No. 15-326

IN THE

Supreme Court of the United States

AUTOMATED MERCHANDISING SYSTEMS, INC.,

Petitioner,

v.

MICHELLE K. LEE, DEPUTY DIRECTOR, U.S. PATENT AND TRADEMARK OFFICE, IN HER OFFICIAL CAPACITY AS THE ACTING UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND ACTING DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE,

Respondent.

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

1. Must the federal judiciary await the substantive conclusion of an agency proceeding before it can evaluate whether an express statutory limitation on that agency's jurisdiction requires that agency to terminate its proceeding?

2. Did the Federal Circuit err in refusing to order the United States Patent and Trademark Office to terminate the subject *inter partes* reexaminations under 35 U.S.C. § 317(b)?

LIST OF PARTIES TO THE PROCEEDING

The caption contains a list of all parties to the proceeding in the U.S. Court of Appeals for the Federal Circuit whose decision is sought to be reviewed here.

CORPORATE DISCLOSURE STATEMENT

Automated Merchandising Systems, Inc. ("AMS") is a Delaware corporation and it is wholly owned by AMS Group, Inc., a Florida corporation.

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PETITION FOR A WRIT OF CERTIORARI

Petitioner prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit entered in this case on April 10, 2015.

OPINIONS AND ORDERS BELOW

The district court's Order finding that 35 U.S.C. § 317(b) does not deprive the United States Patent and Trademark Office ("PTO") of jurisdiction over the subject *inter partes* reexaminations is reproduced in the Appendix at 18a-37a. The opinion of the U.S. Court of Appeals for the Federal Circuit affirming the district court's dismissal on the grounds that a challenge to the PTO's jurisdiction is not subject to judicial review until after the PTO completes the subject reexaminations is reproduced in the Appendix at 4a-17a. The Denial of the Petition for Rehearing and Rehearing En Banc is reproduced in the Appendix at 1a-3a. The Consent Judgment entered by the District Court for the Northern District of West Virginia, which provides the basis for AMS's assertion that the PTO lost jurisdiction over the *inter partes* reexaminations, is reproduced in the Appendix at 38a-39a.

JURISDICTIONAL STATEMENT

Petitioners seek review of a decision of the United States Court of Appeals for the Federal Circuit ("Federal Circuit") entered on April 10, 2015. The Federal Circuit denied AMS's Petitions for Rehearing and Rehearing En Banc on June 15, 2015.

This Court has jurisdiction in this case under 28 U.S.C. § 1254(1).

QUOTATION OF CONSTITUTIONAL PROVISIONS AND STATUTES INVOLVED IN THE CASE

35 U.S.C. § 317(b) (2002) reads, in relevant part:

> Once a final decision has been entered against a party in a civil action arising in whole or in part under section 1338 of title 28, that the party has not sustained its burden of proving the invalidity of any patent claim in suit ..., then neither that party nor its privies may thereafter request an inter partes reexamination of any such patent claim on the basis of issues which that party or its privies raised or could have raised in such civil action..., and an inter partes reexamination requested by that party or its privies on the basis of such issues may not thereafter be maintained by the Office....[1]

5 U.S.C. § 704 (1966) reads, in relevant part:

> Agency action made reviewable by statute and final agency action for which there is no other adequate remedy in a court are subject to judicial review. A preliminary, procedural, or intermediate agency action or ruling not

1. The America Invents Act ("AIA") repealed the provisions authorizing *inter partes* re-examinations. Pub. L. No. 112-29, § 6, 125 Stat. 284, 299-305 (2011). Given the timing of Crane's petitions, the pre-AIA provisions apply here.

directly reviewable is subject to review on the review of the final agency action.

