

RECORD NO. 15-1205

UNITED STATES COURT OF APPEALS
for the FOURTH CIRCUIT

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 the UNITED STATES PATENT &
TRADEMARK OFFICE*Defendants-Appellees.*ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF VIRGINIA AT ALEXANDRIA

AMICUS BRIEF OF AFFINITY LABS OF TEXAS, LLC

Jonathan T. Suder
State Bar No. 19463350
David A. Skeels
State Bar No. 24041925
Decker A. Cammack
State Bar No. 24036311
FRIEDMAN, SUDER & COOKE
604 East 4th Street, Suite 200
Fort Worth, Texas 76102
(817) 334-0400
jts@fsclaw.com
skeels@fsclaw.com
cammack@fsclaw.com

ATTORNEYS FOR AFFINITY LABS
OF TEXAS, LLC

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT
DISCLOSURE OF CORPORATE AFFILIATIONS AND OTHER INTERESTS

Disclosures must be filed on behalf of all parties to a civil, agency, bankruptcy or mandamus case, except that a disclosure statement is **not** required from the United States, from an indigent party, or from a state or local government in a pro se case. In mandamus cases arising from a civil or bankruptcy action, all parties to the action in the district court are considered parties to the mandamus case.

Corporate defendants in a criminal or post-conviction case and corporate amici curiae are required to file disclosure statements.

If counsel is not a registered ECF filer and does not intend to file documents other than the required disclosure statement, counsel may file the disclosure statement in paper rather than electronic form. Counsel has a continuing duty to update this information.

No. _____ Caption: _____

Pursuant to FRAP 26.1 and Local Rule 26.1,

(name of party/amicus)

who is _____, 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:

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: _____

Date: _____

Counsel for: _____

CERTIFICATE OF SERVICE

I certify that on _____ 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:

(signature)

(date)

TABLE OF CONTENTS

DISCLOSURE OF CORPORATE AFFILIATIONS AND OTHER INTERESTS.....	ii
TABLE OF AUTHORITIES	v
STATEMENT OF IDENTITY, INTEREST & AUTHORITY TO FILE.....	viii
STATEMENT REGARDING PARTICIPATION BY PARTIES, THEIR ATTORNEYS, OR OTHER PERSONS IN FUNDING OR AUTHORIZING THE BRIEF	xi
ARGUMENT	1
I. The IPR Scheme is Fundamentally Unfair.....	1
A. The IPR scheme improperly removes patent validity determinations from Article III courts, where they belong	2
B. IPRs violate the grand bargain negotiated between the inventor and the government.....	3
C. IPR differs in significant ways from <i>ex parte</i> reexamination and operates to tie the patentee's hands when he seeks to defend his patent against validity challenges	4
D. The rapidly increasing use of <i>inter partes</i> review, by well- funded third parties and against unsuspecting non-litigants, is particularly troubling	11
II. The Data Shows that the "Death Squad" Moniker is Well-Deserved.....	13
III. IPRs Violate the Separation of Powers Doctrine	15
CONCLUSION.....	21
CERTIFICATE OF COMPLIANCE.....	21

CERTIFICATE OF SERVICE21

TABLE OF AUTHORITIES**Cases:**

<i>Affinity Labs. of Tex., LLC v. BMW N. Am., LLC</i> , 783 F. Supp. 2d 891 (E.D. Tex. 2011)	ix
<i>Cooper, et al., v. Lee, et al.</i> , Case No. 1:14-cv-00672-GBL-JFA [Doc. No. 30-2].....	xi
<i>Crocs, Inc. v. Int'l Trade Comm'n</i> , 598 F.3d 1294 (Fed. Cir. 2010)	7, 9
<i>Crowell v. Benson</i> , 285 U.S. 22 (1932).....	16-18
<i>Graham v. John Deere Co.</i> , 383 U.S. 1 (1966).....	3
<i>Kaiser Aetna v. United States</i> , 444 U.S. 164 (1979).....	2
<i>Leo Pharm. Prods., Ltd. v. Rea</i> , 726 F.3d 1346 (Fed. Cir. 2013)	7, 9
<i>Markman v. Westview Instruments, Inc.</i> , 517 U.S. 370 (1996).....	7
<i>McCormick Harvesting Mach. Co. v. Aultman</i> , 169 U.S. 606 (1898).....	x, 2-4, 16, 20
<i>Microsoft Corp. v. i4i Ltd. P'ship</i> , 131 S.Ct. 2238 (2011).....	7
<i>Patlex Corp. v. Mossinghoff</i> , 758 F.2d 594 (Fed. Cir. 1985)	2-3, 20
<i>Phillips v. AWH Corp.</i> , 415 F.3d 1303 (Fed. Cir. 2005) (<i>en banc</i>)	7

Stern v. Marshall,
131 S. Ct. 2594 (2011)..... x, 9, 16-20

Universal Oil Products Co. v. Globe Oil & Refining Co.,
322 U.S. 471 (1944)..... 3

Administrative Law Proceedings:

