No.

In the Supreme Court of the United States

DROPLETS, INC., PETITIONER

v.

ANDREI IANCU, DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

This petition presents a square conflict over the *Chenery* doctrine in a context of exceptional legal and practical importance. Under *Chenery*, an agency's decision must stand or fall on its own terms, leaving reviewing courts to "judge the propriety of [agency] action solely by the grounds invoked by the agency." *SEC* v. *Chenery*, 332 U.S. 194, 196 (1947); accord *Motor Vehicle Mfrs. Ass'n of the U.S., Inc.* v. *State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 50 (1983).

In the proceedings below, the Patent Trial and Appeal Board invalidated the claims of petitioner's patent. The sole dispositive issue before the Board was the proper construction of the patented claims, yet the Board's disposition of that issue consisted of a single, unsupportable sentence. In the Federal Circuit, the government accordingly defended the Board's decision on new legal grounds not articulated by the Board itself. Although that tactic is precluded by *Chenery* and the prevailing law in multiple courts of appeals, it is permitted by entrenched precedent in the Federal Circuit, which, once again, has departed from the baseline legal norms applied in other courts.

The questions presented are:

1. Whether "an agency's action must be upheld, if at all, on the basis articulated by the agency itself" (*State Farm*, 463 U.S. at 50), or whether a court can substitute its own views for the agency's whenever the issue is "legal in nature" (*In re Comiskey*, 554 F.3d 967, 975 & n.5 (Fed. Cir. 2009)).

2. Whether inter partes reexamination under the Patent Act violates Article III and the Seventh Amendment by allowing Article I judges to adjudicate the validity of an issued patent.

PARTIES TO THE PROCEEDING BELOW AND RULE 29.6 STATEMENT

Petitioner is Droplets, Inc., the appellant below and the patent owner before the Patent Trial and Appeal Board.

Respondent is Andrei Iancu, the Director of the U.S. Patent and Trademark Office, who replaced former Interim Director Joseph Matal as intervenor below.

Google Inc. and Facebook, Inc. were the initial petitioners before the U.S. Patent and Trademark Office, but they both withdrew while the case was pending before the agency; they are no longer parties to these proceedings.

Droplets, Inc. has no parent corporation, and no publicly held company owns 10% or more of its stock.

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Droplets, Inc., respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The order and judgment of the court of appeals (App., *infra*, 1a-2a) is not published in the Federal Reporter but is available at 698 F. App'x 612. The final decision of the Patent Trial and Appeal Board (App., *infra*, 3a-27a) is unreported but is available at 2016 WL 1254605.

JURISDICTION

The judgment of the court of appeals was entered on October 11, 2017. A petition for rehearing was denied on January 3, 2018 (App., *infra*, 28a-29a). The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

CONSTITUTIONAL PROVISION INVOLVED

The Seventh Amendment of the United States Constitution provides:

> In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury, shall be otherwise reexamined in any court of the United States, than according to the rules of the common law.

INTRODUCTION

This case implicates a square conflict between the Federal Circuit's jurisprudence and binding authority from this Court and other circuits. According to bedrock administrative law, an agency's decision must stand or fall on its own stated basis, leaving reviewing courts to "judge the propriety of [agency] action solely by the grounds invoked by the agency." *SEC* v. *Chenery*, 332 U.S. 194, 196 (1947) (*Chenery II*); accord *Motor Vehicle Mfrs. Ass'n of the U.S., Inc.* v. *State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 50 (1983) ("an agency's action must be upheld, if at all, on the basis articulated by the agency itself"; "courts may not accept appellate counsel's *post hoc* rationalizations for agency action"). This Court has repeatedly affirmed this "simple but fundamental rule," *Chenery II*, 332 U.S. at 196, and the same rule has been faithfully applied by other courts of appeals, see, *e.g.*, *Nat'l Petrochemical & Refiners Ass'n* v. *EPA*, 630 F.3d 145, 164 (D.C. Cir. 2010); *Hackett* v. *Barnhart*, 475 F.3d 1166, 1175 (10th Cir. 2007);

Bank of Am., N.A. v. *FDIC*, 244 F.3d 1309, 1319 (11th Cir. 2001); *Municipal Resale Serv. Customers* v. *FERC*, 43 F.3d 1046, 1052 n.4 (6th Cir. 1995).

Yet again, however, this is not the rule in the Federal Circuit. That court's cases directly conflict with *Chenery*'s "simple" directive. Contrary to *Chenery*, the Federal Circuit authorizes "'affirm[ing] the agency on grounds other than those relied upon in rendering its decision,'" so long as the agency's decision turns on *legal* questions. *McCarthy* v. *MSPB*, 809 F.3d 1365, 1373 (Fed. Cir. 2016) (restricting *Chenery* to "determination[s] of fact"); *In re Comiskey*, 554 F.3d 967, 974 (Fed. Cir. 2009) ("a reviewing court can (and should) affirm an agency decision on a legal ground not relied on by the agency if there is no issue of fact, policy, or agency expertise"). This wrongly permits panels to "supply a new legal ground for affirmance" (*Comiskey*, 554 F.3d at 975 & n.5), and to deviate from the actual rationale adopted by the agency below. And it does so despite *Chenery*'s unequivocal command that an agency's "action must be measured by what the [agency] did, not by what it might have done" (*SEC* v. *Chenery Corp.*, 318 U.S. 80, 93-94 (1943) (*Chenery I*)): if the agency's "grounds are inadequate or improper, the court is powerless to affirm the administrative action by substituting what it considers to be a more adequate or proper basis" (*Chenery II*, 332 U.S. at 196). Accord *Talk Am., Inc.* v. *Mich. Bell Tel. Co.*, 564 U.S. 50, 64 (2011); *Fla. Power & Light Co.* v. *Lorion*, 470 U.S. 729, 744 (1985); see also Henry J. Friendly, Chenery *Revisited: Reflections on Reversal and Remand of Administrative Orders*, 1969 Duke L.J. 199, 222 (1969) (so noting even where "the wrong reason is an erroneous view of the law, as in *Chenery* itself").

