No. 17-768

In the Supreme Court of the United States

HITACHI METALS, LTD.,
Petitioner,
v.
ALLIANCE OF RARE-EARTH PERMANENT MAGNET INDUSTRY,
Respondent.

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

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether Hitachi Metals waived its right to challenge the constitutionality of *inter partes* review by failing to timely raise the issue on appeal.

2. If the Court holds in *Oil States* that *inter partes* review violates the Constitution, whether that holding should be applied retroactively to this case.

3. Whether *inter partes* review comports with Article III and the Seventh Amendment.

CORPORATE DISCLOSURE STATEMENT

Respondent Alliance of Rare-Earth Permanent Magnet Industry is an alliance of the following entities: Shenyang General Magnetic Co., Ltd.; Ningbo Tongchuang Strong Magnet Material Co., Ltd.; Ningbo Permanent Magnetics Co., Ltd.; Ningbo Ketian Magnet Co., Ltd.; Ningbo Huahui Magnetic Industry Co., Ltd.; Hangzhou Permanent Magnet Group Co., Ltd.; and Jiangmen Magsource New Material Co., Ltd.

The following entities are parent corporations or publicly held companies that own 10% or more of stock in an Alliance member: Ningbo Jintian Copper (Group) Co., Ltd.; New Age Investment (HK) Ltd.; and Hongkong Huaye Magnetic Ltd.

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STATEMENT OF THE CASE

1. Hitachi Metals, Ltd. ("Hitachi Metals") is the owner of U.S. Patent Nos. 6,537,385 ("'385 patent") and 6,491,765 ("'765 patent"). Respondent Alliance of Rare-Earth Permanent Magnet Industry ("the Alliance") filed petitions before the United States Patent and Trademark Office's Patent Trial and Appeal Board ("the Board") requesting *inter partes* review of Claims 1, 5, and 6 of the '385 patent and Claims 1-4, 11, 12, and 14-16 of the '765 patent. CA JA 91-128, 1781-1837. The Board instituted review of all of the challenged claims for both patents, commencing a pair of *inter partes* review trials to determine the validity of the challenged claims. CA JA 228-248, 1965-1987.

The Board's final decisions held all of the challenged claims unpatentable under every instituted ground of rejection. Pet. App. 72-73, 106. Hitachi Metals never challenged the constitutionality of *inter partes* review to the Board.

2. Hitachi Metals appealed both of the Board's final decisions to the United States Court of Appeals for the Federal Circuit. With respect to the '385 patent, the Federal Circuit affirmed the Board's ruling that Claims 1, 5, and 6 were invalid under every ground adopted by the Board. Pet. App. 15-16, 19, 27. With respect to the '765 patent, the Federal Circuit affirmed the Board's ruling that Claims 1, 2, 11-12, and 14-16 were obvious. Pet. App. 21, 27. Regarding dependent Claims 3 and 4 of the '765 patent, the court vacated the Board's obviousness determinations on the basis of an improper claim construction and remanded for further consideration under a proper construction. Pet. App. 25-27.

Hitachi Metals never challenged the constitutionality of *inter partes* review and never referenced the then-pending *Oil States* petition for certiorari at any point in its briefing or during oral argument before the Federal Circuit. *See Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, 639 F. App'x 639 (Fed. Cir. 2016), cert granted in part, 137 S. Ct. 2239 (No. 16-712) (June 12, 2017) (herein "*Oil States*"). Following the Federal Circuit's decision, Hitachi Metals filed a petition with the Federal Circuit for rehearing *en banc*, raising for the first time a challenge to the constitutionality of *inter partes* review. The Federal Circuit denied Hitachi Metals' petition for rehearing without issuing a written opinion. Pet. App. 108-109.

3. On remand, the Board ordered the parties to brief whether Claims 3 and 4 of the '765 patent are patentable under the Federal Circuit's claim construction. As of November 10, 2017, all of the briefs on remand have been filed, and the parties are awaiting the Board's decision with respect to the patentability of Claims 3 and 4.