Garmin International Inc. v. Cuozzo Speed Tech. LLC,
IPR2012-00001, Paper 26 (PTAB Mar. 5, 2013)..... 8-9

Hewlett-Packard Company v. MCM Portfolio, LLC,
IPR2013-00217, Paper 31 (PTAB August 6, 2014)..... 5

Int'l Flavors & Fragrances, Inc. v. United States,
IPR2013-00124, Paper 12 (PTAB May 20, 2014) 10

ScentAir v. Prolitec,
IPR2013-00179, Paper 9 (PTAB April 16, 2013) 5-6

Codes & Rules:

37 C.F.R. § 42.5 7

35 U.S.C. § 100..... 2

35 U.S.C. § 122..... 4

35 U.S.C. § 261..... 2

35 U.S.C. § 311 viii, 10

35 U.S.C. § 316..... 6, 8-9

35 U.S.C. § 319..... 6

Fed. R. Civ. P. 58 8

Other:

Ryan Davis, <i>PTAB's 'Death Squad' Label Not Totally Off-Base, Chief Says</i> , IPLaw360, Aug. 14, 2014.....	14
Aashish Kapadia, <i>Inter Partes Review: A New Paradigm in Patent Litigation</i> , 23 Tex. Intell. Prop. L.J., 113 (2015)	13
Brian Mahoney, <i>Software Patent Ruling a Major Judicial Failure, Rader Says</i> , IPLaw360, Oct. 25, 2013.....	14
Michael Rothwell, <i>Patents and Public Rights: The Questionable Constitutionality of Patents Before Article I Tribunals After Stern v. Marshall</i> , 13 N.C. J.L. & Tech. 287 (2012).....	16-20
<i>Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions: Final Rules</i> , 77 Fed. Reg. 48621 (Aug. 14, 2012)	8

STATEMENT OF IDENTITY, INTEREST & AUTHORITY TO FILE

In 2011, Congress passed the America Invents Act (“AIA”). 35 U.S.C. §§ 311 *et seq.* The AIA established a new procedure called *inter partes* review (“IPR”) by which petitioners request validity trials for patents issued by the U.S. Patent and Trademark Office (“PTO”). The validity trials are heard by administrative judges at the PTO as opposed to the Article III courts who have handled such matters in the past. Under the AIA, any private person (including an accused infringer involved in litigation pending in an Article III court) may petition the Patent Trial and Appeal Board (“PTAB”) of the PTO to commence an IPR trial and may do so without the consent of the patentee. If the PTAB “institutes” the IPR, then, after limited discovery, a trial is held before a PTAB Judicial Panel (an Article I tribunal), which adjudicates the issue of the patent’s validity. *Inter partes* review is an unconstitutional scheme that violates the Separation of Powers doctrine of Article III and violates the patentee’s Seventh Amendment right to a jury trial on the issue of patent validity.

Amicus Curiae Affinity Labs of Texas, LLC, is a Texas limited liability company, having a principal place of business at 31884 RR 12, Dripping Springs, Texas 78620. Affinity is an innovation consulting firm that works with inventors and innovators, helping them to develop their ideas and their intellectual property through company formation, manufacturing, licensing, and marketing.

Affinity has also developed its own intellectual property and has secured patents on its own inventions. Years ago, Affinity invented a digital media ecosystem. The digital media industry is dominated by multi-billion dollar, multi-national companies, so Affinity chose to bring its inventions to market via licensing. To that end, Affinity has successfully licensed its digital media patents to several market leaders. In some cases, the licensing efforts required litigation. *See, e.g., Affinity Labs. of Tex., LLC v. BMW N. Am., LLC*, 783 F. Supp. 2d 891, 895 (E.D. Tex. 2011) (final judgment of patent infringement and validity). Affinity's digital media inventions have been incorporated into a wide range of products.

Since the enactment of the AIA, Affinity's patents have been subjected to multiple IPR proceedings – all of which were initiated by accused infringers.¹ For these reasons, Affinity has a profound interest in the outcome of this case.

Affinity has authority to file this brief pursuant to Fed. R. App. P. 29(a). Further, all parties have consented to the filing of this brief. Affinity files this *amicus curiae* merits-brief to provide the Court with additional information and authority that may help it decide the constitutional questions presented by Appellants. Affinity agrees with Appellants that the IPR procedures are

¹ Affinity has the following IPRs pending against its patents: IPR2014-01181; IPR2014-01184; IPR2015-00820; IPR2015-00821; IPR2014-00407; IPR2014-00407; IPR2014-00209 and IPR2014-00212.

unconstitutional. This brief (1) describes real-life examples to demonstrate the fundamentally unfair nature of IPR proceedings, which run roughshod over the patentee's private property rights; (2) provides concrete data and statistics to demonstrate how the PTAB earned the "Death Squad" moniker given it by then-Chief Justice of the Federal Circuit, Judge Rader; and (3) briefly explains why the Supreme Court's 19th Century jurisprudence on patent rights, particularly its unequivocal declaration that issued patents cannot "be revoked or cancelled by the President, or any other officer of the Government," has never been overruled or otherwise disturbed. *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 608-09 (1898). Part III specifically addresses *Stern v. Marshall*, 131 S. Ct. 2594 (2011), and its in-depth treatment of the "public rights exception" – an exception that does not apply here and cannot save *inter partes* review from its constitutional infirmities.

