

No. _____

In the Supreme Court of the United States

ADVANCED AUDIO DEVICES, LLC,
Petitioner,

v.

HTC CORPORATION and HTC AMERICA, INC.,
Respondents.

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

PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

Whether *inter partes* review (“IPR”) of patents filed before enactment of the Leahy-Smith America Invents Act (“AIA”) violates the Takings Clause of the Fifth Amendment to the U.S. Constitution.

**PARTIES TO THE PROCEEDINGS
AND RULE 29.6 STATEMENT**

The parties to the proceedings are listed on the cover. Advanced Audio Devices, LLC (“AAD” or “Petitioner”) is a privately held company.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner Advanced Audio Devices LLC respectfully submits this petition for a Writ of Certiorari to review the judgment of the U.S. Court of Appeals for the Federal Circuit.

OPINIONS AND ORDERS BELOW

The judgment of the panel that disposed of the case below without issuing an opinion is unreported and available at 721 F. Appx. 989 (Fed. Cir. May 7, 2018) (App., *infra* 1-2).

The related opinions of the Patent Trial and Appeal Board (“PTAB”) are unreported and available at: 2015 WL 948115; 2015 WL 9488117; 2015 WL 9488137; 2016 WL 287012; 2016 WL 287057 (App., *infra* 3-205). The order of the Patent Trial and Appeal Board denying AAD’s requests for rehearing is unreported (App., *infra* 206-216).

STATEMENT OF JURISDICTION

Petitioner AAD respectfully submits this Petition for Writ of Certiorari to review the judgment of the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”), entered on May 7, 2018. Jurisdiction of this Court is invoked under 28 U.S.C. § 1254 (1).

**CONSTITUTIONAL AND
STATUTORY PROVISIONS INVOLVED**

The Fifth Amendment to the United States Constitution provides:

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

Relevant statutory provisions include: 28 U.S.C. § 1254 (1), 35 U.S.C. § 154 and 35 U.S.C. §§ 311-319 (App., *infra* 217-239).

STATEMENT

This case involves five U.S. patents, assigned to the Petitioner AAD, in which numerous claims of each patent were invalidated by the PTAB in separate IPR proceedings. These outcomes were subsequently affirmed by the Federal Circuit without opinion:

U.S. Patent	IPR	Appeal	Invalidated Claims
6,587,403 (‘403 patent)	IPR2014-01154	17-1750	1, 3, 6, 7, 11, 12, 16, 22, 24, 27, 29, 30, 35-37, 43 and 45-47
7,289,393 (‘393 patent)	IPR2014-01155	17-1748 (lead)	1, 3, 6, 7, 9, 11, 25, 30, 59, 77, 82, 85 and 117-122
7,817,502 (‘502 patent)	IPR2014-01156	17-1805	1, 2, 14, 20, and 43-47
7,933,171 (‘171 patent)	IPR2014-01157	17-1806	1, 2, 5, 6, 7, 14, 17, 20, 23, 26, 28, 37, 40, 42, 43, and 45-48
8,400,888 (‘888 patent)	IPR2014-01158	17-1824	1-15

Invalidation of these claims has caused significant adverse economic consequences for AAD.

The filing dates of AAD's five patents were all well before the AIA was enacted and IPR took effect (see table on page 13).

Before the AIA, AAD was able to settle licensing disputes without litigation. After the AIA was enacted, AAD had to file patent infringement lawsuits to defend its patent rights against several infringers. All of the patents involved in this case are subjects of U.S. District Court proceedings in the following cases filed in the District Court for the Northern District of Illinois:

• *Advanced Audio Devices, LLC v. HTC America, Inc.*, Case No. 1-13-cv-07582

• *Advanced Audio Devices, LLC v. Amazon.com, Inc.*, Case No. 1-13-cv-07585

• *Advanced Audio Devices, LLC v. Pantech Wireless, Inc.*, Case No. 1-14-cv-02211

The District Court has stayed the above cases pending the outcome of this case. These cases and the proceedings before the PTAB and the Federal Circuit have involved significant attorney fees and related costs and have resulted in significant loss of royalty revenue by AAD.

REASONS FOR GRANTING THE PETITION

This Court should grant this Petition for Writ of Certiorari to resolve a question of immense national and economic importance. By enacting and implementing the AIA, the Government deprived patent owners of their personal property. Was that a Fifth Amendment taking? And, if so, what should be done about it? This Court recently observed that these questions remain open for review.

