No. 17-1384

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

REPLY BRIEF FOR THE PETITIONER

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases:

Page

Cases—continued:

Statutes:

Miscellaneous:

The government's opposition only confirms the urgent need for this Court's review. It does not dispute that the case presents a question of exceptional legal and practical importance. It has no real explanation why its reading of *Chenery* is right; it simply doubles-down on the Federal Circuit's demonstrable misreading of this Court's decisions. That same issue has divided the courts of appeals, split panels on multiple circuits, and been recognized by academics and experts. Indeed, it has repeatedly split panels on the Federal Circuit itself, yet that court has steadfastly refused to reconsider its views. There is no basis for thinking the Federal Circuit will abandon its longstanding position absent this Court's intervention.

Perhaps realizing the issue's importance, the government says the case is a poor vehicle. But the Board's decision turned on a single, indefensible sentence, which the government (predictably) failed to defend anywhere in its brief. The government advanced a different set of arguments below, and the Federal Circuit was authorized (under settled circuit authority) to credit those arguments in affirming.

The Federal Circuit necessarily accepted the government's new arguments, rather than the Board's single, inexplicable sentence. That perfectly tees up a foundational question of administrative law in a context of surpassing importance. According to the government, reviewing courts are free to redo the USPTO's legal work from scratch, even though Congress tasked the agency with resolving these questions. That frustrates Congress's scheme and deprives inventors of critical safeguards. This case is a clear and obvious grant, and review is warranted.

A. There Is A Clear, Intractable Conflict

1. a. Under *Chenery*, agency "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). If

those "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." *SEC* v. *Chenery*, 332 U.S. 194, 196 (1947). And this is so even where "the wrong reason is an erroneous view of the law, as in *Chenery* itself." Henry J. Friendly, Chenery *Revisited: Reflections on Reversal and Remand of Administrative Orders*, 1969 Duke L.J. 199, 222 (1969).

The Federal Circuit repeatedly flouts these "fundamental" principles (*Chenery II*, 332 U.S. at 196). Pet. 14-21. Contrary to settled law, the Federal Circuit authorizes panels to "supply a new legal ground for affirmance," even one "not relied on by the agency." *In re Comiskey*, 554 F.3d 967, 974-975 (Fed. Cir. 2009). But under *Chenery*, 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." *Fla. Power & Light Co.* v. *Lorion*, 470 U.S. 729, 744 (1985). This Court, unlike the Federal Circuit, has not announced an exception for "legal" arguments, but has refused to "enforce [an agency's] order by applying a legal standard [the agency] did not adopt." *NLRB* v. *Kentucky River Cmty. Care, Inc.*, 532 U.S. 706, 721 (2001).

Here, Congress tasked the USPTO with determining patentability, and limited the Federal Circuit's role to one of *review*. The Federal Circuit was not authorized to recreate patentability determinations (legal *or* factual) assigned to the USPTO in the first instance. This permits the agency to "bring its expertise to bear upon the matter; it can evaluate evidence; it can make an initial determination; and, in doing so, it can, through informed discussion and analysis, help a court later determine whether its decision exceeds the leeway that the law provides." *INS* v. *Ventura*, 537 U.S. 12, 17 (2002) (per curiam). That elaborate process frames the legal determinations in a way that

"appellate counsel's *post hoc* rationalizations" cannot. *Burlington Truck Lines, Inc.* v. *United States*, 371 U.S. 156, 160-161 (1962). Where Congress assigns an agency an extensive role, "a judicial judgment cannot be made to do service for an administrative judgment." *Gonzales* v. *Thomas*, 547 U.S. 183, 186 (2006) (per curiam).[1]

b. In response, the government does not dispute that the USPTO, not the Federal Circuit, was assigned the primary role in post-grant and inter partes reviews. It does not suggest any statutory basis permitting the appellate court to revisit every legal issue from scratch, based on its own "*de novo* review" of the administrative record. Nor, for that matter, does the government discuss *Chenery*'s logic, defend the Federal Circuit's misreading of that logic (Pet. 15-16 & nn.8-9), or address this Court's authority reinforcing *Chenery*'s "fundamental rule" (332 U.S. at 196).[2]

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[1] The Federal Circuit's harm to Congress's design is obvious. For example, as the government admits, the Federal Circuit has declared patents "indefinite" (under 35 U.S.C. 112) where the agency's ruling turned on "anticipat[ion]" (under 35 U.S.C. 102); and it has declared inventions outside "patentable subject matter" (under 35 U.S.C. 101) where the agency's ruling turned on "obvious[ness]" (under 35 U.S.C. 103). Opp. 8-9. Those different legal grounds require examining different statutes, identifying different elements, considering different facts, and ultimately making entirely different determinations. This is not some minor "technical" adjustment to the agency's legal determination (contra Opp. 7); it is a complete displacement of the agency proceeding.