5 U.S.C. § 706 (1966) reads, in relevant part:

> To the extent necessary to decision and when presented, the reviewing court shall decide all relevant questions of law, interpret constitutional and statutory provisions, and determine the meaning or applicability of the terms of an agency action. The reviewing court shall-
>
> (1) compel agency action unlawfully withheld or unreasonably delayed; and
>
> (2) hold unlawful and set aside agency action, findings, and conclusions found to be –
>
> > (A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; . . .
> >
> > (C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right;
> >
> > (D) without observance of procedure required by law: . . ..

28 U.S.C. § 1361 (1962) reads, in relevant part:

> The district courts shall have original jurisdiction of any action in the nature of

> mandamus to compel an officer or employee of the United States or any agency thereof to perform a duty owed to plaintiff.

STATEMENT OF THE CASE

This case raises a question of general importance relating to the availability of judicial review of federal administrative agencies: Must the federal judiciary await the substantive conclusion of an agency's proceeding before it can evaluate whether that agency's jurisdiction to initiate or maintain that proceeding has been statutorily terminated? Relatedly, is mandamus requiring termination of an *ultra vires* agency proceeding available only after the agency has voluntarily concluded that proceeding? Although the issue here arises in connection with a refusal by the PTO to terminate an *inter partes* patent reexamination, the issue presented has general application and broadly addresses the judiciary's power to efficiently and cost effectively curtail *ultra vires* action by any administrative agency.

I. Factual Background

Petitioner, AMS, manufactures and sells snack vending machines. AMS initiated a patent infringement action against Crane Co. ("Crane"), another manufacturer of snack vending machines, in December 2003. That action, filed in the United States District Court for the Northern District of West Virginia, was stayed from mid-2005 through early 2011 while the PTO processed fourteen *ex parte* reexaminations Crane had initiated. The AMS patents survived all fourteen of Crane's *ex parte* challenges.

In early 2011, the West Virginia district court lifted the stay and set trial for early 2012. Crane filed four additional reexamination requests, one for each of the four asserted AMS patents, utilizing the *inter partes* reexamination procedure as provided by pre-AIA §§ 311-318 of the Patent Act. Unlike *ex parte* reexaminations, in which involvement of the party challenging patent validity is limited to filing the initial petition, the party who initiates an *inter partes* reexamination is entitled to participate in all aspects of that proceeding through appeal within the PTO and to the Federal Circuit. *See* 35 U.S.C. §§ 314, 315

Congress balanced the expanded rights afforded *inter partes* reexamination validity challengers by creating two broad estoppels. A party was free to challenge the validity of a patent at the PTO and in district court litigation, but it was stuck with the result in whichever challenge concluded first. *See* 35 U.S.C. §§ 317. Pursuant to §317(b), the PTO is precluded from maintaining the *inter partes* reexaminations Crane initiated if the district court litigation concluded and Crane had failed to prove its invalidity contentions. Section 317(b) provides, in relevant part:

> Once a final decision has been entered against a party in a civil action ... that the party has not sustained its burden of proving the invalidity of any patent claim in suit ... then ... an inter partes reexamination requested by that party or its privies on the basis of [issues which that party raised or could have raised in such civil action] may not thereafter be maintained by the Office....

35 U.S.C. § 317(b).

On June 11, 2012, the West Virginia district court concluded the litigation between AMS and Crane by entering a Consent Judgment that, among other things, entered the parties' stipulation "that [the asserted AMS patents] are valid." 38a-39a. That judgment further provided that "[a]ll claims in this action [including Crane's patent invalidity counterclaims] are dismissed with prejudice." *Id.*

On June 20, 2012, AMS filed its first set of petitions to terminate the *inter partes* reexaminations pursuant to Section 317(b). Pursuant to PTO procedural requirements, AMS filed these petitions to terminate with the Commissioner of Patents, not with the patent examiner handling the reexaminations. These petitions, along with all subsequent requests for reconsideration, were rejected by the PTO Commissioner on the grounds that the Consent Judgment entered did not use language that suggested that Judge Bailey had himself decided the validity issue on the merits.[2] The PTO labeled the last of its refusals as "final agency action" within the meaning of § 704. 7a.