4. Hitachi Metals filed its petition for writ of certiorari with this Court on November 21, 2017.

REASONS TO DENY THE PETITION

I. Certiorari Should Not Be Granted Because Hitachi Metals Waived Any Challenge to *Inter Partes* Review

Hitachi Metals never challenged the constitutionality of *inter partes* review during the proceedings before the Board or at any point prior to the Federal Circuit's decision on appeal. Far too late for review, Hitachi Metals raised this issue for the first and only time in its petition for rehearing to the Federal Circuit. The Federal Circuit, however, does not address "new theor[ies] raised for the first time in [a] petition for rehearing." *Pentax Corp. v. Robinson*, 135 F.3d 760, 762 (Fed. Cir. 1998) (citing *United States v. Bongiorno*, 110 F.3d 132, 133 (1st Cir. 1997) ("[A] party may not raise new and additional matters for the first time in a petition for rehearing"), and *Wells v. Rushing*, 760 F.2d 660, 661 (5th Cir. 1985) (citing cases supporting the proposition that issues not raised before the court are not addressed on hearing)).

Hitachi Metals' belated argument did not warrant rehearing by the Federal Circuit and it does not warrant review by this Court. Pet. App. 108-109. "[T]his is a court of final review and not first view." *Adarand Constructors, Inc. v. Mineta*, 534 U.S. 103, 110 (2001). As such, this Court's traditional rule "precludes a grant of certiorari … when the question presented was not pressed or passed upon below." *United States v. Williams*, 504 U.S. 36, 41 (1992) (internal quotation marks omitted). Indeed, "[n]o procedural principle is more familiar to this Court than that a constitutional right, or a right of any other sort, may be more forfeited in criminal as well as civil cases

by the failure to make timely assertion of the right before a tribunal having jurisdiction to determine it." *Henderson v. United States*, 568 U.S. 266, 271 (2013) (internal quotation marks omitted). This rule affords "[d]ue regard for the trial court's processes and time investment." *Wood v. Milyard*, 566 U.S. 463, 473 (2012).

In this case, because Hitachi Metals never timely raised the issue, neither the Board nor the Federal Circuit addressed the constitutionality of *inter partes* review. Hitachi Metals' petition thus asks this Court not to review a decision below, but instead to address the question in the first instance. It is "not the Court's usual practice to adjudicate legal … questions in the first instance," and there is no compelling reason to deviate from that practice here. *CRST Van Expedited, Inc. v. EEOC*, 136 S. Ct. 1642, 1653-54 (2016).

Hitachi Metals argues that it "need not have raised the *Oil States* argument in its opening brief in the court of appeals" because the Federal Circuit's decision in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1292-93 (Fed. Cir. 2015), "foreclosed the contention … that *inter partes* review violates the Constitution." Pet. at 9. Hitachi Metals reasons that "[w]hen an intervening Supreme Court decision reverses previously binding precedent of the court of appeals, an appellant in a pending case may raise the intervening challenge in law even if not raised in the opening appeal brief." Pet. at 9 (citing a statement respecting this Court's denial of certiorari in *Joseph v. United States*, 135 S. Ct. 705, 706-07 (2014)). Hitachi Metals' reliance on the *Joseph* statement respecting denial of certiorari is misguided.

First, *Joseph* is not a decision by this Court; instead, it is a statement respecting the denial of certiorari. *See Joseph*, 135 S. Ct. at 705. The statement cited by Hitachi Metals, therefore, is not binding precedent and does not control the outcome of this case.

Second, *Joseph* involved the Eleventh Circuit's refusal to accept an Appellant's supplemental brief raising a new argument premised on an intervening decision that reversed the circuit court's precedent. *Id*. at 705-06. While the *Joseph* statement respecting this Court's denial of certiorari noted the Eleventh Circuit's inconsistent treatment of supplemental briefs based on decisions upsetting precedent, the statement also emphasized this Court's reluctance to "review the circuit court's procedural rules." *Id*. at 706-07. Here, the Federal Circuit's denial of Hitachi Metals' petition for rehearing leaves no substantive decision for this Court to review and no compelling reason to second guess the Federal Circuit's procedural approach.

