

Michael W. McConnell
559 Nathan Abbott Way
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Dear Chairman Smith and Ranking Member Conyers:

I am the Richard and Frances Mallery Professor and Director of the Constitutional Law Center at Stanford Law School, and a Senior Fellow of the Hoover Institution at Stanford University, where I teach and write in the field of constitutional law.¹ I previously served as a judge on the United States Court of Appeals for the Tenth Circuit. Congress is now considering legislation (the “America Invents Act”) that would expand the grounds on which patents may be reexamined by the Patent and Trademark Office (“PTO”), after their initial issuance. I write to address the constitutionality of those sections: Section 6 (Post-grant Review Proceedings) and Section 18 (Transitional Program for Covered Business Method Patents) of the America Invents Act.² Based on my review, these sections of the proposed Act are constitutional as drafted.

As you are aware, for the past thirty years, this nation’s patent laws have included procedures for reexamination of already-issued patents. In two leading cases, parties challenged the constitutionality of reexamination of patents in court, raising all the theories now propounded in opposition to sections 6 and 18 of the proposed America Invents Act – takings, due process, retroactivity, and separation of powers. The court of appeals carefully considered and rejected those challenges, upholding the reexamination process in all respects. Sections 6 and 18 of the proposed Act merely expand the grounds on which reexamination is available under current law, but do not change substantive patent law at all, nor the fundamental procedure of reexamination in any constitutionally significant way. We may therefore state with confidence that the proposed legislation is supported by settled precedent.

Moreover, the proposed measure conforms to the purposes of the Patent Clause of the Constitution, Article I, Section 8, Clause 8, which grants Congress authority to “promote the Progress of Science and the useful Arts.” By means of this provision, the Framers sought to balance the goal of encouraging innovation against the dangers and economic loss of monopoly. The reexamination process serves to preserve that balance by adopting a procedure by which the PTO can identify patents that were issued in error. Challenges to the reexamination process proceed on the theory that a patent is a vested right, which once granted may not be taken away, at least not by the agency that granted it. This is a fundamental misconception. If a party is issued a patent that does not comply with the patent laws—and the patent is therefore invalid—it is not a “taking” for either a court or the PTO to determine that the patent is invalid. Just as it is

¹ I write in my individual capacity and do not represent the views of Stanford, the Stanford Constitutional Law Center, or the Hoover Institution.

² Although my review focuses on H.R. 1249, it applies also to the Senate’s version of the America Invents Act (S. 23), which includes Post-grant Review Proceedings in section 5.

not a taking to determine that a person occupying land has a defective title to it, it is not a taking to determine that a patent holder never had a right to a patent in the first place.

Unlike many other familiar forms of property, the validity of a patent is never determined once and for all; members of the public with competing or adverse interests have long had a continuing right to demonstrate, through reexamination before the PTO, that a patent was invalidly issued. And a party threatened with a patent infringement action has always had the right to seek to demonstrate that the patent is invalid, regardless of whether the same issue has been previously litigated in a different case. In other words, there is no such thing as “adverse possession” in patent law. The only change wrought by the proposed Act is to expand the grounds under which such reexaminations are made by the PTO in the first instance. As a constitutional matter, Congress is entitled to allocate the responsibility of determining whether a patent was properly granted to the courts or to the expert agency, in its discretion. As long as interested parties have the ultimate right to challenge the agency’s decisions in court, the administrative nature of the proceeding has no constitutional significance. Moreover, I see nothing in sections 6 and 18 of the proposed Act that would alter or interfere with existing principles of res judicata or collateral estoppel in the context of a final judgment, much less allow the PTO to disturb the final judgment of a court.

I offer no view on the merits or policy of the Act, but offer my judgment that it is entirely consistent with the Constitution for Congress to bring to bear the experience and expertise of the PTO in providing for more robust review of issued patents.

I. Background Principles

I begin with the basic background principles. The Framers of the United States Constitution were well aware of the dangers of monopoly, and sought to ensure that patents could be granted only when they served an overriding public interest. An invalidly issued patent does not properly reward innovation, but instead impedes commerce, hence “the public good.” THE FEDERALIST, No. 43 (Madison), at 268 [1788] (C. Rossiter ed., 1961). The Framers were also painfully aware of the propensity of governmental agencies and bureaucracies to err. They would not, therefore, have been surprised by efforts to ensure that patent rights may be exercised only when the underlying patent claim is valid and the patent was properly issued. That is why, from the beginning, patents have never been regarded as a fully and irrevocably vested right. As the Supreme Court has explained, the Patent Clause of the Constitution “is both a grant of power and a limitation,” and Congress’ actions must be directed to striking the balance between encouraging innovation and stifling competition through the grant of patents that do not promote “the Progress of ... useful Arts. This is the standard expressed in the Constitution and it may not be ignored.” *Graham v. John Deere Co.*, 383 U.S. 1, 5 (1966) (internal citations and quotation marks omitted); see also *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146-47 (1989).

Patents are unquestionably property rights. *Consolidated Fruit Jar Co. v. