

No. 19-1074

IN THE
Supreme Court of the United States

CELGENE CORPORATION,
Petitioner,

v.

LAURA A. PETER, DEPUTY UNDER SECRETARY
OF COMMERCE FOR INTELLECTUAL PROPERTY
AND DEPUTY DIRECTOR OF THE U.S.
PATENT AND TRADEMARK OFFICE,
Respondent.

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

REPLY FOR PETITIONER

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ARGUMENT

When Congress passed the America Invents Act (AIA), it created what the government itself calls an “intentionally more robust” and “more efficient system for challenging patents.” Opp. 19 (quoting Pet. App. 36a, in turn quoting H.R. Rep. No. 98, 112th Cong., 1st Sess. Pt. 1, at 39-40). The AIA’s new, “robust” and “efficient” machine—a sprawling administrative “judicial” bureaucracy—is canceling vested property rights *en masse*.

It is exactly this “intentionally more robust” cancellation of existing property rights that took private property here. The AIA was enacted long after the patent owners disclosed their inventions to the public, obtained exclusionary patent rights, and made significant investment-backed decisions in reliance on the much more modest risks of patent cancellation that existed when the two patents were issued. This profound disregard for the innovation economy—an increasingly important sector of the Nation’s commerce—merits this Court’s review.

I. THE QUESTION PRESENTED IS IMPORTANT.

The takings question here is undeniably important: It applies to almost two million U.S. patents issued before the AIA.* It calls into question the constitutionality of a federal statute. And it presents a question explicitly called out but left unanswered in *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, 138 S. Ct. 1365, 1379 (2018).

* Patent Statistics Chart, https://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm (approx. 1.9 million utility patents, most with 20-year terms, issued between 2000 and 2011).

Nowhere in its brief does the government refute Celgene's showing of importance. Pet. 18-29. Nor does it take issue with Celgene's showings that patents are property under the Takings Clause, and that the patent bargain creates enormous reliance interests. The government thus leaves un rebutted Celgene's demonstration that the question presented is critically important to the proper operation of the country's patent system and to the Constitution's guaranteed protection of private property rights.

Nor does the government dispute Celgene's showing that this case is an ideal vehicle. Pet. 36-37. The question is squarely presented, was thoroughly addressed by the Federal Circuit's opinion, and has been fully ventilated using every process within the Federal Circuit's exclusive patent jurisdiction.

Finally, the government has no answer for Celgene's showing that, in the AIA's short, nine-year-long life, the statute continues to require a disproportionate amount of this Court's intervention, further demonstrating the need for this Court's review of the AIA's novel regime. Pet. 18-19. Just as in those prior cases, the Court's review here is needed to address an admittedly important issue so that the Federal Circuit's ruling is not hardened into National law.

In short, all of the possible "compelling reasons" favoring certiorari set out in this Court's Rule 10 are satisfied here.

II. RETROACTIVE APPLICATION OF *INTER PARTES* REVIEW VIOLATES THE TAKINGS CLAUSE.

The government concedes that the issue is important, and that this case as an ideal vehicle for ad-

addressing it. Instead, the government stakes its opposition strictly on defending the correctness of the Federal Circuit’s decision. Opp. 9. That defense boils down to two arguments: (a) that Celgene lacked a property interest in the first place, and (b) that the AIA made only procedural changes lacking “constitutional magnitude.” Opp. 16. These merits arguments provide no impediment to certiorari on such an important issue. Both arguments are incorrect besides.

A. Issued Patents Are Property.

The government’s primary argument is that Celgene “never possessed a valid property interest” in its patents. Opp. 10. This is wrong for several reasons.

1. When a patent issues, the patentee holds a vested property interest in a patent that “shall have the attributes of personal property”; those property rights are only “[s]ubject to the provisions of this title.” 35 U.S.C. § 261 (first sentence). That accords with this Court’s reasoning that patents are “exclusive property” that “cannot be appropriated or used by the government.” *Horne v. Dep’t of Agriculture*, 135 S. Ct. 2419, 2427 (2015); *James v. Campbell*, 104 U.S. 356, 358 (1881).

The government would read *Horne* and *James* as according property rights only to “valid” patents. Opp. 11. But neither *Horne* nor *James*, which *Horne* quoted for the proposition that “[a patent] confers upon the patentee an exclusive property,” 135 S. Ct. at 2427, used the qualifier “valid.” And certainly, neither of those decisions in any way supports the proposition that an issued patent’s property rights are subject to

administrative-agency cancellation under newly aggressive laws enacted after the patent became property.

2. The government’s theory is circular legerdemain, assuming the conclusion it seeks to draw. Celgene’s patents presently stand invalid only because the government was allowed to use its newly “robust” and “efficient” machine to grind Celgene’s patents to dust. This is not a mere procedural change for enforcing “the same substantive conditions of patentability” (Opp. 12, 14, 18), but an *ex post* change to the governing law that has had intended, provable, and devastating effects on property rights and reliance interests. The government’s contrary argument arrogates to itself the power—using “robust” authority not in existence at the time the patents issued—to cancel a patent. That is precisely the problem with this regime.

Contrary to the government’s theory (Opp. 9), *Lucas v. S.C. Coastal Council*, 505 U.S. 1003 (1992), does not set forth “substantially the same principle” embraced by the Federal Circuit here. *Lucas* actually demonstrates the constitutional problem here: *Lucas* was premised on the notion that only “pre-existing limitation[s] upon the land owner’s title” could be enforced without causing a taking of private property, *id.* at 1028-29, because of the importance of settled expectations—“the relevant background principles” set out in “existing rules or understandings,” in the words of the *Lucas* Court. *Id.* at 1030.

The “intentionally more robust” and “efficient” *inter partes* regime of the 2011 AIA—enacted after issuance of Celgene’s patents—is hardly a pre-existing rule or understanding. It bears no resemblance to the

ancient rule of Michigan riparian law, cited by the government (Opp. 9), that the owner of submerged lands holds “a bare technical title” subject to “the public right of navigation.” *Scranton v. Wheeler*, 179 U.S. 141, 163 (1900).

This *ex post* gutting of issued, vested property rights causes the taking. It is possible, even likely, that the Board would not have invalidated Celgene’s patents under the reexamination regimes existing when those property rights were issued, which allowed unlimited claim amendments under a non-adversarial system. See Br. of Amici Law Profs. 11-13, 17-18 (showing that elimination of the right to amend led to vastly higher rates of invalidation). But the hedge-funders who brought these challenges did not attack Celgene’s patents through *ex parte* reexamination (which still exists), but under the new *inter partes* review statute. The government notes that Celgene never moved to amend its claims during the *inter partes* review proceedings, but all that does is underscore the futility of amendment under this system. *Id.* at 12. Under this new regime—unlike in *ex parte* reexamination—once the PTO pronounces the claims unpatentable, patent owners like Celgene have no right to amend their claims even once. See Pet. 25.

3. The government’s theory is that patents are always contingent, because the *inter partes* review machinery can be invoked at any time in a patent’s 20-year lifespan, and serially, by multiple petitioners. That is a ruthless revision of the “personal property” rights that inhere in issued patents, 35 U.S.C. § 261, and would shred any reliability remaining in the patent property grant. Patent owners need that kind of

certainty in order to “sell or license for royalty payments if [the patentee] so chooses.” *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2407 (2015). This is not just a good idea as a matter of policy; it is the *quid pro quo* of the patent bargain. Pet. 31. Indeed, the inventors of the ’501 and ’720 patents immediately exercised these rights by assigning the patents to Celgene upon issuance. A patent is not a provisional property right, and certainly not in the way the government characterizes it.

B. The AIA Made Revolutionary Changes To Post-Issuance Review That Eviscerate Reliance Interests.

The government’s other argument is that the AIA’s changes are merely procedural and therefore too insignificant to upset reliance interests. This, too, is incorrect.

1. *The AIA impairs substantive rights.* The trope that no one has a vested right in a mode of procedure is inapplicable here. Opp. 11. Of course the PTO’s procedures are not themselves property rights; Celgene does not claim otherwise. But Celgene does have property interests in its two issued patents. Those property interests are defined by the patent laws in effect at the time the patents issued, which did not include the AIA.