This petition is directed to the statutory limits imposed on the PTO's jurisdiction under §317(b) and the Federal Circuit's refusal to review the PTO's loss of jurisdiction until after the PTO has substantively concluded all aspects of the subject *inter partes* reexaminations.

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2. The PTO has never disputed that a final decision upholding patent validity satisfies the "not sustained the burden of proving [] invalidity" statutory standard. *See* Manual of Patent Examination Procedure ("MPEP") § 2686.04(V) (noting that § 317(b) estoppel arises upon entry of a final decision "upholding the validity of that [patent] claim . . .").

II. Procedural Background

AMS filed a Complaint against the PTO in the United States District Court for the Eastern District of Virginia seeking review of the Commissioner's refusals under the Administrative Procedures Act ("APA") and a writ of mandamus instructing the PTO Commissioner to terminate the subject *inter partes* reexaminations pursuant to 35 U.S.C. §317(b). AMS based its Complaint on 28 U.S.C. §§ 701-706 (review under the APA), 5 U.S.C. § 2201 (declaratory judgment), and 28 U.S.C. § 1361 (mandamus requiring government official to perform duty owed to AMS).

The parties cross-moved for summary judgment. On August 6, 2014, the Virginia district court denied AMS's motion and granted the PTO's motion. In holding for the PTO, the Virginia district court found that the PTO's obligation to resolve new questions of patentability cannot be "displaced or pre-empted" by private party action. 33a. The Virginia court reasoned that although one could argue that the stipulation of patent validity included within the Consent Judgment was a final decision, it was nevertheless required to "look behind" the consent judgment entered by the West Virginia district court to see if it reflected an actual adjudication *by the court.* 30a (emphasis added). The Virginia court ultimately concluded that a consent judgment based upon party stipulation "cannot be reasonably understood as anything more than a willingness on the part of the court to dismiss the case based on the parties' settlement." 32a.

AMS appealed to the United States Court of Appeals for the Federal Circuit ("Federal Circuit") under 35 U.S.C. § 1295(a). AMS devoted its opening brief to the only issue

addressed below: The PTO's loss of jurisdiction over the subject *inter partes* reexaminations upon entry of the West Virginia Consent Judgment. At no point did AMS' brief address any substantive issue of patentability or whether the question of the PTO's jurisdiction was ripe for judicial review.

The PTO dedicated much of its responsive briefing to asserting, *for the first time*, that judicial review of the effect of § 317(b) was premature until after the PTO substantively concluded the subject reexaminations. Under the PTO's analysis, no PTO decision, or any agency action including the refusal to accept limits on its jurisdiction, is ripe for review until after the agency substantively concludes all aspects of its proceeding.

On April 10, 2015, the Federal Circuit affirmed the Virginia district court's dismissal on the alternate ground that AMS' jurisdictional challenge was premature. The Federal Circuit adopted all aspects of the PTO's ripeness argument and found that judicial review is untimely because AMS could include the § 317(b) jurisdiction issue in any appeal filed at the substantive conclusion of the *inter partes* reexaminations. 14a.[3] Using the same logic, and despite the fact that the Virginia district court had

3. The Federal Circuit may have overstated its own jurisdiction to evaluate AMS's present jurisdictional challenge at the conclusion of the PTO's proceedings. The Federal Circuit's jurisdiction to hear appeals from the PTO is governed by 35 U.S.C. § 315(a)(1) which appears to limit the Federal Circuit to reviewing decisions of the Patent Trial and Appeal Board ("PTAB") relating to patentability. The PTO Commissioner's finding that § 317(b) does not apply, however, is not a decision by the PTAB and it does not relate to patentability.

exercised its discretion to accept jurisdiction over the action AMS filed, the Federal Circuit also found that mandamus was unavailable for the same reason. 15a. In short, the Federal Circuit found that the judiciary lacks authority to compel an agency to terminate an agency proceeding, even when a statute expressly requires termination, until *after* the agency has substantively concluded its proceeding.