Third, even in the criminal context where this Court may be inclined to apply a more lenient approach, the Court has refused to excuse a petitioner's failure to raise an issue below on the basis that existing case law would have rendered the argument futile. *See, e.g.*, *Bousley v. United States*, 523 U.S. 614, 623 (1998). Indeed, "futility cannot constitute cause if it means simply that a claim was 'unacceptable to that particular court at that particular time.'" *Id.* (quoting *Engle v. Isaac*, 456 U.S. 107, 130 n.35 (1982)). Thus, the Federal Circuit's decision in *MCM* did not relieve Hitachi Metals of its obligation to raise its constitutionality argument to the Federal Circuit.

Moreover, Hitachi Metals' constitutional challenge is not "so novel that its legal basis [was] not reasonably available to counsel" so as to excuse waiver. *Bousley*, 523 U.S. at 622 (quoting *Reed v. Ross*, 468 U.S. 1, 16 (1984)). In fact, Oil States filed its petition for certiorari on July 26, 2016, nearly two months before Hitachi Metals' opening brief in the Federal Circuit, four months before its reply brief, and ten months before oral argument. Despite this, Hitachi Metals failed to challenge the constitutionality of *inter partes* review at any point prior to its petition for rehearing.

Hitachi Metals' petition for certiorari also does not represent the type of "[s]ubject-matter jurisdiction" challenge that "can never be waived or forfeited." *Gonzalez v. Thaler*, 565 U.S. 134, 141 (2012). The petition, notably, does not even raise such a contention. To be sure, this Court has made clear that "entitlement to an Article III adjudicator is 'a personal right' and thus ordinarily 'subject to waiver.'" *Wellness Int'l Network, Ltd. v. Sharif*, 135 S. Ct. 1932, 1944 (2015) (quoting *Commodity Futures Trading Comm'n v. Schor*, 478 U.S. 833, 848 (1986)). Hitachi Metals does not argue that determining patent validity falls outside the scope of jurisdiction assigned to the Board by Congress. Instead, Hitachi Metals asserts that it is entitled to an Article III adjudicator for determinations of patent validity and that *inter partes* review is therefore unconstitutional. Pet. at 9. As this Court confirmed in *Wellness*, however, arguments of this nature remain subject to waiver. 565 U.S. at 141. Because Hitachi Metals did not timely raise this argument below, this Court should not entertain it in the first instance.

The Board and the Federal Circuit reviewed the challenged claims of the '385 and '765 patents over the course of legal disputes spanning three and a half years, without any challenge to the underlying constitutionality of the process. Certiorari is not warranted to ignore these proceedings and consider—for the first time, at this final stage—Hitachi Metals' constitutionality argument.

II. If this Court Holds *Inter Partes* Review Unconstitutional in *Oil States*, that Decision Should Not Apply Retroactively to this Case

Hitachi Metals asks the Court to "hold [the] petition until it decides *Oil States*" and, if the Court decides that *inter partes* review violates the Constitution, "to grant [its] petition, vacate the Federal Circuit's judgment, and remand the case for further proceedings." Pet. 9-10. Even if this Court holds in *Oil States* that *inter partes* review is unconstitutional, such a decision should not apply retroactively. This Court should therefore deny certiorari since the forthcoming decision in *Oil States* will have no impact on this case.

The Court considers three factors in determining whether a decision should be applied retroactively: (1) "whether the holding in question decided an issue of first impression whose resolution was not clearly foreshadowed by earlier cases"; (2) "whether retrospective operation will further or retard the operation of the holding in question"; and (3) "whether retroactive application could produce substantial inequitable results in individual cases." *Northern Pipeline Coast Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 88 (1982) (quoting *Chevron Oil Co. v. Huson*, 404

U.S. 97, 106-07 (1971)) (internal quotation marks omitted). All three factors weigh against applying the Court's decision in *Oil States* retroactively to this case.