Inter partes review undeniably impairs property rights because the Board uses it to cancel thousands of patents that became property before that regime even existed. And, as this Court has held, procedural schemes can “go[] beyond ‘mere’ procedure to affect substantive entitlement to relief.” *Lindh v. Murphy*,

521 U.S. 320, 327 (1997). If there were any case for confirming that principle, this is it.

As Celgene's petition explained in detail (at 9-11, 24-26, 33), the AIA's elimination of the right to amend claims during *inter partes* review is indistinguishable from a change to "standards of proof and persuasion" that are treated as substantive. *Lindh*, 521 U.S. at 327. Claim amendments modify the *substantive* scope of a patent, allowing patentees to retain amended claims with exclusionary property rights that the Board would otherwise invalidate under the regime of *inter partes* review. The government never grapples with this problem, instead offering the unelaborated *ipse dixit* that the newly restricted and completely revised amendment procedures in the AIA "do not effect a taking." Opp. 11. And Celgene's petition, along with the brief of Amici, amply demonstrates that eliminating the right to amend claims is tantamount to a substantive change. See Br. of Amici 11-13.

The real-world data, massive cancellation of issued patents, show that *inter partes* review is eliminating substantive patent rights on an unprecedented scale. Pet. 12-14. The government does not, and cannot, dispute that data. And "reverse patent trolls" like the hedge-funders who challenged Celgene's patents know this. That is why they used *inter partes* review, rather than the still-extant *ex parte* reexamination, to attack Celgene's patents.

The government misreads *McClurg* to allow Congress to inflict pre-existing patents with an unlimited range of new procedures. Opp. 12. But *McClurg* emphasized that new legislation must not "impair the right of property then existing in a patentee." *McClurg v. Kingsland*, 42 U.S. 202, 206 (1843) (citing

Soc’y for Propagation of Gospel in Foreign Parts v. Town of New Haven, 21 U.S. (8 Wheat.) 464, 493 (1823) (amendment of a law “cannot divest rights of property already vested under it”). Insofar as *McClurg* makes any distinction between substance and procedure, it leaves ample room for recognizing *inter partes* review as a substantive change that “im-pair[s] the right of property then existing in a pa-tentee.” 42 U.S. at 206.

The government is similarly wrong about *Richmond Screw Anchor Co. v. United States*, 275 U.S. 331 (1928). Opp. 13. *Richmond Screw* confirms, as this Court has long held, that patents are property rights (see *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 425 (1908) (“patents are property, and entitled to the same rights and sanctions as other property”)), and that a post-issuance statute affecting “an important element in their value” therefore “would ... raise a serious question as to the constitu-tionality” of the statute under the Takings Clause. *Richmond Screw*, 275 U.S. at 345. The government insists that *Richmond Screw* involved a “concededly valid patent.” Opp. 13. But as explained above, pa-tents convey a property interest upon issuance, pre-sumed to be valid, see 35 U.S.C. § 282, subject only to the law in existence at that time. The government cannot circularly use the results of a challenged pro-ceeding as the reason why the proceeding itself is con-stitutional.

2. *The AIA upsets investment-backed expecta-tions.* The government likewise fails in its attempt to defend the Federal Circuit’s analysis of investment-backed expectations. At the outset, the government claims that “the AIA does not restrict patent owners’

exercise of their patent rights.” Opp. 14. This borders on the absurd. Congress purposely designed *inter partes* review as a machine to *eliminate* patents, and a patent owner obviously cannot exercise patent rights in a patent that has been canceled during its term. In this respect *inter partes* review operates just like a statute that shortens a patent’s term, for example, “from 20 years to 13.” Opp. 12.

Like the Federal Circuit, the government studiously focuses on the similarities and downplays the major differences between *inter partes* review and previous mechanisms. Opp. 16-17. As a whole, *inter partes* review is radically different. This Court has repeatedly emphasized that the AIA “overhauled the patent system.” *Return Mail, Inc. v. USPS*, 139 S. Ct. 1853, 1860 (2019). The AIA “changed the standard that governs the Patent Office’s institution of the agency’s process.” *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2137 (2016). It “provides a challenger with broader participation rights.” *Id.* It “creates within the Patent Office a Patent Trial and Appeal Board.” *Id.* And it eliminated the patentee’s unlimited right to amend the patent claims during the proceeding. Pet. 9-11. This change in particular was as revolutionary as it was devastating to patentees’ ability to preserve their patents. *See* Br. of Amici 11-13, 17-18. In short, Congress abandoned the “agency-led, inquisitorial process for reconsidering patents” and “opted for a party-directed, adversarial process” that “depart[ed] from the model” of previous review schemes. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1355 (2018).