[2] The government likewise has no answer for why an agency's *silence* on a legal issue warrants reversal, but an agency's *incorrect* answer warrants affirmance. Pet. 17-18. If reviewing courts can always supply their own legal grounds, it should make no difference that an agency refused to explain the legal basis for its decision—the ultimate result, in the government's view, would still be "a foregone conclusion." Opp. 9. Yet even the government apparently concedes that agency determinations must be supported expressly.

Instead, the government insists the Federal Circuit's "approach is consistent" with *Chenery*, staking its entire argument on an isolated passage from *Morgan Stanley Capital Grp. Inc.* v. *Pub. Util. Dist. No. 1*, 554 U.S. 527 (2008). Opp. 7-8. According to the government, *Morgan Stanley* cabined *Chenery* to "'*discretionary* decisions," permitting courts to affirm "where the agency reached the legally 'necessary result' but made a technical legal error.'" *Id.* at 7. In short, reviewing courts are authorized to "decide a dispositive legal issue that would make the result of [a] remand a foregone conclusion." *Id.* at 9.

The government misunderstands *Morgan Stanley*. That opinion was issued by a four-justice majority. The government's isolated passage comes from the second half of a single paragraph (reflecting the Court's entire analysis), and its truncated views were rejected by the dissent. 554 U.S. at 568 (Stevens, J., dissenting). The parties' briefing barely addressed the topic at all, with no party devoting even a full page to the issue. PUC Resp. Br. 59-60; Golden State Water Co. Resp. Br. 32; Pet. Reply Br. 6-7.

In any event, the case was the "'rare'" example (*Ventura*, 537 U.S. at 16) where existing law (*established by this Court*) already "*required*" the agency to reach the same "result." 554 U.S. at 544-545. *Morgan Stanley* did not purport to rewrite the entire body of rules for reviewing agency action. It simply held that, in those unusual circumstances, a "'remand would be an idle and useless formality.'" *Id.* at 545. That has nothing to do with the mine run of agency appeals, where the government seeks affirmance via unsettled, complex, technical legal arguments. *Morgan Stanley* (in its single paragraph) did not signal a dramatic departure from this Court's settled rules, and the government's contrary reading invites a direct conflict among this Court's decisions.

2. Contrary to the government's contention (Opp. 9-11), the Federal Circuit's position conflicts with the decisions of multiple circuits.

a. The government tries to muddy the waters, but the circuit conflict is clear. According to the Federal Circuit, *Chenery* is cabined to "factual" issues, and reviewing courts may substitute their own views on any "legal" question. *Comiskey*, 554 F.3d at 974-975; accord *In re Aoyama*, 656 F.3d 1293, 1299 (Fed. Cir. 2011) (describing the Federal Circuit's "long recognized" and "repeated" position).

Other circuits hold exactly the opposite: *Chenery* applies to "new legal theories," and reviewing courts may *not* affirm on "'reasoning not explicitly relied on by the [agency].'" *Hackett* v. *Barnhart*, 475 F.3d 1166, 1175 (10th Cir. 2007); see, *e.g.*, *Lara* v. *Lynch*, 789 F.3d 800, 805-806 (7th Cir. 2015) ("the REAL ID Act is irrelevant here because neither the IJ's nor the Board's ruling rests" on it; "by invoking the REAL ID Act, the government is once again violating the *Chenery* doctrine"); *Nat'l Petrochemical & Refiners Ass'n* v. *EPA*, 630 F.3d 145, 164 (D.C. 2010) (rejecting, under *Chenery*, the government's argument that "remand is not required" because its new "legal question" "d[id] not involve a policy or judgment entrusted to [the agency]"); *Albertson's Inc.* v. *NLRB*, 301 F.3d 441, 452-453 (6th Cir. 2002) (rejecting argument raised "only on appeal" and not in "the Board's decision"; the court "'will not affirm the Board's actions based on reasons not relied upon by the Board itself'"); *Municipal Resale Serv. Customers* v. *FERC*, 43 F.3d 1046, 1052 n.4 (6th Cir. 1995) (refusing to consider new legal arguments; "we are bound by the fundamental rule of administrative law that we must judge the propriety of agency action solely by the grounds invoked by the agency"); *Business*

Roundtable v. *SEC*, 905 F.2d 406, 417 (D.C. Cir. 1990) (refusing to "decide whether the Commission could invoke other statutory provisions" as "legal authority"; "we cannot supply grounds to sustain the regulations that were not invoked by the Commission below"); *Holyoke Water Power Co.* v. *FERC*, 799 F.3d 755, 758 n.5 (D.C. Cir. 1986) ("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").