**STATEMENT REGARDING PARTICIPATION BY PARTIES, THEIR
ATTORNEYS, OR OTHER PERSONS IN FUNDING OR AUTHORIZING
THE BRIEF**

Pursuant to Federal Rule of Appellate Procedure 29(c)(5), the undersigned counsel for *Amicus* represent that the entirety of this brief was authored by counsel for *Amicus* Affinity. Portions of the Statement of Identity, Interest, and Authority to File, *supra*, and the Argument, *infra*, were originally authored by Craig C. Reilly in his role as prior counsel for *Amicus* Affinity in the underlying action, *Cooper, et al., v. Lee, et al.*, Case No. 1:14-cv-00672-GBL-JFA [Doc. No. 30-2]. None of the parties or their counsel, nor any other person or entity other than *Amicus* Affinity or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief.

ARGUMENT

I. The IPR Scheme is Fundamentally Unfair

Inventors come from all walks of life and from every demographic. When an individual or a small group of individuals designs “a better mouse trap,” they are allowed to seek patent protection. Given the cost of entering certain markets and competing with market leaders, many patent holders – especially individuals and universities² – choose to license their ideas to one or more of the market leaders. When unlicensed organizations make, use, sell, or offer to sell products that practice the patented invention, many patent holders feel compelled to initiate infringement litigation in federal district court, where they can seek damages and injunctive relief.

In such litigation, the patent enjoys a statutory presumption of validity (a presumption the defendant must overcome by clear and convincing evidence), and the patentee enjoys the constitutional right to a jury trial on the issue of the patent’s

² See, e.g., <http://patentdocs.typepad.com/files/big-10-letter.pdf> (letter from all of the presidents and chancellors of the Big 10 universities, including the University of Maryland of this Circuit, to Congress explaining that: “One of the major ways research universities like ours help serve the nation is by transferring the patentable inventions developed in university-owned research labs to the private sector for development into new technologies to benefit all Americans, whose tax dollars frequently paid for much of that research. … Having a strong defensible patent is crucial to ensuring that those who want to commercialize the discoveries emerging from university research can access the investment dollars they need to move their discoveries into the marketplace.”)

validity. However, under the IPR scheme established by the AIA, accused infringers can now circumvent those rights and protections by seeking an administrative adjudication from an Article I tribunal, rather than a judicial adjudication from an Article III district court, on the issue of patent validity.

A. The IPR scheme improperly removes patent validity determinations from Article III courts, where they belong

Patents are private property belonging to the patentee. 35 U.S.C. § 261 (“patents shall have the attributes of personal property”); *McCormick Harvesting Mach. Co. v. Aultman*, 169 U.S. 606, 608-09 (1898) (issued patent is “the property of the patentee”); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 599 (Fed. Cir. 1985) (“It is beyond reasonable debate that patents are property.”) (citation omitted).³ The essential, and constitutionally protected property right conferred by a patent is the right to exclude others from practicing the invention during the life of the patent. *See Kaiser Aetna v. United States*, 444 U.S. 164, 176 (1979) (“the ‘right to exclude others’ is ‘one of the most essential sticks in the bundle of rights that are commonly characterized as property’”); *accord Patlex*, 758 F.2d at 599 (“The basic right concomitant to the grant of a patent is the right of exclusivity founded in the Constitution.”). The patentee’s right to judicial process includes, *inter alia*,

³ “The word ‘patentee’ includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.” 35 U.S.C. § 100(d). Ownership of a patent is conveyed by assignment (e.g., from the inventor to another person), *see* 35 U.S.C. § 261, and if all rights in the patent are therein conveyed, the assignee becomes the “patentee.”

the Seventh Amendment right to trial by jury on the issue of patent validity. *See Patlex*, 758 F.2d at 600-07. Indeed, once issued, a patent is not subject to revocation or cancellation by any agency (even the PTO) or any officer of the executive branch (including the President). *McCormick*, 169 U.S. at 608-09. “The only authority competent to set a patent aside, or to annul [an issued patent], or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.” *Id.* at 609 (citation omitted).