In this case, on appeal, the government defended the Patent Trial and Appeal Board's decision on entirely different grounds than those found in the Board's cursory analysis. This tactical decision was unsurprising, since the Board's entire reasoning on the decisive issue constituted *a single, unsupportable sentence*. The government's litigation tactics were permitted under Federal Circuit precedent, despite running afoul of the governing rules applied in other courts of appeals. Had the panel below restricted its review to the agency's stated rationale, the Board's decision necessarily would have been reversed.

The resulting situation is untenable. The Federal Circuit's precedent stands directly at odds with *Chenery*, and its error follows directly from a demonstrable misreading of *Chenery* itself. This issue has divided the courts of appeals, split panels on the Federal Circuit, and prompted repeated academic criticism. The issue is also vitally important: especially with the rise of PTAB reviews, it is critical to apply the same, neutral principles of appellate review here that apply to agency decisions in all other circuits. Those neutral principles ensure the proper separation of powers between agencies and courts, and guarantee regulated parties a full and fair process before their existing property rights are destroyed.

This case is an ideal opportunity for the Court to correct the Federal Circuit's precedent and realign that court, again, with this Court and other circuits. This case turned on an issue of claim construction. In authorizing the Board to reconsider patents after their issuance, Congress delegated *to the Board* the primary responsibility of construing patents and reassessing their validity; the Board, not the Federal Circuit, is tasked with exercising its expertise to carry out those critical functions, none of which is more important than the primary task of constru-

ing the claims. Yet under the Federal Circuit's entrenched approach, the reviewing court can simply set aside or ignore the Board's stated grounds for its claim construction, because those grounds are "legal" in nature. That leaves the court of appeals doing the agency's work. It also leaves parties defending in a single *reply* brief the government's brand-new grounds offered for the first time on appeal, without the benefit of the agency's considered views—or any of the procedural protections that Congress deliberately built into the process of post-grant and inter partes proceedings.

The Federal Circuit is yet again out of step with legal rules of general applicability, and its error here distorts a process whose constitutional foundation is already suspect at best. Further review is warranted.

STATEMENT

1. This case involves a groundbreaking patent that changed the modern online world. In 1999, the internet ran at a fraction of today's speed. Most websites produced static images and offered minimal interactivity. Refreshing online content typically required redrawing and resending an entire webpage, a burdensome task over slow connections with limited bandwidth.

Petitioner's inventors sought to change this. They created ways to open the internet to online applications and interactive-communication connections. Their innovations let clients establish those connections with host computers, accessing web-based applications that worked like desktop programs. They further created means to share links across multiple devices, re-establishing connections on a variety of platforms and restoring prior sessions to resume where users left off.

Petitioner used these inventions to create cutting-edge technology for delivering functional and scalable applications over the internet. It has sold its software products to Global 1000 enterprises, the U.S. armed services, and scores of independent software vendors. Its patents have been licensed to Fortune 500 companies, and they have survived invalidity challenges in high-stakes litigation. See, *e.g.*, *Droplets, Inc.* v. *Overstock.com, Inc.*, No. 2:11-cv-401, Doc. 371, at 6-7 (E.D. Tex. Jan. 16, 2015).

2. A core feature of petitioner's invention involved "interactive links." C.A. J.A. 669 (patent's abstract).[1] These "links" were imbued with enhanced functionality to "facilitate an interactive communication environment between the client computer[] and the application server." *Id.* at 685 (13:38-40). The link is "stored" at the client computer and activated to "selectively reform[] the communication connection to the application server, re-invoking the remotely stored applications and information, and re-presenting the functionality of the remotely stored applications" at the client device. *Id.* at 681 (6:30-37). The "interactive link" could "be employed to directly invoke and execute [remotely stored] applications." *Id.* at 682 (8:26-34).

In describing what the "interactive link" was, the patent also described what it was not. In a background section, the specification disclosed that rudimentary "links"—such as static URLs and bookmarks—existed in the prior art, but failed to accomplish the invention's aims:

> Facilities presently exist for storing an address (URL) of a web site currently being displayed. One such facil-

[1] The patent at issue is U.S. Patent No. 7,502,838 (the '838 patent), which is reproduced in full in the joint appendix below. See C.A. J.A. 669-696. The references that follow include citations of the particular columns and line numbers of the patent.

> ity is referred to as a "bookmark." Once created, bookmarks offer a means of retrieving the URL of a particular web site and directing the user's browser to display the page residing at the URL. Bookmarks eliminate the need for the user to manually enter the URL of a site of interest or to retrace (re-navigate) a path through the Internet to arrive at the web site through a known link. However, *bookmarks are limited in two respects*.

