Bancroft PLLC

June 20, 2011

The Honorable Lamar Smith
Chairman
Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

At the request of the Financial Services Roundtable, we have prepared an analysis of constitutional objections that have been raised regarding Section 18 of the America Invents Act. The following is a summary of our opinions, which are set forth in more detail in an accompanying memorandum.

The America Invents Act establishes reforms necessary to curb litigation abuses that impose significant burdens on America's inventors. Section 18, which establishes a post-grant review process for certain business method patents, is a key component of those reforms. Although the transitional program established by Section 18 is specific to business method patents, the program incorporates almost all of the same procedures and standards as Section 6 of the Act, which establishes a post-grant review process applicable to all patents. Section 6, in turn, builds off of many of the same procedures and standards that currently govern reexamination proceedings — procedures and standards that have withstood many of the same constitutional challenges now being raised. Accordingly, those targeting Section 18 as presenting specific constitutional problems are in reality launching a much broader attack on the entire administrative scheme that governs the Patent and Trademark Office ("PTO"). As the U.S. Court of Appeals for the Federal Circuit has repeatedly held, those constitutional attacks are without merit.

The attacks on Section 18 fall into three general categories: (1) a Fifth Amendment argument that Section 18 takes property without just compensation because it alters the preclusive effect of final judicial determinations by authorizing subsequent administrative challenges to the validity of patents that have withstood challenge in a judicial proceeding; (2) separation of powers arguments that the Act interferes with the role of Article III courts; and (3) separation of powers arguments that the Act delegates unconstitutionally broad authority to the Director of the PTO. Each of those arguments fails for reasons already set forth in existing case law.

First, Section 18 does not effect an unconstitutional taking by altering the preclusive effect of final judicial proceedings, for the simple reason that any judicial proceedings in question do not, by their own force, preclude subsequent administrative determinations of patent invalidity. Courts adjudicate questions of patent validity under a statutory presumption of validity and a clear and convincing standard of proof. *See Microsoft Corp. v. i4i Ltd. Partnership*, No. 10-290 (U.S. June 9, 2011), slip op. at 1. As a result, when a court rejects a challenge to a patent's validity, it does not find that the challenged patent is "valid," but rather only finds that the challenger failed to prove the patent's invalidity. Accordingly, the Federal Circuit has already held that prior judicial proceedings do not preclude subsequent administrative

review of a patent's validity under a less stringent preponderance-of-the-evidence standard, which is the standard applicable to Section 18 proceedings. *See In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008). Section 18 therefore does not alter existing preclusion rules at all, let alone in a manner that raises a constitutional takings concern.

Second, neither Section 18 nor Section 6 vests Article III authority in non-Article III judges. Although the newly established Patent Trial and Appeal Board (the "Board") is not an Article III court, it does not perform judicial functions, but rather, just like its predecessor, permissibly adjudicates public rights disputes within its limited area of expertise. *See Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985) ("*Patlex I*"). Moreover, its decisions remain subject to Article III review in the Federal Circuit. Section 18 is also consonant with *Plaut v. Spendthrift Farm*, 514 U.S. 211 (1995), because the Board is not invested with authority to review final Article III court judgments. The Board performs its post-grant review under a different evidentiary standard from an Article III court; a finding of invalidity by the Board therefore does not review or contradict the findings of a judicial determination rejecting a challenge to the same patent. *See In re Swanson*, 540 F.3d at 1377. Finally, Section 6 does not require Article III courts to stay judicial proceedings while post-grant review is pending. The Act explicitly leaves the authority to grant or deny a stay in the hands of the courts, and merely codifies existing standards under which courts already make similar stay determinations.

Third, neither Section 6 nor Section 18 delegates unconstitutionally broad powers to the Director of the PTO. Although the Director has unreviewable discretion to determine whether to grant a petition for post-grant review, that discretion poses no constitutional infirmity because the Board's ultimate determination in a post-grant review proceeding remains subject to review in the Federal Circuit. *See Patlex Corp. v. Mossinghoff*, 771 F.2d 480, 485–86 (Fed. Cir. 1985) ("*Patlex II*"). And although the Director is given discretion to establish procedural rules to govern Section 6 and Section 18 proceedings, that discretion is appropriately cabined both by intelligible overarching standards and by a whole host of specific instructions as to how those procedures rules must operate.

In sum, it is our opinion that opponents of Section 18 have failed to identify any constitutional objections to that provision that are not equally applicable both to the post-grant review proceedings authorized by Section 6, and to existing procedures governing post-grant reexamination of patents. Those constitutional objections have already been considered and rejected by the Federal Circuit, and would undoubtedly be rejected once again were they to be raised as grounds for challenging Section 18. They therefore present no basis for rejecting the much-needed reforms that the America Invents Act will bring to patent law.

Sincerely,

Viet D. Dinh

cc: The Honorable John Conyers, Jr.
The Honorable Mel Watt
The Honorable Bob Goodlatte