On April 27, 2015, AMS filed a Petition for Rehearing and Rehearing En Banc urging the Federal Circuit to reconsider its decision. The Federal Circuit denied both petitions on June 15, 2015. 1a-3a.

REASONS FOR GRANTING THE PETITION

Although the issue here arises in the context of a patent reexamination at the PTO, the issue presented by petitioner has general application regarding the judiciary's authority to review administrative agency action and the timing of such review. The jurisdictional issue AMS raises in this Petition is an important issue that is completely separate from the merits of the patentability issues still pending at the PTO.

Section 317 of the Patent Act, entitled "Inter partes reexamination prohibited," required the PTO to terminate the subject *inter partes* reexamination proceedings more than three years ago. Postponing judicial review of the PTO's refusal to do so until after the PTO has substantively completed its patent validity analysis conflicts with this Court's established precedent, encourages agency overreach, fails to promote the just, speedy, and inexpensive resolution of disputes, and creates

a Circuit split. An order requiring an agency to terminate a proceeding only *after* that proceeding has been substantively concluded rings hollow and forever deprives the aggrieved party of its statutory right to terminate the proceeding at a much earlier point – ideally, before that party's resources have been exhausted through multiple, simultaneous agency proceedings.

The rigid, mechanical test the Federal Circuit created to limit the availability of judicial review of even challenges to an agency's jurisdiction conflicts with this Court's pragmatic, flexible approach. Under this Court's established precedent, as well as the precedent of several Circuit Courts, the question of agency jurisdiction can be an exception to the finality/ripeness rule and need not await the conclusion of the agency proceeding before it can be heard. The Federal Circuit's new test creates confusion, impedes timely judicial review of agency action, and denies the public of any effective mechanism to protect its rights from overreaching agencies.

I. The Federal Circuit's holding fails to follow controlling precedent.

Rather than follow this Court's guidance that pragmatic flexibility is central to determining when judicial review of an agency's assertion of jurisdiction is proper, the Federal Circuit created a rigid rule that no review is possible before the agency substantively concludes its proceeding. 14a-15a. According to the Federal Circuit, the key question is whether the challenge to the agency's jurisdiction can be heard after the agency has completed its investigation or procedure. *Id.*

That analysis, however, is not in accord with this Court's long-standing guidance. Although this Court has often found judicial review of agency action premature, it has recognized an exception when an agency's jurisdiction is at issue. *McKart v. United States*, 395 U.S. 185, 194 (1969) (noting that "[t]he courts ordinarily should not interfere with an agency until it has completed its action, *or else has clearly exceeded its jurisdiction*") (emphasis added). Similarly, in *Leedom v. Kyne*, 358 U.S. 184, 188 (1958), this Court found that exhaustion of agency action was inapplicable where, as here, the agency is acting in excess of it authority in defiance of a specific statutory prohibition.

Instead of addressing this Court's counsel that a jurisdictional challenge can be heard *before* the substantive conclusion of an agency proceeding, the Federal Circuit relied upon this Court's seemingly contrary holding in *FTC v. Standard Oil Co.*, 449 U.S. 232, 239-43 (1980) and *Bennett v. Spear*, 520 U.S. 154, 177-78 (1997). But neither *Standard Oil* nor *Bennett* overrule this Court's earlier holdings that early judicial review of an agency's jurisdiction can be proper and neither decision supports the Federal Circuit's new, rigid analysis.[4]

In *Standard Oil*, the Petitioner argued that the FTC lacked the jurisdiction to initiate an investigation relating to unfair competition. Like here, the agency proceeding in *Standard Oil* had not yet reached its substantive conclusion. Rather than simply dismissing the jurisdictional challenge as premature, as the Federal

4. The *Bennett* decision is not on point as it did not involve a challenge to an agency's assertion of jurisdiction.

Circuit did in this case, the *Standard Oil* Court evaluated the merits of the Petitioner's jurisdictional challenge.