C.A. J.A. 680 (3:35-43) (emphasis added); see also *id.* at 679 (2:53-57) (describing prior-art "hyperlink[s]" used for simple online "'navigat[ion]'").[2] Petitioner thus specifically explained a need for an "interactive link" *beyond* existing bookmarks and URLs:

> Therefore, there is a need for storing an interactive link on a user's computer which, when selected, retrieves and presents applications and/or information stored at remote locations across the network. There is also a need for the interactive link to include facilities for restoring previous operating states of the application as the application is re-presented at a user's computer.

Id. at 680 (3:65-4:4). Petitioner thus distinguished URLs and bookmarks as lacking the claimed functionality of an "interactive link." The prior-art "hyperlinks" only let users "'navigate' from one document to another, and from one web site to another, to access informational content and services." *Id.* at 679 (2:53-57). As petitioner explained, that is markedly different from establishing a *communication connection* with a single host computer to accomplish the patent's aims: letting users access and operate

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[2] A URL is an address for a location on the internet (like a server or webpage). For example, the URL for this Court's website is https://www.supremecourt.gov.

remote applications via open-transmission channels. See, *e.g.*, *id.* at 680 (3:65-4:4), 682 (8:26-34), 685 (13:26-40), 686 (16:34-41), 687 (17:26-45); see also *id.* at 673 (Fig. 3) (describing "iterated" use of open-communication connections). That was the function of the "interactive link," which was a driving force of petitioner's invention.

For context, three claims of the '838 patent are illustrative:

> 1. A method for presenting an application in a networked computer processing system having a plurality of client computers and a plurality of host computers, the method comprising:
>
> retrieving, in response to a request of a client computer, a content item having computer program code embedded therein, execution of the embedded computer program code establishing a communication connection to a host computer;
>
> sending operating environment information regarding the client computer from the client computer to the host computer;
>
> retrieving presentation information to present an application and content, the presentation information being based on the operating environment information and comprising at least one of instructions for rendering components of the application, default parameters and data values exhibited within the components, and application-specific business logic for processing input to the presented application; and
>
> presenting, at the client computer, the application and the content based upon the presentation information.
>
> 2. The method of claim 1 comprising:

> storing, on the client computer, a link for re-establishing the communication connection to the host computer; retrieving the presentation information; and presenting the application and the content.
>
> 6. The method of claim 2 wherein storing further comprises storing instructions for rendering components of the application, default parameters and data values exhibited within the components, and application-specific business logic for processing input to the application.

C.A. J.A. 693 (29:48-30:2, 30:3-7, 30:18-23).

3. In 2012, Google Inc. and Facebook, Inc. petitioned for inter partes reexamination of the '838 patent after being sued for infringement. C.A. J.A. 702-812. Their agency petition was massive and sprawling. In a 111-page filing, Google and Facebook sought reexamination of all 38 patented claims, submitting 48 claim charts covering 1,286 pages of material. *Id.* at 3454-4739. They argued 46 separate grounds of invalidity with multiple independent references and combinations of prior art. The agency examiner ultimately granted review, in a decision that itself was hundreds of pages long (between the decision and attachments). *Id.* at 371-631.

After review was instituted, Google and Facebook dropped out. The examiner nonetheless continued with the review and eventually rejected all 38 claims of the '838 patent (C.A. J.A. 27). Petitioner appealed the examiner's decision to the Board. App., *infra*, 4a.

4. The Board affirmed. App., *infra*, 3a-27a (invalidating the '838 patent).[3]

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[3] In order to simplify its challenge, petitioner limited its subsequent Federal Circuit appeal to "two critical claims: claims 6 and 20." Pet. C.A. Br. 1, 5. Although the Board rejected those claims on four

As relevant here, the Board found that an ordinary "link"—a URL or bookmark—rendered obvious petitioner's claims involving "interactive links." App., *infra*, 4a, 13a. The sole prior-art reference was "Windows Secrets," a published self-help book for Windows 98. C.A. J.A. 1781. Windows Secrets disclosed how to use ordinary URL shortcuts—*i.e.*, precisely the kind of prior-art *disparaged* in the patent's specification. C.A. J.A. 680 (3:35-4:10) (explaining how such prior art—including "bookmarks" and "URLs"—left a "need" for "interactive links," which is "an object and advantage of this invention").

Despite the issue's central importance, the Board's analysis consisted of a single sentence: "We find no patentable distinction between the claimed 'link' and the disclosed 'URL,' especially in view of the express description within Windows Secrets of the creation of 'link' and the description of that 'link' as a 'URL shortcut.'" App., *infra*, 13a. In sum, the Board's entire rationale was a bald conclusion and the view that Windows Secrets, *not the patent itself*, defined a "URL" as a "link." And the Board held this despite the patent's express, repeated statements that a URL is *not* the claimed link. See, *e.g.*, C.A. J.A. 679 (2:53-57), 680 (3:35-43, 3:65-4:10).