B. IPRs violate the grand bargain negotiated between the inventor and the government

The issuing of a patent marks the moment the government “shakes hands” with the inventor. The United States patent system is built upon a *quid pro quo* exchange of promises between the government and the inventor. *See, e.g.*, *Universal Oil Products Co. v. Globe Oil & Refining Co.*, 322 U.S. 471 (1944) (“As a reward for inventions and to encourage their disclosure, the United States offers a 17-year monopoly to an inventor who refrains from keeping his invention a trade secret.”); *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966) (the granting of a patent is the reward – the inducement – promised to inventors for telling the public about their ideas). In most cases, the inventor and the government negotiate for two or three years from the filing date before the “handshake” happens. And it is the handshake that triggers the inventor’s obligation to share his or her secret with the

world. *See* 35 U.S.C. § 122 and § 122(b)(2).⁴ Fundamental fairness dictates that the governmental branch that induced the inventor to reveal his or her secret cannot be allowed to back out of the deal after the handshake. That is why the Supreme Court in *McCormick Harvesting* made clear that “when 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.” *McCormick*, 169 U.S. at 608. The Supreme Court’s unequivocal jurisprudence on this point will not tolerate a bait-and-switch scheme in which the executive branch first “giveth” and then later “taketh away.”

C. IPR differs significantly from ex parte reexamination and ties the patentee’s hands when he seeks to defend his patent against validity challenges

Inter partes review transforms the PTO from an office focused on examining applications with an eye toward issuing valid claims to an administrative body that seeks to destroy the very patents it previously issued. The PTAB recently admitted:

⁴ In 2000, a change in the patent laws (to bring them into alignment with international law) required applications to be published eighteen months after filing unless the applicant “opts out” of publication by declaring that she will not file the application internationally. Thus, if the applicant wishes to negotiate without his disclosure becoming public, 35 USC § 122(b)(2) allows the inventor to keep the application a secret indefinitely or until the handshake moment of issuance.

“An *inter partes* review *is not* ... *reexamination* of the involved patent. Rather, *[an IPR] is a trial, adjudicatory in nature and constituting litigation.*” *ScentAir v. Prolitec*, IPR2013-00179, Paper 9, at 4 (PTAB April 16, 2013) (emphasis added). In other words, unlike original examination and *ex parte* reexamination (which the Federal Circuit has characterized as a re-opening of the patent examination process by the PTO), an IPR constitutes binding adversarial litigation between the patentee and the petitioner (often an accused infringer), and (unconstitutionally) eliminates the protections of Article III and the Seventh Amendment by replacing the district court and jury with an administrative tribunal.

Predictably, the PTAB has held that the initiation and litigation of an IPR does not violate the patentee’s Seventh Amendment rights. *See Hewlett-Packard Company v. MCM Portfolio, LLC*, IPR2013-00217, Paper 31, at 4-5 (PTAB August 6, 2014) (Final Written Decision). In so ruling, however, the PTAB reasoned that an IPR was essentially the same as a reexamination—which, for reasons the PTAB itself articulated in *ScentAir*, it is not. By its *Hewlett-Packard* decision, the PTAB has foreclosed *any* constitutional challenges to the IPR procedures at the administrative level. In fact, in an IPR formerly pending against Affinity, the PTAB would not even allow Affinity to file a motion to stay the IPR while this Constitutional challenge to the IPR scheme is decided by an Article III court.

Instead, the patentee must bear the cost and delay of the IPR proceeding before even having the right to question the constitutionality of the IPR procedures in an appeal to the Federal Circuit, which has sole appellate jurisdiction over the final written decisions of the PTAB. *See* 35 U.S.C. § 319. The PTAB’s intractable stance further exposes the constitutional infirmities of the IPR procedures and treads heavily upon the patentee’s constitutional rights and reasonable expectations of fairness.

The differences between *ex parte* reexamination and an *inter partes* review are substantial. The patent examination process (whether initial examination or *ex parte* reexamination) is conducted between an inventor/patentee and the PTO. The examination (and reexamination) process involves multiple back-and-forth communications, the frequent amending of claims, and the shared desire to attain allowance of valid claims in an issued patent.

By contrast, IPRs are “adjudicatory in nature” and “constitut[e] litigation” between a patentee and a petitioner. *See ScentAir, supra.* Unlike patent examination, the PTO is not a party in the IPR dispute. Rather, the IPR is a dispute between two private parties, where the PTAB presides as judge, jury, and executioner of claims. Unlike patent examination, the inventor/patentee is no longer allowed to freely amend his or her claims. *See, e.g.,* 35 U.S.C. § 316(d). Unlike patent examination, the inventor/patentee and the examiner cannot engage

in any of the back-and-forth discussions that characterize the examination process.

See 37 C.F.R. § 42.5(d) (barring *ex parte* communications). Unlike patent examination, the PTAB does not examine the application with an eye towards allowance of valid claims; rather, it sits in judgment as the IPR petitioner attempts to invalidate the patentee's previously-issued claims.

