

No. 17-656

IN THE
Supreme Court of the United States

AUDATEX NORTH AMERICA, INC.,

Petitioner,

v.

MITCHELL INTERNATIONAL, INC.,

Respondents.

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

**AUDATEX REPLY TO
MITCHELL BRIEF IN OPPOSITION TO
PETITION FOR A WRIT OF CERTIORARI**

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QUESTION PRESENTED

This Court recently granted certiorari in *Oil States Energy Services LLC v. Greene’s Energy Group, LLC*, 137 S. Ct. 2239 (2017) to consider the constitutionality of certain administrative proceedings created by the Leahy-Smith America Invents Act (“AIA”) to evaluate the validity of issued patents. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). This case involves one such type of proceeding (Covered Business Method Review), which indisputably presents the same constitutional infirmities as the *inter partes* review proceeding at issue in *Oil States*. Thus, this case presents essentially the same question presented in *Oil States*, namely:

Whether adversarial processes, such as Covered Business Method Review, used by the Patent and Trademark Office (“PTO”) to analyze the validity of issued patents violate the Constitution by extinguishing private property rights through a non-Article III forum without a jury.

PARTIES TO THE PROCEEDINGS

All parties are identified in the caption of this petition. Petitioner here and appellant below is Audatex North America, Inc. (“Audatex”). Respondent here and appellee below is Mitchell International, Inc. (“Mitchell”).

RULE 29.6 STATEMENT

Parent corporations and publicly held companies that own 10% or more of Petitioner Audatex’s stock include: Audatex Holdings, Inc.; Audatex Holdings, LLC; Audatex Holdings IV B.V. (a/k/a Audatex International Holdings, LLC; Solera Finance, Inc.; Solera Holdings, Inc.; Solera, LLC; Solera Parent Holding, LLC; Solera Global Holding Corp.; and Vista Equity Partners Fund V, L.P.

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REPLY TO MITCHELL'S BRIEF IN OPPOSITION

Mitchell's brief confirms that this case and the *Oil States* case necessarily stand or fall together. As Mitchell correctly notes, Audatex does not seek *certiorari* on any basis independent from the question presented in *Oil States*, and indeed, the nature of the constitutional flaw in both cases is the same. Although CBM and IPR proceedings are not identical in every possible way, the differences are not material to the core constitutional defect: the ability to revoke a duly issued patent via a quasi-judicial administrative process rather than a jury trial properly convened before an Article III tribunal. Mitchell had the chance in its opposition to explain how any differences between CBM and IPR might be material to the constitutional analysis, but it failed to do so. Mitchell's silence on this key point leaves un rebutted Audatex's argument that the two types of proceedings are constitutionally indistinguishable. Thus, if this Court makes a finding of unconstitutionality in *Oil States*, the decision under review in this case cannot survive, either.

Mitchell's other arguments likewise lack merit. This Court has not hesitated to review constitutional questions despite alleged waiver when "[t]he alleged defect of authority [] relates to basic constitutional protections designed in part for the benefit of litigants." *Glidden Co. v. Zdanok*, 370 U.S. 530, 536 (1962). This case presents just such an issue, going to the heart of protections enshrined in the Constitution. At a minimum, a reversal in *Oil States* would represent a critical intervening legal development warranting consideration on remand.

**I. MITCHELL PRESENTS NO
EXPLANATION FOR HOW CBM COULD
BE CONSTITUTIONAL IF IPR WERE
HELD UNCONSTITUTIONAL**

Audatex explained in its *certiorari* petition that the constitutionality of IPR proceedings and the constitutionality of CBM proceedings necessarily stand or fall together. Pet. 7-9. At bottom, the constitutional flaw inherent in both proceedings is identical: both IPR and CBM proceedings allow an administrative agency to revoke an issued patent in a non-Article III quasi-judicial proceeding without a jury. *Id.* While this fundamental defect is the same, Audatex observed that there are, of course, some differences between the two proceedings. *See, e.g., id.* 8-9. Audatex went on to explain why “the differences between IPR and CBM proceedings do not in any way impact the constitutional analysis.” *Id.* 8.

In its opposition brief, Mitchell offers no substantive response to these arguments. Rather than point out any defect in Audatex’s analysis, Mitchell merely identifies a few more differences between IPR and CBM proceedings. Specifically, Mitchell notes that CBM proceedings will “sunset” in 2020; that CBM proceedings have a standing-like requirement; and that CBM estoppel is arguably more limited than IPR estoppel. Yet Mitchell fails to explain how any of these differences affect the constitutional analysis.