5. The Federal Circuit affirmed. App., *infra*, 1a-2a.

On appeal, the government abandoned the Board's one-sentence rationale. It agreed that the case "focus[ed]

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grounds (each based, incorrectly, on different prior art), the government later abandoned the Board's decision on three of those four grounds. Gov't C.A. Br. 1. That left a single section of the Board's decision ("Ground of Rejection D") relevant on appeal. App., *infra*, 12a-13a (finding claims 2 and 6 "unpatentable [under 35 U.S.C. 103(a)] in view of Frese and Windows Secrets"); see also Gov't C.A. Br. 2-3 (acknowledging that, "[f]or purposes of this appeal," the only relevant "reject[ion]" was based on "Frese in view of Windows Secrets") (footnotes omitted).

on a single limitation": "'storing, on the client computer, a link for re-establishing the communication connection to the host computer.'" Gov't C.A. Br. 1; accord *id.* at 12 (the "interpretation" of petitioner's "claimed link is all that is really at issue in this appeal"). But the government defended the Board's minimalist rationale with its own new legal arguments.

It first argued that "the claims do not *exclude* hyperlinks or URLs," and, "[l]ikewise, nothing in the '838 specification *excludes* hyperlinks or URLs," a point the Board never made. Gov't C.A. Br. 18 (emphases added).[4] It next focused on "two embodiments" it (mis)read as supporting its view, even though neither embodiment was mentioned by the Board. C.A. Br. 18. It then pressed an argument that "the *[e]xaminer*" (but not the Board) accepted about "dropp[ing]" an ordinary URL "onto the Desktop" and creating a "hyperlink." *Id.* at 19. It continued with another point that "[t]he [e]xaminer" (but, again, not the Board) accepted about "Windows Secrets teach[ing] the ability to 'save "links" on the desktop.'" *Id.* at 20. And the government rounded off its argument with a (mistaken) discussion of "[t]he doctrine of claim differentiation," which, again, was not argued (or even uttered) by the Board. *Id.* at 21.[5]

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[4] The point is both new and puzzling: the government did not grapple with the specification's express language *disclaiming* hyperlinks and URLs as inadequate; instead, the government cited *those very passages* as somehow describing the invention. *Id.* at 18 (citing C.A. J.A. 679 (2:49-53)).

[5] Although each of these new arguments is deeply flawed (see, *e.g.*, Pet. C.A. Reply Br. 2-13), the pertinent point here is that these new arguments were indeed *new*, and thus inappropriate for *reviewing* the agency's stated rationale.

Aside from repeating the Board's raw conclusion, the government made no attempt to explain why, in construing the term "link" in the '838 patent, it mattered how an unrelated source (Windows Secrets) happened to use the same term for its own purposes in a separate publication. See Gov't C.A. Br. 16 (quoting the Board's inexplicable conclusion—stating how *Windows Secrets* "descri[bed]" the term "link"—without any effort to justify the Board's logic).

Despite the government's (tacit) concession that the Board's sole stated rationale was inadequate, the Federal Circuit affirmed without opinion. App. *infra*, 1a-2a (citing Fed. Cir. R. 36).[6]

6. Petitioner sought rehearing en banc, arguing that controlling Federal Circuit law conflicted with this Court's *Chenery* doctrine. The full court denied rehearing. App., *infra*, 28a-29a.

REASONS FOR GRANTING THE PETITION

The Federal Circuit's rules for reviewing agency action squarely conflict with this Court's controlling doctrine. Under this Court's binding authority, the Board's decision must stand or fall on its own stated rationale: "The courts may not accept appellate counsel's *post hoc* rationalizations for agency action; *Chenery* requires that an agency's discretionary order be upheld, if at all, on the same basis articulated in the order by the agency itself." *Burlington Truck Lines, Inc.* v. *United States*, 371 U.S. 156, 160-161 (1962) (citing *Chenery II*, 332 U.S. at 196).

Contrary to the Federal Circuit's decisions, this categorical rule does not disappear whenever agencies decide

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[6] In addition to challenging the Board's decision on the merits, petitioner argued that inter partes reexamination violates Article III and the Seventh Amendment. Pet. C.A. Opening Br. 2, 7, 28-29; Pet. C.A. Reply Br. 14 & n.9.

legal issues. Congress tasked the USPTO, not the courts, with determining *all* aspects of inter partes disputes, including the legal questions underpinning patentability (with utmost importance the legal questions regarding claim construction). If the Board's decision fails based on what the Board actually said, the decision must be reversed, just as this Court found in *Chenery I*.

In holding otherwise, the Federal Circuit violates this Court's authority, generates a circuit split, and creates significant conflicts with its own decisions. The Federal Circuit's rule is also clearly mistaken, as its attempt to read exceptions into *Chenery* turns on a demonstrable misreading of *Chenery* itself. Here, the Board's decision on the dispositive issue was effectively unreasoned, and the government defended that decision below on alternative grounds. The panel affirmed without explanation, necessarily crediting the government's alternative arguments.

This issue is exceptionally important, and this case is an excellent vehicle for resolving this significant and recurring legal question. Despite repeated criticism from academics and members of its own court, the Federal Circuit has refused to reconsider its position. Its long-held views are entrenched, and there is no reasonable prospect that the court will correct the problem on its own. In the meantime, the Federal Circuit is distorting the general legal rules for reviewing administrative decisions, intruding on a role that Congress assigned to the agency—and inflicting meaningful procedural harm on inventors looking to defend their property rights. Further review is immediately warranted.