In rejecting Standard Oil's jurisdictional challenge, and thus finding judicial review premature, this Court found that Congress had granted the FTC broad authorization to serve a complaint on any entity "the Commission shall have reason to believe" competed unfairly. *Standard* Oil, 449 U.S. 232 at 234, 238-9. Thus, contrary to the Federal Circuit's treatment of *Standard Oil*, this Court did not refuse to evaluate whether the FTC had jurisdiction over the proceeding – this Court expressly evaluated that challenge and found that the FTC had jurisdiction over its investigation. *Id.* at 239-40.

By contrast, the statute at issue here expressly terminates the PTO's jurisdiction over the subject *inter partes* reexaminations. Section 317(b) states that these reexamination "may not thereafter be maintained by the [PTO]." The question AMS presents is one of pure statutory interpretation and it does not involve the application of the PTO's special expertise. Nor is the single question AMS has presented intertwined with the substantive patent validity issues being considered by the PTO's examiners. Indeed, AMS is not now challenging whether the PTO should have initiated these proceedings or whether any substantive patentability decisions made within those proceedings are correct. Rather, AMS asserts only that pre-AIA § 317(b) of the Patent Act terminates the PTO's jurisdiction over the *inter partes* reexaminations Crane initiated. If Petitioner AMS's contention is correct, then the PTO lost jurisdiction over those proceedings and is operating *ultra vires*. The Federal Circuit granted too much autonomy to the PTO,

and ceded its judicial oversight over that agency, by refusing to even address the jurisdictional issue AMS has raised, all direct contravention of this Court's guidance in *McKart*, *Leedom* and *Standard Oil*.

The Federal Circuit's refusal to consider whether the PTO is acting *ultra vires* until the conclusion of the PTO's unauthorized proceeding needlessly extends the present dispute. Worse, the Federal Circuit's approach compounds the dispute and encourages future disputes by denying access to judicial review that would expedite the conclusion of these proceedings and by limiting the scope of judicial review under 28 U.S.C. § 1361.

Section 1361 provides the district courts with the authority to compel an officer or employee of the United States to perform a duty owed to the plaintiff. The PTO Commissioner was, and remains, legally obligated to terminate the subject *inter partes* reexaminations Crane initiated pursuant to pre-AIA § 317(b). By ignoring the jurisdiction that § 1361 confers on district courts, and by barring timely review of agency jurisdiction, the Federal Circuit's decision in this case hobbles judicial review of any future PTO action and encourages overreach by that agency.

Even if a party aggrieved by *ultra vires* PTO action has the resources to weather numerous and complex PTO proceedings, the "right" to compel an agency to terminate a proceeding only after that agency has concluded the proceeding is not a meaningful substitute for an order requiring that agency to comport with the law and to terminate its proceeding. The right to have the proceeding terminate immediately is lost forever. Here, the PTO lost

jurisdiction to maintain each and every one of the subject reexaminations more than three years ago. Postponing judicial review of the PTO's jurisdiction wholly deprives AMS of its statutory right to have those proceedings end now.

II. The Federal Circuit holding in this case does not promote the just, speedy, and inexpensive resolution of disputes.

Rule 1 of the Federal Rules of Civil Procedure instructs that the rules and procedures applied in civil actions "should be construed and administered to secure the just, speedy, and inexpensive determination of every action and proceeding." Fed. R. Civ. P. 1. This Court has been firm in its commitment to that goal and has broadly applied it to even the pleading stage of litigation.