By instituting IPR proceedings, an accused infringer (or any other private person) may circumvent Article III of the Constitution and, at the same time, deprive the patentee of the constitutional protections and rules that apply in the judicial system. In judicial litigation, issued claims are entitled to a presumption of validity, which may be overcome only by presentation to a jury of clear and convincing evidence. *See, e.g., Microsoft Corp. v. i4i Ltd. P'ship*, 131 S.Ct. 2238, 2242 (2011). In judicial litigation, the claims must be given a proper interpretation. *See, e.g., Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312-18 (Fed. Cir. 2005) (*en banc*) (describing the claim construction standard in district court litigation). In judicial litigation, a patentee is entitled to discovery that may establish the validity and the non-obviousness of his claims. *See, e.g., Leo Pharm. Prods., Ltd. v. Rea*, 726 F.3d 1346, 1357 (Fed. Cir. 2013), quoting *Crocs, Inc. v. Int'l Trade Comm'n*, 598 F.3d 1294, 1310 (Fed. Cir. 2010) ("[O]bjective indicia can be the most probative evidence of nonobviousness in the record, and enables the court to avert the trap of

hindsight.”) (internal citations omitted). And, in judicial litigation, a final judgment must be entered for the findings to become binding. *See, e.g.*, Fed. R. Civ. P. 58. None of these protections are provided in an *inter partes* review.

As just one example of the constitutionally significant flaws of IPR, this Court need only consider the severe restrictions on discovery. *See* 35 U.S.C. § 316(a)(5). As the PTAB explains, the IPR rules “provide limitations for discovery and testimony. Unlike in proceedings under the Federal Rules of Civil Procedure, the burden of justifying discovery in [PTAB] proceedings would lie with the party seeking discovery.” *Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions: Final Rules*, 77 Fed. Reg. 48621 (Aug. 14, 2012) (hereafter, “PTAB Rules”). Moreover, to obtain any additional discovery, the rules place “an affirmative burden upon a party seeking the discovery to show how the proposed discovery would be productive,” and meet either a “good cause” or “interests of justice” standard. *PTAB Rules*, 77 Fed. Reg. 48622 (Aug. 14, 2012). This has proven to be a steep, uphill climb on certain factual issues pertaining to validity.

In the approximately 1,500 IPR proceedings initiated since the AIA took effect, the PTAB has routinely rejected the patentee’s efforts to seek additional discovery from the accused infringer/petitioner regarding objective evidence of nonobviousness. *See, e.g.*, *Garmin International Inc. v. Cuozzo Speed Tech. LLC*,

IPR2012-00001, Paper 26, at 4-7 (PTAB Mar. 5, 2013) (delineating parameters of permissible discovery in IPR). According to the PTAB, “in *inter partes* review, discovery is limited as compared to that available in district court litigation. Limited discovery lowers the cost, minimizes the complexity, and shortens the period required for dispute resolution.” *Garmin*, at 5. In the name of speed and convenience, the PTAB typically refuses to allow discovery related to objective indicia of non-obviousness. *See Crocs*, 598 F.3d at 1310. Even the Federal Circuit has recognized that such tight restrictions on relevant discovery, including pertinent secondary indicia of non-obviousness, lead to impermissibly narrow, hindsight-driven adjudications of this issue. *Leo Pharm. Prods.*, 726 F.3d at 1353-58 (reversing PTO determination of obviousness). Convenience and speed are worthy goals, but they cannot be used as a justification for the unconstitutional taking of private property. To the contrary, Article III and the Seventh Amendment are designed to be bulwarks against such unfairness. *See Stern*, 131 S. Ct. at 2619 (“the fact that a given law or procedure is efficient, convenient, and useful in facilitating functions of government, standing alone, will not save it if it is contrary to the Constitution”) (citation omitted).

The differences between examination/reexamination and IPRs are not limited to the subject of discovery. The AIA purports to allow claim amendments under some circumstances. 35 U.S.C. § 316(a)(5). However, as a practical matter,

the PTAB has effectively decided that it will not allow such amendments. As of December 2014, the PTAB had granted a patentee's motion to amend his claim in an IPR only once—and, ironically, the patent owner in that case was the United States Government. *See Int'l Flavors & Fragrances, Inc. v. United States*, IPR2013-00124, Paper 12 (PTAB May 20, 2014) (Final Written Decision); *see also* Harnessing Patent Office Litigation, slide 2 of 3, available at <http://ipr-pgr.com/wp-content/uploads/2015/01/IPR-PGR-Report-Vol.-8.pdf>. The contrast between reexamination (in which amendment of claims to preserve validity is routine) and IPR (in which amendment of claims is virtually non-existent) is stark.

Finally, IPR is a poor substitute (not to mention an unfair and unconstitutional substitute) for judicial adjudication, because in IPR proceedings, there is: (1) no presumption of validity; (2) a lowered burden of proof (preponderance of the evidence) to show invalidity – an evidentiary burden applied by PTAB judges who typically lack experience with the Federal Rules of Civil Procedure and Evidence; (3) no attempt to construe claims based on the knowledge of a person of ordinary skill in the relevant art as in Article III litigation; and (4) immediate implementation of the PTO's ruling without immediate Article III oversight. *See* 35 U.S.C. § 311 *et seq.*

D. The rapidly increasing use of *inter partes* review, by well-funded third parties and against unsuspecting non-litigants, is particularly troubling

Affinity has been forced to endure the prejudice associated with the deprivation of its Constitutional rights. Fortunately for Affinity, several large market leaders in the digital media space have already taken a license to Affinity's Digital Media patents. As a result, Affinity has resources to help it to fight the unconstitutional IPRs instituted against it by unlicensed infringers. While no one should be forced to expend resources fighting an unconstitutional IPR, the IPR scheme is particularly burdensome to individuals and small startups who own patents but who often lack the resources to fight, for the reasons discussed further below.