A. The Federal Circuit's Decisions Are Directly At Odds With Binding Authority, Creating An Intractable Circuit Conflict And Intolerable Intra-Circuit Division

Under *Chenery*, agency decisions must be reviewed on their own terms. *State Farm*, 463 U.S. at 50. Congress tasked the USPTO with determining patentability; the ultimate question is delegated to agency control, and Congress expected the answer to turn on the agency's expertise. The Federal Circuit's role in the process is thus one of *review*, not first view; it is tasked with conducting *appellate* review of agency decisions, not recreating patentability determinations (legal *or* factual) assigned to the USPTO in the first instance. See *Fla. Power & Light*, 470 U.S. at 744 (an appellate court "is not generally empowered to conduct a *de novo* inquiry into the matter being reviewed and to reach its own conclusions based on such an inquiry"). *Chenery*'s simple rule ensures that Congress's division of decisional authority is respected, and it precludes appellate courts from "'intrud[ing] upon the domain which Congress has exclusively entrusted to an administrative agency.'" *INS* v. *Ventura*, 537 U.S. 12, 16 (2002) (per curiam).

1. The Federal Circuit's authority conflicts with these settled principles. According to circuit precedent, a panel can supplant the Board's legal determinations with its own, even though the Board (with its primary authority) decided matters on entirely different grounds. *McCarthy*, 809 F.3d at 1373; *In re Aoyama*, 656 F.3d 1293, 1299-1300 (Fed. Cir. 2011); *Comiskey*, 554 F.3d at 974-975 & n.5; *Killip* v. *Office of Pers. Mgmt.*, 991 F.2d 1564, 1568-1569 (Fed. Cir. 1993). While these cases acknowledge *Chenery*, they suggest its reach is strictly limited to situations involving determinations of "fact" or "policy" that "agenc[ies] alone" are authorized to make. *Comiskey*, 554

F.3d at 975. Because courts are equipped to decide legal issues, the Federal Circuit explains, the court can decide for itself any legal questions underpinning the agency's decision.

The Federal Circuit's logic vastly understates *Chenery*'s sweep. The point of agency delegation is for the *agency* to determine the matter. It permits the agency to exercise its independent judgment and *decide* issues in the first instance; it does not limit the agency's role to determining facts and merely taking a first stab at legal questions before the courts start over from scratch. "Hardly a fussy insistence that the agency show its work, this doctrine reflects the respect courts have for agency expertise." *NextEra Desert Ctr. Blythe, LLC* v. *FERC*, 852 F.3d 1118, 1122-1123 (D.C. Cir. 2017) ("As such, it is altogether appropriate that we decline to reach issues of tariff interpretation without first receiving the benefit of FERC's considered judgment."); *Mickeviciute* v. *INS*, 327 F.3d 1159, 1164 (10th Cir. 2003) ("The Supreme Court recently reminded the appellate courts that agencies should be the primary decision makers over matters which Congress has vested in their authority.") (citing *Ventura*, 537 U.S. at 16-17).[7]

In concluding otherwise, the Federal Circuit demonstrably misread *Chenery*. *Comiskey* is representative of the problem. It quotes *Chenery* at length in suggesting it would be "wasteful" to return a case to an agency when an appellate court itself could "supply a new legal ground for

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[7] The Federal Circuit once understood these rules. See, *e.g.*, *In re Hounsfield*, 699 F.2d 1320, 1323 (Fed. Cir. 1983) (Friedman, J.) ("'the integrity of the administrative process requires that "courts may not accept appellate counsel's *post hoc* rationalizations for agency action"'") (applying *Chenery*). But it later confined those cases on (weak) grounds to permit full reevaluation of legal questions. See, *e.g.*, *Comiskey*, 554 F.3d at 975 & n.5.

affirmance." 554 F.3d at 975 (quoting 318 U.S. at 88). And it repeats *Chenery*'s language in arguing that *legal* grounds are "within the power of the appellate court to formulate." *Ibid.* (again quoting 318 U.S. at 88).

These passages, however, were taken directly from *Chenery*'s description of reviewing *lower-court* decisions; in the same paragraph, *Chenery contrasted* those principles with the opposite rules for *agency* proceedings: It recognized that, unlike "reviewing the decision of a lower court," when Congress asks *agencies* to make a determination, "a judicial judgment cannot be made to do service for an administrative judgment." 318 U.S. at 88 (comparing the agency delegation to the delegation of fact-finding responsibility to juries).[8] In short, "[f]or purposes of affirming no less than reversing its orders, an appellate court cannot intrude upon the domain which Congress has exclusively entrusted to an administrative agency." *Ibid.*[9]

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[8] See also Sapna Kumar, *The Accidental Agency?*, 65 Fla. L. Rev. 229, 270 (2013) ("The Federal Circuit supported this assertion with a statement by the Supreme Court that a review of a *district court decision* should not be remanded when the appellate court would affirm on a different basis. The Federal Circuit omitted the fact that the Supreme Court was making a distinction between the review of district court decisions and the review of agency decisions * * * .") (footnote omitted).