The approach taken by the Federal Circuit in this case does not promote the just, speedy or inexpensive resolution of the dispute. Indeed, the Federal Circuit's refusal to even consider whether the PTO is acting *ultra vires* until the PTO substantively concludes the subject reexaminations erodes the jurisdiction Congress conferred on the judiciary under 28 U.S.C. § 1361 and precludes timely judicial intervention that would end both this dispute and the PTO's on-going proceedings. Resolution of this fundamental question now will promote the just, speedy and inexpensive resolution of the dispute.

III. There Is A Circuit Split

Not only is this Federal Circuit panel's decision in conflict with this Court's precedent as discussed in Section I, above, the approach in this case conflicts with the approach taken in other Circuits.

The Fourth Circuit, for example, has established the so-called "ultra vires doctrine" in which the exhaustion and final agency action requirements are excused "if [plaintiff] is able to show that the [PTO] clearly exceeded its statutory authority." *Philip Morris, Inc. v. Block*, 755 F.2d 368, 370 (4th Cir, 1985); *see also Heinl v. Godici*, 143 F. Supp. 2d 593, 601 (E.D. Va. 2001) (*citing Philip Morris* for continued viability of the "ultra vires doctrine" but finding PTO had not exceeded its authority in granting second *ex parte* reexamination request). Similarly, the Seventh Circuit has long recognized the so-called "clear right" exception to the finality requirement. *Hunt v. Commodity Futures Trading Commission*, 591 F.2d 1234, 1236 (7th Cir. 1979) (noting that a court would not require the petitioners to exhaust administrative remedies "if an agency would violate a clear right of a petitioner by disregarding a specific an unambiguous statutory, regulatory, or constitutional directive").

In a case not involving PTO oversight, even the Federal Circuit has conceded that pre-completion judicial review of agency action can be proper if the agency is acting outside its jurisdiction. *Nippon Steel Corp. v. United States*, 219 F.3d 1348, 1353-54 (Fed. Cir. 2000). In *Nippon Steel*, the lower court had enjoined a Commerce Department's supplemental dumping review on the grounds that Commerce lacked the jurisdiction to initiate that review. Commerce appealed to the Federal Circuit.

Rather than vacating the injunction on the grounds that Commerce had yet to complete the disputed review (the approach the Federal Circuit took in the present case), the Federal Circuit *first* evaluated whether Commerce had the requisite jurisdiction to initiate its supplemental review. *Id.* at 1353-54.

That is the step that is entirely missing from the Federal Circuit's analysis in this case. Here, the Federal Circuit ignored the foundational question regarding the PTO's jurisdiction to maintain these reexaminations. In *Nippon Steel*, however, the Federal Circuit reversed the lower court's injunction and remanded with instructions to dismiss Nippon Steel's Complaint on the grounds that Commerce had jurisdiction to initiate its supplemental review. The Federal Circuit did not undertake that same review here before finding the district court lacked jurisdiction.

The present case provides the perfect opportunity to determine whether the so-called "*ultra vires*" doctrine has any continued viability. The PTO Commissioner's determination that a consent judgment that is based on party stipulation is not a "final decision" is an issue of pure statutory interpretation. Consent judgments, which by definition are based upon party stipulation, are universally accepted as final decisions and treated as being on the merits. The PTO Commissioner's determination finding otherwise is final as far as the PTO is concerned and it will not be revisited at the PTO no matter how long the subject reexaminations continue. In making that determination, the PTO wrongly denied AMS's right to have these reexaminations terminated and rendered all subsequent action in those reexamination *ultra vires* in clear violation of 5 U.S.C. §§ 706(1), (2)(A), (C) and (D).

CONCLUSION

Section 704 of the APA was created to guard against piecemeal judicial review of interlocutory decisions, not to shield an agency's decision to conduct an *ultra vires* proceeding. Section 704 has been applied in this case to do the later. The grant of certiorari will provide the Court with the opportunity to clarify whether judicial review is available to consider the predicate question of an agency's jurisdiction to maintain a proceeding prior to the substantive conclusion of that proceeding.

Respectfully submitted,

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