An *inter partes* review may be requested by any private person, regardless of whether or not that person has been accused of infringement or even threatened with litigation. For example, a large technology company or a hedge fund with an axe to grind may seek to invalidate any pesky patent they view as an obstacle to their business goals – regardless of whether or not such a patent was ever asserted against them. Various commentators and news outlets have recently documented the ironic turn of events in which hedge funds are using IPRs to manipulate the

stock market by attacking patents in certain industries, such as the pharmaceutical industry.⁵

Further, the use of IPRs is not limited to attacks on the patents of any particular company or industry. Many patents are owned by unsuspecting and under-funded individuals and startups who lack the resources to defend themselves against deep-pocketed petitioners that launch IPRs to destroy patents, even though the patentee has never asserted, enforced, litigated or even threatened litigation of his patent(s). Those unfortunate patentees are essentially required to bring a knife to the gunfight – a gunfight they did not request or provoke but which nevertheless requires them to participate in the IPR litigation and to incur the considerable costs associated with the process. The IPR scheme thus contemplates forcing unsuspecting patentees into costly litigation regardless of their intentions.

⁵ See <http://www.nasdaq.com/article/kyle-basss-new-tack-dispute-the-patent-short-the-stock-20150407-01033> (Wall Street Journal article, reprinted at www.nasdaq.com, describing “a novel approach to making money: filing and publicizing patent challenges against pharmaceutical companies while also betting against their shares”); <http://www.ipwatchdog.com/2015/04/08/is-kyle-bass-abusing-the-patent-system/id=56613/> (referencing Wall Street Journal article and stating: “How ironic that the AIA could bring the [pharmaceutical] industry to its knees.”); <http://www.patentspostgrant.com/the-ptab-as-a-hedge-fund-tool> (describing “manipulation of financial markets through PTAB filings of investment professionals ... that undermine the integrity of the patent system”); <http://www.law360.com/articles/620747/hedge-fund-s-novel-aia-strategy-targets-acorda-s-ms-drug> (describing IPR petition challenging Acorda patent as “the first to be filed by a hedge fund” and citing hedge fund’s admitted and unapologetic strategy of using “IPR reviews as part of an investment strategy of betting on tanking share prices of the targeted companies”).

II. The Data Shows that the “Death Squad” Moniker is Well-Deserved

The reality of IPRs is not simply an academic or theoretical debate about their potential shortcomings. Rather, the actual implementation of the procedural deficiencies of the IPR scheme is even more alarming than anyone imagined. Congress estimated that approximately 460 petitions for IPR would be filed per year. In the first two full years of IPR availability (2013–’14), there were 1,824 petitions filed, with 1,310 of those filed in 2014. Aashish Kapadia, *Inter Partes Review: A New Paradigm in Patent Litigation*, 23 Tex. Intell. Prop. L.J., 113, 121-22 (2015). The reason for this alarming rate of filing is clear – the PTO demonstrated an appetite for killing the very same patents it had issued. In the first two fiscal quarters in which final written decisions were issued, every claim challenged was invalidated. PostGrantHQ Reporter 2014 Findings on USPTO Contested Proceedings, slides 16-18, available at http://www.postgranthq.com/wp-content/uploads/2014/10/PostgrantHQ_Report.pdf.

The PTAB’s reputation as a killing machine is justified based on the microscopic numbers of claims that have survived. Since IPRs have been available to petitioners, 73.5% of claims challenged by petitioners have either been found unpatentable by the PTAB in a final written decision or canceled by the patentee during the IPR proceeding. *Id.*, at slide 2 of 18. For claims in petitions that were

instituted for trial, the number of claims found unpatentable or canceled jumps to 81.9%. *Id.*, at slide 4 of 18.

Remarkably, former Federal Circuit Chief Judge Randall Rader coined the term “death squad” for IPRs when he told the American Intellectual Property Law Association that “you’ve got an agency with 7,000 [examiners] giving birth to property rights, and then you’ve got, in the *same agency*, 300 or so [administrative judges] on the back end...acting as death squads, kind of killing property rights.”