The government says these differences are meaningless from the patentee’s perspective, noting that

the Court in *Return Mail* “focused on which entities are authorized to *initiate* challenges to patents.” Opp. 17 n.4. This is hard to take seriously. This Court’s cases, together with common sense, undeniably demonstrate that *inter partes* review is no mere paper tiger, but a new and ferocious beast engineered to have an insatiable appetite for patent property.

The government nowhere disputes the practical consequences of *inter partes* review. The government admits “the increased number of successful patent challenges,” and further admits this was Congress’s design. Opp. 19. The government quibbles with the precise dollar amount of the AIA’s economic impact that was reported in a blog post (Opp. 19), but offers no serious dispute that the economic impact is substantial. *See* Amici Br. 18-19. The government tries to wash this away by claiming that all forms of post-issuance review “serve essentially the same purpose.” Opp. 19. But the Star Chamber served “essentially the same purpose” as a federal trial. That does not mean one mechanism is not radically different than the other, or that a radically new mechanism does not eviscerate settled expectations, as the AIA does. Pet. 31-34; Amici Br. 14-19.

For similar reasons, the government is wrong to suggest that patentees were “on notice that Congress might alter the administrative procedures used to reconsider issued patents.” Opp. 15. Congress’s adoption of a seldom-used procedure in 1980 does not put patentees on notice that Congress would adopt a radically different framework in 2011. Moreover, when Congress added *inter partes* reexamination in 1999, that statute did not apply retroactively. Pet. 7. Pa-

tentees thus had every reasonable expectation that future changes would not be retroactive, especially revolutionary changes that alter the fundamentals of post-issuance review.

Nor does it matter that the Federal Circuit upheld *ex parte* reexamination in *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985), and *Joy Technologies, Inc. v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992). The government never answers Celgene’s showing (Pet. 7) that *Patlex* was decided under an incorrect, unduly deferential due-process test subsequently rejected in *Lingle v. Chevron USA Inc.*, 544 U.S. 528, 542 (2005); *see also* Amici Br. 20-22. And *Joy Technologies* relied entirely on *Patlex* as “controlling authority” for the takings challenge. 959 F.2d at 229. The Federal Circuit wrongly relied on those cases in rejecting Celgene’s challenge. Pet. App. 30a n.13, 38a-39a. This Court should not perpetuate the Federal Circuit’s error.

Finally, the government insists (Opp. 18) that the AIA is not retroactive under *Landgraf v. USI Film Products*, 511 U.S. 244 (1994). But *Landgraf* declined to adopt the government’s wooden rule between substance and procedure. *Id.* at 275 n.29 (rejecting the view that “concerns about retroactivity have no application to procedural rules”). As *Landgraf* explains, “[t]he conclusion that a particular rule operates ‘retroactively’ comes at the end of a process of judgment concerning the nature and extent of the change in the law and the degree of connection between the operation of the new rule and a relevant past event.” *Id.* at 270. Thus, “standards of proof and persuasion” that appear procedural may “go[] beyond ‘mere’ procedure to affect substantive entitlement to relief.” *Lindh*, 521

U.S. at 327; *see also Landgraf*, 511 U.S. at 292 (Scalia, J., concurring) (explaining that a “change in one of the incidents of trial [can] alter[] substantive entitlements”). That is just what the AIA does, especially given the elimination of the right to amend claims. Regardless, however categorized, the AIA upsets the expectations of patentees who acquired property rights and made crucial investment decisions based on those rights before Congress enacted its novel scheme of post-issuance review.

* * * *

Our Constitution contains numerous provisions preventing the government from the kind of baiting-and-switching presented here—the *Ex Post Facto* Clause, the Contracts Clause, the prohibition on bills of attainder, the Due Process Clause, and the Takings Clause. Common to all is the concern that “[t]he Legislature’s unmatched powers allow it to sweep away settled expectations suddenly and without individualized consideration.” *Landgraf*, 511 U.S. at 266. Like these other provisions, the Takings Clause should stand sentry against this legislative “tempt[ation] to use retroactive legislation” to “attac[h] new legal consequences to events completed before its enactment.” *Id.* at 266, 270.

CONCLUSION

The petition should be granted.

May 15, 2020

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