The circuit conflict could not be any plainer. In the Federal Circuit, the government is free to press new legal grounds, and the court will affirm on any ground it finds persuasive. *E.g.*, *Comiskey*, 554 F.3d at 974-975. In other circuits, the agency is limited to arguing the legal points that prevailed below; those circuits refuse to consider potentially "dispositive legal issue[s]" (Opp. 9), even though the agency might prevail on those new grounds. *E.g.*, *Mickeviciute* v. *INS*, 327 F.3d 1159, 1163-1165 (10th Cir. 2003). This division is a direct product of each side's competing understanding of *Chenery* itself. Compare, *e.g.*, *Comiskey*, 554 F.3d at 974-975 (*Chenery* "encourages" "new legal ground[s]"), with, *e.g.*, *Hackett*, 475 F.3d at 1174-1175 (*Chenery* prohibits "new legal theories"). This untenable conflict will persist until this Court intervenes.

Moreover, the same conflict has split panels on multiple circuits. Pet. 20-21 & n.12. The issue split the en banc Eighth Circuit, provoking a five-judge dissent squarely rejecting the Federal Circuit's theory. *Arkansas AFL-CIO* v. *FCC*, 11 F.3d 1430, 1440 (8th Cir. 1993) (en banc) ("limit[ing] *Chenery*" to "determination[s] of fact or policy"); contra *id.* at 1445 (Gibson, J., dissenting) (rejecting the "lead opinion" because "*Chenery* has traditionally been interpreted more broadly," reaching "'erroneous view[s] of the law'"). And the issue has repeatedly split panels of the Federal Circuit, without any hint that the

full circuit is willing to reconsider its "long recognized" views. *Aoyama*, 656 F.3d at 1299; contra *id.* at 1301, 1304-1305 (Newman, J., dissenting) (*Chenery* restricts review to legal "ground[s]" decided below; reliance on new legal issues "def[ies] the requirements for appellate review of agency action"). While the government suggests these circuits can sort out the "confusion" on their own (Opp. 9 n.3), the Federal Circuit has made clear that it will not self-correct. There is an obvious need for this Court's intervention.

b. The government tries to sidestep this entrenched conflict, but it fails. Other circuits unequivocally reject attempts to limit *Chenery* to fact and policy questions, refusing to consider new legal grounds on appeal. The government does not explain why those courts did not mean what they said.

Instead, the government brushes aside these cases because they were remanded for various reasons. Opp. 9-11. But it makes no difference *why* a case was remanded; the entire point is that the reviewing court refused to address a new "dispositive legal issue." These circuits read *Chenery*, correctly, to prohibit "'accept[ing] appellate counsel's *post hoc* rationalizations'" (*Nat'l Petrochemical*, 630 F.3d at 164), while the Federal Circuit permits the opposite. The conflict is stark.[3]

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[3] The government quibbles with certain decisions, but its efforts are unavailing. For example, it says *Hackett* merely considered "the proper lens" for evaluating EAJA fee requests (Opp. 11 n.7), which is wrong. *Hackett* explicitly invoked *Chenery* as binding the district court's underling "merits" appeal, faulting the Commissioner for "violat[ing]" *Chenery* by advancing "entirely new legal theories." 475 F.3d at 1175. The government says *Albertson's* rejected the agency's arguments as "unpreserved and incorrect" (Opp. 10 n.6), but ignores the court's *holding*, which refused, under *Chenery*, to consider new

B. The Question Presented Is Important And Recurring

The government does not dispute this issue's obvious importance (see *Dickinson* v. *Zurko*, 527 U.S. 150, 154 (1999)), or its dispositive effect on countless PTAB appeals.

The Federal Circuit's rule distorts the scope of appellate review with millions (or more) at stake. Congress did not authorize extensive agency-trials only for the government to reshape its theory on appeal. That eliminates the critical safeguards embedded within post-grant proceedings, and it frustrates the point of delegating these issues *to an expert agency*, which the Federal Circuit would demote to a fact-finding adjunct.