Brian Mahoney, *Software Patent Ruling a Major Judicial Failure, Rader Says*, IPLaw360, Oct. 25, 2013, available at <http://www.law360.com/articles/482264> (emphasis added). Chief Judge James Smith of the PTAB embraces the “death squad” label. “If we weren’t, in part, doing some ‘death squadding,’ we would not be doing *what the statute calls on us to do.*” Ryan Davis, *PTAB’s ‘Death Squad’ Label Not Totally Off-Base, Chief Says*, IPLaw360, Aug. 14, 2014, available at <http://www.law360.com/articles/567550/ptab-s-death-squad-label-not-totally-off-base-chief-says> (emphasis added). Although Chief Judge Smith says that “not every [challenged] claim in a patent brought forward [in an IPR]...has met its death because it has been raised in a petition,” the statistics show that an overwhelming number of claims have been either invalidated or canceled. *Id.*

As these statistics demonstrate, the PTAB enthusiastically embraces its statutory (though unconstitutional) role as a replacement for Article III courts,

happily applies a lower standard of review for patent invalidity (preponderance of the evidence), and employs a “speed over accuracy” approach to drastically alter the patentee’s playing field, to devalue or destroy private property, and to undermine the Constitutional protections established by more than 100 years of Supreme Court precedent on the subject of private property rights. It is a curious scheme indeed when the PTO justifies the existence, actions, and expansion of the PTAB by reference to its perceived mandate: to invalidate the very patents that it has previously issued.

III. IPRs Violate the Separation of Powers Doctrine

If the statistics are not sufficiently alarming, the unconstitutional consolidation of yet more power within the executive branch should be. It does not matter whether the consolidation is the result of power grabs and executive fiats by the Chief Executive or the result of laws passed by a complicit or unwitting Congress (“we have to pass the bill so that you can find out what is in it”). In either case, the effect on the individual is the same: the further erosion of private property rights and individual liberties.

Appellants’ principal brief provides a thorough discussion of the Separation of Powers doctrine and the role of Article III courts in our Constitutional system; the Seventh Amendment concerns implicated by the IPR scheme; and the “public rights” exception to the Constitution’s prohibition against Article I courts resolving

private disputes (such as the validity of an issued patent) that are reserved exclusively for Article III courts. *See, e.g.*, Appellant’s Prin. Br. at 1-3, 16-29. However, Appellants’ brief does not discuss the *Stern* case or the *Crowell* case upon which *Stern* relies. *Stern* represents the Supreme Court’s most current pronouncement on public rights jurisprudence and, along with *Crowell*, further supports Appellants’ argument that patents are private rights, *not* subject to the public rights exception, and that the adjudication of patent validity in the PTAB (an Article I tribunal) is therefore unconstitutional.

As the Supreme Court’s 19th Century jurisprudence makes clear, the executive branch cannot grant a patent and then later, post-issuance, cancel or annul that same patent. *See, e.g.*, *McCormick Harvesting*, 169 U.S. at 608-09. That precedent is as binding today in the 21st Century as it was in the 19th Century.

In *Stern v. Marshall*, 131 S. Ct. 2594, 2600-01 (2011), the Supreme Court held that an Article I court (a bankruptcy court) lacked the constitutional authority to enter judgment on a tortious interference counterclaim brought by Anna Nicole Smith (aka “Vickie”) against E. Pierce Marshall (the son of Vickie’s late husband, Texas tycoon J. Howard Marshall II) in her bankruptcy proceeding. Significantly, the opinion provides in-depth treatment of the Supreme Court’s jurisprudence on the public rights exception, which the Court analyzed to help explain the bankruptcy court’s Article III violation. *Id.* at 2610-18; *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, 291-358 (2012) (hereafter, “Rothwell”) (chronicling a century and a half of Supreme Court jurisprudence on the public rights exception, including *Stern*’s detailed analysis of the narrow exception).

On this point, *Stern* endorsed the narrow view of public rights espoused in *Crowell v. Benson*, 285 U.S. 22, 49-51 (1932), and affirmed that where wholly private property cases are at issue and where the government is not a party, public rights are not implicated. *Stern*, 131 S. Ct. at 2612-13 and n.6 (acknowledging *Crowell* as the controlling standard for analysis of the public rights exception), citing *Crowell*, 285 U.S. at 49-51 (endorsing the long-held view that Congress cannot “withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity” and describing as a “private right” any claim that is “of the liability of one individual to another under the law as defined”) (citation omitted); *see also id.* at 2621 (Scalia, J., concurring) (describing “our landmark decision in *Crowell*” and emphasizing his view that “an Article III judge is required in *all* federal adjudications, unless there is a firmly established historical practice to the contrary”) (emphasis in original)).

Crowell involved an action “arising between the government and others.” *Crowell*, 285 U.S. at 50. The Court took a narrow view of public rights and

determined that only private rights were at issue. Nevertheless, the Court upheld the constitutionality of a partial adjudication by an Article I tribunal – the U.S. Employees’ Compensation Commission – because the Commissioner had only limited authority to make certain findings of fact and was only empowered to issue advisory, and thus not final, opinions on questions of law, which were expressly reserved for Article III courts. *Id.* at 48 – 57 (explaining that to allow an Article I tribunal to adjudicate the claim in question “would be to sap the judicial power as it exists under the Federal Constitution, and to establish a government of a bureaucratic character alien to our system”). Eighty years later, the Court in *Stern* embraced *Crowell*, explaining that any interpretation of public rights that allows for the adjudication of a common law claim before an Article I tribunal transforms Article III “from the guardian of individual liberty and separation of power … into mere wishful thinking.” *Stern*, 131 S. Ct. at 2616.