[9] *Comiskey* apparently read the Court's "jury" analogy too literally: *Chenery* was not saying that only *factual* issues must be reviewed on the agency's own rationale; it was saying that "[l]ike considerations"—*i.e.*, analogous rules about respecting the role of separate decisionmakers—"govern review of administrative orders." *Chenery I*, 318 U.S. at 88. Indeed, this reading alone explains *Chenery*'s application to *agencies' legal determinations*. See, *e.g.*, Kevin M. Stack, *The Constitutional Foundations of* Chenery, 116 Yale L.J. 952, 956 (2007); see also Kumar, *supra*, at 271 ("At no point, however, has the Supreme Court distinguished among questions of fact, mixed questions of fact and law, and pure questions of law in

Aside from this direct conflict with *Chenery*, the Federal Circuit's prevailing rule is also incompatible with broader legal principles. Under bedrock doctrine, agencies must articulate a reasoned basis for their decisions. See, *e.g.*, *St. Vincent Randolph Hosp., Inc.* v. *Price*, 869 F.3d 510, 513 (7th Cir. 2017) (the agency "did not give a reason—which means that there is no reason"); *Synopsys, Inc.* v. *Mentor Graphics Corp.*, 814 F.3d 1309, 1322 (Fed. Cir. 2016) (the Board "must articulate logical and rational reasons for [its] decisions"). It makes little sense to say, as the Federal Circuit does, that an agency can be reversed for providing *no* reasoning, but affirmed for providing *incorrect* reasoning. If courts are free to supply their own legal rules, it should make no difference that an agency refused to explain the legal basis for its decision. Contra, *e.g.*, *St. Vincent*, 869 F.3d at 513 ("When the agency just asserts an ipse dixit, then the decision falls for the lack of a reason.").

This underscores an important point of the *Chenery* doctrine: under the proper regime, agencies are required to articulate the basis for their decisions—legal *and* factual—*because the agency's rationale ultimately controls*. See, *e.g.*, *Mickeviciute*, 327 F.3d at 1165 (citing *Chenery II*). If courts could simply brush aside the agency's stated rationale in favor of any legal alternative, it would make no difference what the agency said (or failed to say) in the first instance. But this Court has correctly insisted that agency determinations are supported expressly. There is no obvious basis for remanding in the face of silence but

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holding that agency decisions cannot be affirmed on alternative grounds. *Indeed, the original decision involved a question of law*; only later did other courts extend the original decision to fact-finding and statements of reason.") (emphasis added; footnotes omitted).

affirming in the face of *actual error*. The Federal Circuit's precedent is at odds with these settled principles.[10]

The Federal Circuit's cramped view of *Chenery* puts the circuit out of step with this Court's controlling authority, and wrongly intrudes upon the primary powers Congress assigned to the USPTO. Under *Chenery*, a court may not "substitut[e] what it considers to be a more adequate or proper basis" for an agency's determination. 332 U.S. at 196; see, *e.g.*, *NLRB* v. *Kentucky River Cmty. Care, Inc.*, 532 U.S. 706, 721 (2001) ("We may not enforce the Board's order by applying a legal standard the Board did not adopt.") (citing *Chenery I*). The Federal Circuit's contrary precedent is incorrect, and it warrants review.

2. Review is also warranted because the Federal Circuit's decision entrenches a clear conflict with other courts of appeals. Those circuits have read *Chenery* to mean what it says: "under settled principles a court will not consider legal bases for affirming an agency's decision that were not relied upon in the agency's decision." *Holyoke Water Power Co.* v. *FERC*, 799 F.3d 755, 758 n.5 (D.C. Cir. 1986); see also, *e.g.*, *St. Vincent*, 869 F.3d at 513-514 ("under the *Chenery* doctrine an administrative decision stands or falls on the agency's explanations"); *Children's Hosp. & Research Ctr. of Oakland, Inc.* v. *NLRB*, 793 F.3d 56, 59 (D.C. Cir. 2015) ("When an agency fails to wrestle with the relevant statutory provisions, we cannot do its work for it. '[T]he orderly functioning of the process of review requires that the grounds upon which the administrative agency acted be clearly disclosed and adequately sustained.'") (quoting *Chenery I*); *Albertson's Inc.*

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[10] The Federal Circuit recognizes this established doctrine without recognizing the conflict it creates within the court's own authority. The residual tension is obvious and palpable, but the court has refused to correct it.

v. *NLRB*, 301 F.3d 441, 453 (6th Cir. 2002); *Bank of Am.*, 244 F.3d at 1319 (citing decisions); *Municipal Resale*, 43 F.3d at 1052 n.4 (citing *Chenery II*).

This Court has spoken categorically in describing this rule (*e.g.*, *Burlington*, 371 U.S. at 160-161), and these circuits have refused to presume an implied limitation that this Court itself has failed to spell out. *Holyoke*, 799 F.3d at 758 n.5 (rejecting "that a court reviewing an administrative decision must resolve all issues of pure law arguably bearing on the correctness of that decision"); *Nat'l Petrochemical & Refiners Ass'n* v. *EPA*, 630 F.3d 145, 164 (D.C. Cir. 2010) (rejecting, under *State Farm* and *Chenery*, the proposition that "a remand is not required because the question * * * is a legal question for the court to decide and does not involve a policy or judgment entrusted" to the agency); *Albertson's*, 301 F.3d at 453 ("[a] 'reviewing court * * * must judge the propriety of [the actions of an administrative agency] solely on the grounds invoked by the agency'").[11]