Under the first factor, *Oil States* concerns an issue of first impression and, if this Court holds therein that *inter partes* review is unconstitutional, earlier cases do not clearly foreshadow such a result. The existing precedent—that of the Federal Circuit—makes clear that *inter partes* review does not violate the Constitution. *See MCM*, 812 F.3d at 1292. Moreover, last year, prior to *Oil States*, this Court left the state of the law undisturbed by denying certiorari for three separate constitutional challenges to *inter partes* review. *See Cooper v. Lee*, 137 S. Ct. 291 (No. 15-955) (2016); *MCM Portfolio LLC v. Hewlett-Packard Co.*, 137 S. Ct. 292 (No. 15-1330) (2016); *Cooper v. Square, Inc.*, 137 S. Ct. 475 (No. 16-76) (2016).

Under the second factor, retrospective application would retard, not further, the operation of any holding that *inter partes* review is unconstitutional. Congress' intent in establishing *inter partes* review under the Leahy-Smith America Invents Act was to "improve patent quality and limit unnecessary and counterproductive litigation costs." H.R. Rep. No. 98, 112th Cong., 1st Sess. Pt. 1, at 39-40 (2011). Vacating prior decisions by the Board and the Federal Circuit on constitutional grounds would not improve patent quality, would drastically increase costs to the parties involved, waste the substantial time and resources dedicated to the proceedings below, and introduce significant uncertainty into the patent system. Furthermore, if district courts are left as the only post-grant arbiters of patent validity, retroactive application

of *Oil States* would likely send a tidal wave of cases back to district courts, significantly overburdening the system and retarding the operation of this Court's holding.

Under the third and final factor, retroactive application of a determination of unconstitutionality in *Oil States* could produce substantial inequitable results in this particular case. Respondent has invested three and a half years and substantial resources adjudicating the validity of the challenged claims in the '385 and '765 patents. Vacating the decisions by the Board and the Federal Circuit could have the effect of erasing this effort, notwithstanding the fact that Hitachi Metals no longer challenges the merits of the invalidity holdings below.

Further, it is unclear whether retroactive application of *Oil States* would leave Respondent with any remedy at all. The '385 and '765 patents are not involved in ongoing litigation, and it is unclear how this Court's decision in *Oil States* would impact Respondent's ability to re-challenge the patent claims before the Board (for example, via *ex parte* reexamination) or in district court (for example, via a declaratory judgment action). *See, e.g.*, 35 U.S.C. § 315(a) (automatic stay of civil actions filed after *inter partes* review); *id*. § 315(e) (*inter partes* review-based estoppel with respect to proceedings before the Board and civil actions). Even the best case scenario for Respondent would be wasteful, expensive, time-consuming re-litigation of issues already addressed by the Board and the Federal Circuit. Thus, retroactive application of any decision in *Oil States* holding *inter*

partes review unconstitutional would cause substantial inequitable results in this case.

The Board's outstanding decision on remand does not lessen the risk for inequitable results. The Federal Circuit has already affirmed the Board's invalidity determinations with respect to ten of the twelve challenged claims. With respect to the remaining two dependent claims being addressed on remand, the parties completed briefing in November of 2017 and they are awaiting the Board's decision. Given the advanced state of these proceedings, undoing all of the Board's and Federal Circuit's holdings at this late stage would produce substantial inequitable results.

For at least the foregoing reasons, even if this Court holds in *Oil States* that *inter partes* review is unconstitutional, such a decision should not apply retroactively. The decision in *Oil States*, therefore, will have no impact on this case, warranting denial of Hitachi Metals' petition.

III. The *Inter Partes* Review Process Comports with Article III and the Seventh Amendment

Hitachi Metals' petition contains no substantive argument with respect to the constitutionality of *inter partes* review. Instead, Hitachi Metals asks this Court to hold its petition pending the disposition of *Oil States* and, on the basis of the outcome in that case, grant or deny certiorari. Pet. at 8-10. For the reasons advanced by Greene's Energy Group, LLC and the United States in their respective merits briefs in *Oil States*, Respondent submits that *inter partes* review comports

with Article III and the Seventh Amendment. The Court should therefore deny Hitachi Metals' petition.

CONCLUSION

This Court should deny the petition for a writ of certiorari.

Respectfully submitted,

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