IPR constitutes a Fifth Amendment taking when applied to patents filed before the AIA was enacted. In its last term, this Court resolved a constitutional challenge against IPR in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC, et al.*, 584 U.S. ___; 138 S. Ct. 1365 (2018). *Oil States* challenged the constitutionality of IPR based upon an alleged violation of Article III of the U.S. Constitution and the Seventh Amendment. This Court held that IPR does not violate Article III of the U.S. Constitution or the Seventh Amendment.

However, this Court meticulously limited its holding in *Oil States* so as not to foreclose challenges under other provisions of the U.S. Constitution. Specifically, this Court qualified its holding in *Oil States* as follows:

We emphasize the narrowness of our holding... Moreover, we address only the precise constitutional challenges that Oil States raised here. Oil States does not challenge the retroactive application of inter partes review, even though that procedure was not in place when its patent issued. Nor has Oil States

raised a due process challenge. Finally, our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.

Oil States, 138 S. Ct. at 1379.

It was appropriate for this Court to reserve the question presented because IPR does, in fact, constitute an impermissible taking for patents filed before the procedure was in place. As discussed below, the retroactive effect of IPR in this case meets all criteria established by this Court to constitute a regulatory taking. *See generally* Gregory Dolin and Irena Manta, *Taking Patents*, 73 Wash. & Lee L. Rev. 719, 775-96 (2016). This Petition squarely presents the question because invalidation of Petitioner's patent claims in five separate IPR proceedings administered by the PTAB constitutes a regulatory taking by a government agency, namely the USPTO. The enactment itself of IPR, in fact, established the framework for a regulatory taking.

This Court recently affirmed that a regulatory taking by a Government agency of personal property without just compensation is unconstitutional. *See Horne v. Department of Agriculture*, 135 S. Ct. 2419 (2015). In that case, the United States Department of Agriculture issued a California Raisin Marketing Order that required a percentage of a raisin grower's crop to be physically set aside in certain years for the Government, free of charge. The Government then sold, allocated or otherwise disposed of the raisins in ways it determined to be best suited to maintaining an orderly market, returning only a contingent residue of profits to the original owner.

In that case, the Horne family, raisin growers, refused to set aside any raisins for the Government, as required by the Marketing Order. Their refusal triggered a lengthy administrative proceeding that culminated in imposition by the U.S. Department of Agriculture of a substantial fine for regulatory violations. This Court ruled the Marketing Order in *Horne* was a regulatory taking in violation of the Takings Clause of the Fifth Amendment.

In *Horne*, the Court emphatically reaffirmed that patents are personal property, protected by the Takings Clause of the Fifth Amendment to the U.S. Constitution. The Court quoted *James v. Campbell*, 104 U.S. 356, 358 (1882), affirming that a patent “confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser.” *Horne* at 2427. As will be discussed shortly, this Petition addresses government “appropriation” of a patent, reaffirmed in *Horne* to qualify as a taking.

The Fifth Amendment protects private property from wrongful taking by the Government without just compensation. This Court has acknowledged that “[p]atents ... have long been considered a species of property.” *Fla. Prepaid Postsecondary Educ. Expense Bd. v. Coll. Sav. Bank*, 527 U.S. 627, 642 (1999) (Patents “are surely included within the ‘property’ of which no person may be deprived by a State without due process of law.”). In the takings context, this Court recognized “the rights of a party under a

patent are his private property” which “cannot be taken for public use without just compensation.” *Brown v. Duchesne*, 60 U.S. 183, 197, 15 L. Ed. 595 (1857).

As stated in *James*, and reaffirmed in *Horne*, there are two ways the Government might trigger the Takings Clause as to a patent – either by “use” or “appropriation.” This Petition raises the question of Government “appropriation.” The Government “appropriated” Petitioner’s patent rights by enacting the AIA and IPR (thus devaluing all patents), and then “appropriated” them again by using weakened patent laws not in existence during the original inventor-Government negotiation of patent rights to invalidate certain claims. Invalidation put AAD’s inventions into the public domain, where they previously were not. That the AIA lacks any “just compensation” provision confirms that this Court should hold the USPTO’s actions void *ab initio*. See *Horne*, 135 S. Ct. at 2431 (holding that takings may be raised as a defense against government action, not requiring party first to seek compensation under Tucker Act); *Nectow v. City of Cambridge*, 277 U.S. 183 (1928) (remedy for uncompensated taking is non-enforcement of regulation or ordinance).

The famous *Penn Central* factors support that IPR enactment, and the invalidation of Petitioner’s patent claims under IPR, constitute a regulatory taking of personal property. *Penn Cent. Transp. Co. v. New York City*, 438 U.S. 104 (1978). These factors include: “the economic impact of the regulation on the claimant and, particularly, the extent to which the regulation has interfered with distinct investment-backed expectations ... and the character of the governmental

action” *Id.* at 124. Also, see Dolin et al., *Taking Patents*, 73 Wash. & Lee L. Rev. at 791-795.