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[11] See also, *e.g.*, *NextEra*, 852 F.3d at 1122 ("it is a well-worn principle that 'reviewing courts may affirm [an agency order] based only on reasoning set forth by the agency itself'") (citing *Chenery I*); *Council for Urological Interests* v. *Burwell*, 790 F.3d 212, 223 (D.C. Cir. 2015) ("'Congress has delegated to the administrative official and not to appellate counsel the responsibility for elaborating and enforcing statutory commands.'") (quoting *Inv. Co. Inst.* v. *Camp*, 401 U.S. 617, 628 (1971)); *Humane Soc'y of U.S.* v. *Locke*, 626 F.3d 1040, 1049 (9th Cir. 2010) ("We cannot gloss over the absence of a cogent explanation by the agency by relying on the post hoc rationalizations offered by defendants in their appellate briefs."); *Mendez* v. *Barnhart*, 439 F.3d 360, 362 (7th Cir. 2006) ("In defending the administrative law judge's decision on a ground that he himself did not mention, the government violates the *Chenery* principle."); *Mickeviciute*, 327 F.3d at 1163-1164 ("'The agency must make plain its course of inquiry, its analysis and

Moreover, other courts of appeals, unlike the Federal Circuit, have correctly rejected the view that *Chenery* is somehow cabined to "factual" issues. As those courts have recognized, *Chenery* applies equally to "new legal theories," and *Chenery* precludes "rely[ing] on the [agency's] litigation position" to affirm on "'reasoning not explicitly relied on by the [agency].'" *Hackett* v. *Barnhart*, 475 F.3d 1166, 1175 (10th Cir. 2007); see also, *e.g.*, *Nat'l Petrochemical*, 630 F.3d at 164 (even though "the legal question presented" was "for the court to decide," the agency still "had to grapple with the question," and "'[t]he courts may not accept appellate counsel's *post hoc* rationalizations for agency action'") (quoting *State Farm*, 463 U.S. at 50); *Ewing* v. *NLRB*, 768 F.2d 51, 56 (2d Cir. 1985).[12]

In the end, the Federal Circuit is once again departing from baseline legal norms applicable in all other circuits. As this Court already explained, there is no basis in the Patent Act for adopting a different legal standard for reviewing agency decisions (see *Dickinson* v. *Zurko*, 527 U.S. 150, 165 (1999))—the same *Chenery* rules apply here that apply everywhere else. The Court has routinely granted review to reverse similar Federal Circuit decisions that refuse to apply general legal rules in patent

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its reasoning. After-the-fact rationalization by counsel in briefs or argument will not cure noncompliance by the agency with these principles.'").

[12] At least one court of appeals has misread *Chenery* in the same manner as the Federal Circuit. Compare *Arkansas AFL-CIO* v. *FCC*, 11 F.3d 1430, 1440 (8th Cir. 1993) (en banc) ("the Supreme Court clearly limited *Chenery* to situations in which the agency failed to make a necessary determination of fact or of policy"), with *id.* at 1445 (Gibson, J., dissenting) (rejecting the "lead opinion" because "*Chenery* has traditionally been interpreted more broadly"; quoting Judge Friendly to show that *Chenery* applies "'whether the [agency's] wrong reason is an erroneous view of the law, as in *Chenery* itself * * * or simply a rationale * * * that is logically untenable'").

cases alone. *E.g.*, *SCA Hygiene Prods. Aktiebolag* v. *First Quality Baby Prods.*, 137 S. Ct. 954, 964 (2017); *Halo Elecs., Inc.* v. *Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1934 (2016); *Teva Pharm. USA, Inc.* v. *Sandoz, Inc.*, 135 S. Ct. 831, 837 (2015); *Highmark Inc.* v. *Allcare Health Mgmt. Sys., Inc.*, 134 S. Ct. 1744, 1748 (2014); *eBay* v. *MercExchange, LLC*, 547 U.S. 388, 394 (2006). Further review is again warranted to realign the Federal Circuit with other courts on this important question.

3. Further review is also warranted to correct the substantial, intolerable confusion this issue has produced. The issue has repeatedly split panels on the Federal Circuit. On multiple occasions, judges have written separately to explain how the majority is departing from *Chenery*'s limits on appellate review. *E.g.*, *In re Enhanced Sec. Research, LLC*, 739 F.3d 1347, 1365, 1367 (Fed. Cir. 2014) (O'Malley, J., dissenting) ("I take issue, however, with the fact that the majority bases its judgment on grounds that differ from those upon which the Board relied. This Court may not stray from the Board's reasoning for purposes of supporting its judgment"; "the majority violate[s] the principles described in *Chenery*"); *Aoyama*, 656 F.3d at 1304-1305 (Newman, J., dissenting) (the majority "def[ied] the requirements for appellate review of agency action," citing *Chenery*).

Those dissenting opinions were correct, and they illustrate the depths of the problem within the circuit. As it now stands, the outcome of a PTAB appeal turns on the random draw of the panel. Yet the Federal Circuit has maintained its view of *Chenery* for over a decade, and its precedent remains entrenched despite objections from multiple members of the court. This significant conflict is not going anywhere on its own. This Court's intervention is warranted to eliminate the intolerable division over this significant question.