In any event, the additional differences that Mitchell identifies do not rescue CBM proceedings from the general constitutional defects of the quasi-judicial procedures created by the America Invents

Act. The fact that CBM proceedings will sunset in 2020 does not allow them to satisfy constitutional constraints any better than the permanent IPR proceedings. Even a transitory constitutional violation (here, “transitory” means 8 years) is still a constitutional violation. Nor does CBM’s standing-like requirement make any difference. Indeed, the requirement arguably evidences an even stronger intent to create an improper quasi-judicial proceeding outside a traditional Article III venue. Neither does the arguably more limited scope of estoppel in a CBM have constitutional moment. If anything, it merely compounds the injury to a patent owner: its patent claims can be unconstitutionally assailed before the Patent Office, while leaving the patent owner broadly subject to subsequent attack in the proper Article III forum.

Mitchell all but concedes that it is not even attempting a constitutional justification for CBM proceedings at this time, purporting instead to reserve the right later “to fully defend the constitutionality of CBM review.” Op. 8, n.2.¹ But if Mitchell had any basis to distinguish CBM proceedings from the constitutional defects identified in *Oil States*, it could have and should have done so now—particularly as the Court specifically invited a response to Audatex’s petition. *See* Docket Entry dated Dec. 11, 2017. Instead, Mitchell merely purports to take issue with the “wide consensus” expressed by the *Oil States* amici that CBM and IPR proceedings stand or fall together (Pet. 9), but

¹ The same counsel representing Mitchell argued *against* the constitutionality of IPR proceedings in *Oil States*.

without identifying a single amicus or other source suggesting a contrary view. *See* Opp. 6.

Accordingly, Audatex's substantive argument regarding the unconstitutionality of CBM proceedings stands uncontested. If this Court finds the IPR process unconstitutional in *Oil States*, then the Board's CBM decision in this case must be reversed on the same grounds.

II. THE ISSUES RAISED IN AUDATEX'S PETITION CAN BE ADDRESSED BY THIS COURT ON DIRECT REVIEW

Lacking any viable argument on the merits, Mitchell mistakenly contends that Audatex's constitutional challenge must be dismissed on grounds of waiver. In support of this contention, Mitchell relies on what it apparently views as an absolute rule that "this Court does not grant review of questions not pressed or passed upon below." Opp. 4. But this sweeping assertion is not consistent with this Court's practice, especially when important constitutional questions are at issue.

Where, as here, a challenge "relates to basic constitutional protections designed, in part, for the benefit of litigants," such a challenge can be properly raised for the first time on direct review. *Glidden Co. v. Zdanok*, 370 U.S. 530, 536 (1962) (citing *O'Donoghue v. United States*, 289 U.S. 516, 532-534 (1933)). One of the reasons for this is "the strong interest of the federal judiciary in maintaining the constitutional plan of separation of powers." *Glidden*, 370 U.S. at 536 ("challenge [to] the constitutional authority of the judges below" may be "questioned on

direct review for the first time in this Court”). The Constitution’s mandated separation of powers is not subject to forfeiture, and is “not merely a matter of convenience or of governmental mechanism.” *O’Donoghue*, 289 U.S. at 530. “Its object is basic and vital.” *Id.*

This Court similarly found non-waiver in recent cases based on violations of the Appointments Clause. Specifically, the Court held that where an Appointments Clause challenge is “neither frivolous nor disingenuous,” and the “alleged defect in the appointment . . . goes to the validity of the . . . proceeding that is the *basis* for this litigation,” then the challenge should be heard on its merits, even when not raised below. *Freytag v. Commissioner*, 501 U.S. 868, 879 (1991) (emphasis added). These Appointments Clause challenges were considered even where they had “not been raised in the district court or in the court of appeals or even in this Court until the filing of a supplemental brief upon a second request for review.” *Id.* (quoting *Glidden*, 370 U.S. at 536 (citing *Lamar v. United States*, 241 U.S. 103 (1916))).

Audatex’s constitutional challenge is proper for at least the same reasons as in *Freytag* and similar cases. The AIA’s improper delegation of judicial power to a non-Article III forum raises a similar “structural constitutional objection.” *Freytag*, 501 U.S. at 868. That is, by virtue of the separation of powers expressly required under the Constitution, these issues must be heard by an Article III court, rather than an administrative agency. The constitutional issue presented thus goes to a core structural ideal underlying our government.

Accordingly, it is only proper that Audatex's challenge to the PTAB's authority should be heard on its merits.