The enactment of AIA and the resulting invalidation of AAD’s patent claims have had a significant economic impact on AAD’s investments in its patents. The first *Penn Central* factor looks to AAD’s continued ability, after the Government action, to earn a reasonable return on its investment. *Penn Cent.*, 438 U.S. 129 n.26. Here, the economic impact is high because no reasonable return remains. Before the AIA was enacted, AAD successfully negotiated licenses for use of its patented inventions with more than two dozen consumer electronics firms - among which are the largest in the world. The vast majority of AAD’s revenue came from licenses negotiated in good faith, without litigation being filed or even threatened. After the AIA was enacted, no prospective licensee entered into good faith negotiations with AAD. As such, after the AIA was enacted, AAD had to file several district court actions for infringement to defend its exclusive rights. Those infringement actions have been stayed and were expected to bring significant compensation for each respective trespass in the form of damages for past infringement. That compensatory revenue is now lost. In addition, significant legal fees and costs have been incurred to prepare and file those legal actions, as well as for preparation, filing, issuance and maintenance of the invalidated claims. Indeed, all of AAD’s profits from pre-AIA licensing activities have been exhausted in an attempt to preserve and defend validity of the challenged patent claims before the PTAB and Federal Circuit. AAD’s owner-investors have been disenfranchised by those unconstitutional

administrative, regulatory Government takings of its patent rights.

The same goes for AAD's reasonable investment backed expectations – the second *Penn Central* factor. When AAD sought its patent rights, no administrative or judicial proceeding existed (or was contemplated) that would easily destroy patent rights. Statistics show that, practically overnight, the chance of patent invalidation in an adversarial proceeding has more than tripled, to a near certainty. In the Article III trial courts since 2008, statistics on final determinations of patent validity show invalidation **24.3%** of the time. But in the five plus-year history of the PTAB, final adjudications resulted in invalidity about **80%** of the time.¹ And as two scholars cogently explain:

Patentees invest not just their time, efforts, and money into inventing, but also into more mundane activities like convincing the PTO that their invention is worth exclusive rights that come with the grant of a patent. Patentees pay attorneys' fees, filing fees, maintenance fees, etc., all in the hope of reaping some economic reward from their inventive activity. They

¹ Please see Appendix I: [Empirical Data Analysis](#) for discussion of source material from Docket Navigator[®] and the USPTO/PTAB report entitled *Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board June 2018*. There is also discussion of the time frames and methods used and minor inconsistencies in the data. In summary, U.S. District Courts immediately prior to IPR taking effect on September 16, 2012, found patents invalid less than 25% of the time. In stark contrast, the PTAB has found patents invalid more than 80% of the time based on IPR proceedings through June 30, 2018.

construct their arguments and draft their claims with an expectation that a person of ordinary skill in the art would understand the claims and either steer clear of their property, allowing patentees to till that field themselves or pay toll for the ability to work the invention. They also expect that once granted, the patent right would not be easily upset and would only be cancelled upon the showing of clear and convincing evidence. This assurance of “strong title rights” may well be the most valuable part of a patent grant. The AIA, however, did away with all that. Whereas the patentees carefully crafted their language and addressed it to a reasonable artisan, the Patent Office requires that claims be reviewed under a different standard—one that is contrary to the patentee’s “investment backed expectations.”

Gregory Dolin and Irena Manta, *Taking Patents*, 73 Wash. & Lee L. Rev. at 753 (noting the PTAB uses the “broadest reasonable interpretation” claim construction standard and fails to permit unfettered amendment, such that each constitutes disruption of reasonable investment backed expectations).

The third *Penn Central* factor is the character of the government action. To trigger the Takings Clause, it must be determined whether the character of the government taking, in this case patents, are “taken” for “use by the public.” *Kelo v. City of New London, Connecticut*, 545 U.S. 469, 477 (2005). Congress enacted IPR for the stated purpose of eliminating

patents wrongfully issued by the U.S. Patent Office.² *A fortiori*, the intended legislative outcome of IPR permits patent claims to be “used” by the public. As such, the challenged regulations are akin to a physical taking (albeit of intangible property rights), permitting complete invasion by strangers of what were otherwise boundary lines reserved solely for the benefit of the patentee. *See Loretto v. Teleprompter Manhattan CATV Corp.*, 458 U.S. 419, 426-435 (1982) (holding that physical taking is a *per se* taking).