Finally, the *Stern* Court acknowledged “the varied formulations of the public rights exception” in the Supreme Court’s past cases. *Id.* at 2614, *see also* Rothwell at 291-345. Under any rationale from those past cases, the IPR scheme would not survive constitutional scrutiny because it fails to fit into any of those formulations:

Rationale invoked or proposed to survive constitutional scrutiny and to justify resolution or partial resolution of a private dispute by an Article I tribunal or agency:	Applies to <i>inter partes</i> review?
Proceedings limited to factual findings	No.
Final decision was subject to <i>de novo</i> review by an Article III district court	No.
Government was a party	No.
Proceeding involved a right that had never been litigated at common law but rather was established by the same regulatory scheme that created the Article I tribunal	No.
Proceeding involved voluntary or consensual participation by both private parties	No.
Tribunal was simply acting as an adjunct to the district court	No.
All participants waived Seventh Amendment right to a jury trial	No.

See also id. at 2611 (acknowledging “the various formulations of the concept” of a public rights exception”); *id.* at 2621 (Scalia, J., concurring) (referencing “the many tests suggested by our jurisprudence”); *see also* Rothwell at 379-84 (summarizing the various analytical frameworks of the public rights exception and concluding: “where a dispute takes place between private parties, as is oft the case in patent litigation, and where a dispute entails a right with common law antecedent, as is always the case in patent litigation, that right cannot be a public right”).

Because the IPR scheme adjudicates private rights, its implementation encroaches upon the authority of Article III courts. The Court in *Stern* concluded with this warning:

A statute may no more lawfully chip away at the authority of the Judicial Branch than it may eliminate it entirely. Slight encroachments create new boundaries from which legions of power can seek new territory to capture. ... [W]e cannot overlook the intrusion: illegitimate and unconstitutional practices get their first footing in that way, namely, by silent approaches and slight deviations from legal modes of procedure. 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.

Id. at 2620 (citations and internal quotations omitted); *see also id.* at 2608-09 (“there is no liberty if the power of judging be not separated from the legislative and executive powers”) (quoting Alexander Hamilton and Montesquieu).

In sum, the Supreme Court in *McCormick Harvesting* established a bright line rule that the validity of an issued patent may not be adjudicated by the executive branch, and the government has identified no authority from the Supreme Court or Fourth Circuit that would serve to blur this line. Moreover, for the reasons recently described by the Supreme Court in *Stern*, the public rights exception does not apply here and cannot justify the unconstitutional acts of the PTAB in conducting *inter partes* review.⁶

⁶ Appellants have already addressed and distinguished the Federal Circuit’s holdings in *Patlex* and *Joy Techs*. *See*, Appellant’s Prin. Br. at 16-17, 24-33; *see also* Rothwell at 314-19 (discussing *Patlex*), 340-43 (discussing *Joy*), and 380-81 (discussing *Patlex* and *Joy*). The legal rationale used in those cases is dubious at best, and, in any event, those cases are not binding on this Court.

CONCLUSION

The IPR scheme usurps the Constitutional authority of Article III courts, who have exclusive authority to adjudicate the validity of issued patents. This Court should uphold over 100 years of Supreme Court jurisprudence by declaring the IPR procedures unconstitutional.

CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of FED. R. APP. P. 29(d), because the brief contains 5,809 words, excluding the parts of the brief exempted by FED. R. APP. P. 32(a)(7)(B)(iii).

This brief complies with typeface requirements of FED. R. APP. P. 32(a)(5) and the type-style requirements of FED. R. APP. P. 32(a)(6), because it has been prepared in a proportionally spaced typeface using Microsoft Word in Times New Roman 14-point font.

/s/ Jonathan T. Suder

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Brief of *Amicus Curiae* Affinity Labs of Texas, LLC will be served on the following counsel of record on the 20th day of April 2015, via electronic mail and service through the Court's ECF filing system:

/s/ Jonathan T. Suder

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT
APPEARANCE OF COUNSEL FORM

BAR ADMISSION & ECF REGISTRATION: If you have not been admitted to practice before the Fourth Circuit, you must complete and return an [Application for Admission](#) before filing this form. If you were admitted to practice under a different name than you are now using, you must include your former name when completing this form so that we can locate you on the attorney roll. Electronic filing by counsel is required in all Fourth Circuit cases. If you have not registered as a Fourth Circuit ECF Filer, please complete the required steps at [Register for eFiling](#).

THE CLERK WILL ENTER MY APPEARANCE IN APPEAL NO. _____ as
[]Retained []Court-appointed(CJA) []Court-assigned(non-CJA) []Federal Defender []Pro Bono []Government
COUNSEL FOR: _____

_____ as the
(party name)

appellant(s) appellee(s) petitioner(s) respondent(s) amicus curiae intervenor(s)

(signature)

Name (printed or typed)

Voice Phone

Firm Name (if applicable)

Fax Number

Address

E-mail address (print or type)

CERTIFICATE OF SERVICE

I certify that on _____ 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:

Signature

Date