In any event, as a practical matter, the PTAB could not address the constitutional issues raised here, so there is little reason to require Audatex to have made a futile attempt to raise them before the administrative agency. *See, e.g., Nebraska v. EPA*, 331 F.3d 995, 997 (D.C. Cir. 2003) (citing *Thunder Basin Coal Co. v. Reich*, 510 U.S. 200, 214 (1994)) ("Agencies do not ordinarily have jurisdiction to pass on the constitutionality of federal statutes"); *see also Robertson v. Fed. Election Comm'n*, 45 F.3d 486, 489 (D.C. Cir. 1995) ("It [i]s hardly open to ... an administrative agency ... to entertain a claim that the statute which created it was in some respect unconstitutional").

Moreover, the Federal Circuit had already addressed the constitutional issue presented in this case in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015). The PTO is obligated to follow Federal Circuit precedent, so it would have been futile to argue to the contrary before the PTO. *See, e.g., Beard v. General Services Admin.*, 801 F.2d 1318, 1321 (Fed. Cir. 1986) (failure to make constitutional challenge at agency did not waive issue where raising it at the agency would have been futile).

Thus, the timing of Audatex's challenge to the constitutionality of CBM proceedings does not impact this Court's ability to substantively address the issues presented in Audatex's Petition.

III. A REVERSAL IN *OIL STATES* WOULD REPRESENT AN INTERVENING LEGAL DEVELOPMENT THAT MAY BE PROPERLY ADDRESSED WITH A REMAND

As explained above, this Court should reverse the CBM decision in this case if it makes a finding of unconstitutionality in *Oil States*. Alternatively, at a minimum, this Court should grant Audatex's petition, vacate the decision below, and remand to the Federal Circuit for further action ("GVR"). Contrary to Mitchell's assertions, this Court's GVR practice is well suited for situations such as those presented here.

This Court has explained that "the GVR order has, over the past 50 years, become an integral part of this Court's practice... We have GVR'd in light of a wide range of developments, including our own decisions..." *Lawrence on Behalf of Lawrence v. Chater*, 516 U.S. 163, 166 (1996). Indeed, the *Lawrence* decision cites as an example an opinion of Justice Black, which issued a GVR order when a subsequent Supreme Court decision overruled a case on which the judgment below rested. *State Tax Comm'n of Utah v. Van Cott*, 306 U.S. 511, 515 (1939) ("[I]n determining what justice does require, the Court is bound to consider any change, either in fact or in law, which has supervened since the judgment was entered.").

"Where intervening developments, or recent developments that we have reason to believe the court below did not fully consider, reveal a reasonable probability that the decision below rests upon a

premise that the lower court would reject if given the opportunity for further consideration, and where it appears that such a redetermination may determine the ultimate outcome of the litigation, a GVR order is, we believe, potentially appropriate.” *Lawrence on Behalf of Lawrence v. Chater*, 516 U.S. 163, 167 (U.S. 1996).

There can be no question that the Federal Circuit would find the Supreme Court’s decision in *Oil States* both relevant and worthy of serious consideration in an appeal of a CBM proceeding such as this. After all, if IPR is ruled unconstitutional on grounds that would also render CBM unconstitutional, this would be a clear “intervening development” calling into question the PTAB’s authority to even issue its decision. It would certainly raise “a reasonable probability that the decision below rests upon a premise that the lower court would reject,” that is, the propriety of the CBM procedure itself. Indeed, such a decision in *Oil States* would *require* that the CBM decision below be rejected as unconstitutional.

Mitchell asserts that Audatex’s petition should be rejected out of hand because the Federal Circuit did not address the constitutional issue in its opinion below. Opp. 5. But this argument at most reaffirms why GVR would be appropriate in this case. As this Court has explained, a GVR order “assists the court below by flagging a particular issue that it does not appear to have fully considered, [and] assists this Court by procuring the benefit of the lower court’s insight before we rule on the merits.” *Lawrence on Behalf of Lawrence v. Chater*, 516 U.S. 163, 167 (U.S. 1996). Thus, even assuming Mitchell were correct, and there were some impediment to this Court

addressing the issue without first hearing from the Federal Circuit, then a GVR would fully resolve the issue.

CONCLUSION

Petitioner Audatex respectfully requests that this Court hold its petition pending this Court's resolution of *Oil States Energy Servs., LLC v. Greene's Energy Grp., LLC*, No. 16-712. Should the Court hold in *Oil States* that the Patent Office's administrative proceedings analyzing the validity of issued patents are unconstitutional, Audatex respectfully requests that this Court reverse the CBM decision below. Alternatively, this Court could grant the petition, vacate the decision below, and remand for further action consistent with the *Oil States* decision.

Respectfully submitted,

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