundly destabilizing to patentees.

Indeed, the effect has been so severe that it is fair to say that the terms of the original patent bargain—under which inventors disclosed their ideas to the public in exchange for exclusive rights—have been replaced with a new anti-patent regime. The effect is harshest on individuals and smaller businesses that depend on the value of intellectual property for their livelihoods; these are the same inventors that have, for decades, produced many of our greatest technological advances.

On the other hand, a ruling for petitioner would not protect bad patents. It would merely ensure that those patents are dealt with the way they always have been: by Article III courts.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted,

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