Patent claims are supposed to provide patentees the “right to exclude others from making, using, offering for sale or selling the invention throughout the United States or importing the invention into the United States.” 35 U.S.C. § 154. Those rights are implemented by the licensing and exploitation of patents. *Smith International, Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir.), cert. denied, 464 U.S. 996 (1983). Once claims are invalidated, as in IPR, those rights are abolished and pass into the public domain for public use. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). Invalidation of those claims resulted in a dedication to the public of the subject matter of the claims invalidated without any compensation, thus allowing the public to use the technology previously protected by the patent. This “appropriation” by the PTAB further detracts from the value of the remaining valid unchallenged claims in AAD’s patents and deprives AAD of significant income from past infringers.

² 157 CONG. REC. S7413 (daily ed. Nov. 14, 2011) (statement of Sen. Kyl) (arguing that the AIA is needed to get rid of the “worst patents, which probably never should have been issued”).

Similar to *Horne*, the regulatory framework for IPR – which enabled the taking in this case – was established well after AAD’s patent applications were filed.³

The respective filing⁴ and issue dates of the affected AAD patents are:

U.S. Patent	IPR/ Appeal	Filing Date	Issue Date
6,587,403 (’403 patent)	IPR2014- 01154 17-1750	Aug. 17, 2000	Jul. 1, 2003
7,289,393 (’393 patent)	IPR2014- 01155 17-1748 (lead)	Jun. 30, 2003	Oct. 30, 2007
7,817,502 (’502 patent)	IPR2014- 01156 17-1805	Nov. 7, 2006	Oct. 19, 2010
7,933,171 (’171 patent)	IPR2014- 01157 17-1806	Aug. 12, 2010	Apr. 26, 2011
8,400,888 (’888 patent)	IPR2014- 01158 17-1824	Apr. 25, 2011	Mar. 19, 2013

³ Under the AIA, IPR took effect on September 16, 2012.

⁴ All of AAD’s patents claim priority to the effective filing date of AAD’s Provisional Application No. 60/051,999 filed July 9, 1997.

Finally, AAD preserved all of its rights under the U.S. Constitution in the proceeding below.⁵ While AAD did not expressly mention Fifth Amendment takings among its constitutional claims, that omission did not affect proceedings below given the ultimate no-opinion character of the Federal Circuit disposition. Likewise, this Court's *Oil States* decision preserving takings challenges came down on April 24, 2018, after briefing at the Federal Circuit had closed, and days before oral argument.

On numerous occasions where, as here, the issue was of immense national importance, this Court has decided issues that were not raised in the courts below, or even in the Petition. *Cf. Elgin v. Dept. of Treasury*, 132 S. Ct. 2126, 2136-39 (2012) (claim attacking constitutionality of CSRA can be “meaningfully addressed” in reviewing court in the first instance).

In *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938), the Court decided a constitutional question *sua sponte*:

No constitutional question was suggested or argued below or here....

But the unconstitutionality of the course pursued has now been made clear and compels us to do so.

This means that, so far as concerns the rule of decision now condemned, the Judiciary Act of 1789, passed to establish judicial courts to exert the judicial power of the United States, and especially § 34 of that Act as construed, is

⁵ AAD Opening Brief in case below, page 57.

unconstitutional; that federal courts are now bound to follow decisions of the courts of the State in which the controversies arise; and that Congress is powerless otherwise to ordain.

Erie at 82-87.

In *Washington v. Davis*, 426 U.S. 229 (1976), the Court again took up a constitutional question not raised in the Petition for Certiorari:

Although the petition for certiorari did not present this ground for reversal, our Rule 40(1)(d)(2) provides that we “may notice a plain error not presented”; and this is an appropriate occasion to invoke the Rule.

Washington at 238.

In *Dickerson v. the United States*, 520 U.S. 428 (2000), this Court invalidated a federal statute that addressed admissibility of confessions, overruling the Court of Appeals for the Fourth Circuit which had held the statute to govern, where neither party had relied on the statute.

CONCLUSION

AAD respectfully requests that the Court grant this Petition for Writ of Certiorari and reverse the Federal Circuit decision of May 7, 2018, thereby reversing the invalidation of AAD’s challenged claims by the PTAB. In the alternative, AAD respectfully requests that the Court grant, vacate and remand to the Federal Circuit to consider in light of *Oil States* whether enactment of IPR, or application of IPR to invalidate patent claims,

constitutes a Fifth Amendment Taking for patents filed or issued prior to the IPR regime coming into existence.

Respectfully submitted,

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