B. This Case Is An Excellent Vehicle For Reviewing This Exceptionally Important Question

This substantial question warrants review in this case. The Court has previously reversed the Federal Circuit for failing to apply traditional rules for reviewing agency decisions, "[r]ecognizing the importance of maintaining a uniform approach to judicial review of administrative action." *Dickinson*, 527 U.S. at 154. The Federal Circuit's repeat performance again disrupts a "uniform" national approach, and does so in a context vital to today's patent community—supplanting the agency's role in construing claims in PTAB reviews. Given the Board's virtually nonexistent reasoning below, it is indisputable that the Federal Circuit credited the government's new arguments on appeal. Because this case is an appropriate vehicle for reviewing this exceptionally important question of federal law, the petition should be granted.

1. The proper scope of appellate review is undeniably important. It can (and does) dictate the outcome in countless PTAB appeals, and the court's refusal to honor *Chenery* has profound effects on both regulated parties and Congress's administrative scheme. It affects parties by depriving litigants of a full and fair process under Congress's design—a reasoned disposition reached by the expert agency, in the first instance, subject to review (not re-adjudication) on appeal. It also frustrates Congress's administrative scheme. That scheme divides authority between the USPTO and the courts. It was the agency, not the Federal Circuit, that Congress tasked with reexamining patents. It directed the agency to exercise its expertise to decide patentability in the first instance (including the paramount task of construing claims). The Federal Circuit violates that statutory directive when it supplants the agency's primary role by making its own legal determinations unbounded by the agency's actual decision. See,

e.g., *Negusie* v. *Holder*, 555 U.S. 511, 524-525 (2009); *Mickeviciute*, 327 F.3d at 1165 ("preservation of the process and the distinct functions of the executive and judicial branches override the need for the speedy resolution of any particular case"; "we must resist the temptation of stepping out of our limited judicial role even where resolving the merits ourselves may seem an easier, more efficient, and more palatable course").

The Federal Circuit's contrary precedent has been criticized by expert and academic commentary. *E.g.*, Kumar, *supra*, at 269-274; Wright & Milliken, *PTAB Decisions May Face Chenery Attacks At Federal Circuit*, Law360, June 29, 2017 <tinyurl.com/cheneryattacks>. These experts have examined the circuit's authority and recognized its departure from basic norms of appellate review. This again highlights the profound need for recalibrating the Federal Circuit's core approach to this "fundamental" question of administrative law (*Chenery II*, 332 U.S. at 196).

2. This case is an excellent vehicle for reconsidering this important question. The Board disposed of the decisive issue in a single sentence. App., *infra*, 12a. That sentence consisted of two parts: (i) a raw conclusion that there was no "patentable distinction" between URLs and links; and (ii) the facially indefensible theory that the patent's key terms are defined, not by the claims or their specification, but by *an unrelated, third-party resource*. The former fails under circuit precedent (*e.g.*, *In re Lee*, 277 F.3d 1338, 1344 (Fed. Cir. 2002) ("[c]onclusory statements * * * do not fulfill the agency's obligation")), and the latter is irrational.

It accordingly is no surprise that the government chose to devote its appellate efforts to developing new, alternative grounds to support the agency's decision. Indeed, as time will tell, the government in this Court will

not be able to articulate any defense of the agency's actual rationale. If the Board's determination must stand or fall on its own terms, reversal is the only plausible outcome. The Federal Circuit's Rule 36 affirmance thus necessarily relied upon reasoning outside the Board's scant analysis.

The proper scope of appellate review is thus outcome-determinative, and this case presents a ready opportunity to correct the Federal Circuit's misreading of the *Chenery* doctrine. Further review is plainly warranted.

C. If Review Is Not Outright Granted, The Petition Should Be Held Pending The Court's Decision In *Oil States*

This case presents an exceptionally important and recurring question of administrative law that has significant consequences for the patent community. But this case also arises from an Article I process that is infected with serious constitutional errors: the Board's inter partes reexamination violates Article III and the Seventh Amendment.

The Court is currently reviewing similar questions in *Oil States Energy Services, LLC* v. *Greene's Energy Group, LLC*, cert. granted, No. 16-712 (argued Nov. 27, 2017). If the Court concludes in *Oil States* that inter partes review is unconstitutional, the proceedings below are unconstitutional for the same reasons. The Court accordingly may wish to hold this petition pending its decision in *Oil States* and then dispose of the petition as appropriate in light of that decision.

But if the Court upholds the constitutionality of inter partes review in *Oil States*, it becomes all the more important to ensure that all procedural protections—including *Chenery*'s limits on appellate review—are faithfully enforced. The Federal Circuit's precedent diminishes those protections, disregards traditional limits on appellate review, and undermines the integrity of Congress's

scheme. This question arises frequently in PTAB reviews, and it is often outcome-determinative (as it was here). The Federal Circuit's refusal to let PTAB decisions stand or fall on their own terms conflicts with general legal norms and the proper division of judicial and agency authority. The Federal Circuit has made clear that it will not correct this problem on its own. There is a compelling need for this Court's immediate intervention.

CONCLUSION

The petition for a writ of certiorari should be granted; in the alternative, the petition should be held pending this Court's decision in *Oil States Energy Services, LLC* v. *Greene's Energy Group, LLC*, No. 16-712, and then disposed of as appropriate in light of that decision.

Respectfully submitted.

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