While these issues are technically "legal" in nature, it blinks reality to suggest the agency process is unnecessary. This is not a simple matter of reading statutory text. Questions like claim construction and obviousness overlap substantially with complex technical concepts; the outcome rarely turns on pure legal issues. The adjudicative process is difficult to replicate on appeal, and Congress did not force patentees to defend their property rights in a single *reply* brief. The Federal Circuit is wrong to step

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legal grounds—it merely commented ("[i]n any event") the government was wrong "*even if we were to consider the Board's arguments*." 301 F.3d at 453. The government argues that *Municipal Resale* turned on waiver (Opp. 11 n.7), which was an *alternative* holding; it *separately* held it was "bound" by *Chenery*. 43 F.3d at 1052 n.4; see *Woods* v. *Interstate Realty Co.*, 337 U.S. 535, 537 (1949) ("where a decision rests on two or more grounds, none can be relegated to the category of obiter dictum"). And the government says *National Petrochemical* found "'a remand would serve no purpose'" (Opp. 11 n.8), but overlooks the reason: the court refused to consider "legal question[s]" the agency had not addressed, but found *the agency had indeed addressed them*. 630 F.3d at 164. The government cannot wish away the genuine conflict.

into the agency's shoes and replace a careful trial process with a single round of appellate briefing (especially without any support in the statutory text). This frustrates Congress's intent and disregards traditional limits on appellate review. This Court's intervention is needed.

C. This Is An Excellent Vehicle

Contrary to the government's contention, this case is an excellent vehicle for resolving this question.

1. The Board's entire analysis was a single, unsupportable sentence. Pet. App. 13a. As petitioner explained (Pet. 10, 23), that sentence had two parts: (i) a bald conclusion and (ii) an indefensible theory. Pet. 23. The government unsurprisingly sought affirmance on different grounds (Pet. 11), and the Federal Circuit necessarily credited those new arguments—otherwise reversal was the only outcome.

The government's response is extraordinary. It does not contest that this single sentence was the Board's entire reasoning on this dispositive issue. Yet the government does not discuss the Board's "rationale" anywhere in its submission (a striking omission in a gray brief). It does not dispute that this single sentence was effectively unreasoned. And it does not really contest that it relied on new legal arguments below, which it obviously did (Pet. 11; Opp. 6-7).

Instead, the government says "there is no basis for concluding that the [Federal Circuit's] rationale differed from that of the Board." Opp. 4. This is fanciful. If the Federal Circuit relied upon the Board's "rationale," summary reversal is in order. The government cannot bring itself even to *repeat* the Board's analysis, much less defend it. As petitioner predicted, "as time will tell, the government in this Court will not be able to articulate any defense of the agency's actual rationale." Pet. 23-24. It is

telling that the government refused to take up this basic challenge.

The Federal Circuit obviously relied on legal grounds outside the Board's deficient analysis, as it was permitted to do under flawed circuit precedent. The government cannot avoid review by pretending the Federal Circuit endorsed an irrational sentence that the government itself refuses to defend.

2. The government weakly questions whether its arguments below were "new." Opp. 6-7. But the petition detailed the government's novel grounds. Pet. 11. In response, the government never grapples with petitioner's showing. It did not explain or quote where it defended the Board's rationale (which, again, it never identified). A quick skim through the government's answering brief reveals it was devoted to arguments deviating from the Board's single-sentence "analysis"—which is presumably why the government (begrudgingly) admits it raised new "rebuttal arguments." Opp. 6.

Nor did petitioner's briefing below suggest otherwise. Opp. 6. Petitioner challenged the government for trotting out the same arguments, which were *not* adopted by the Board. Because circuit precedent allowed affirmance on any ground, petitioner attacked *every* point, including those raised by *the examiner*. The government cannot escape by plucking petitioner's language out of context: the Board's single-sentence rationale is indefensible, which is why the government (here and below) refused to defend it.

3. As a last-ditch shot, the government faults petitioner for not arguing *Chenery* before the three-judge panel (Opp. 6-7)—which was bound to *reject* that argument under "long recognized" circuit authority. *Aoyama*, 656 F.3d at 1299. Petitioner squarely raised the issue at

its first opportunity on rehearing; the Federal Circuit refused the invitation. The circuit's views are entrenched, and the petition should be granted.

Respectfully submitted.

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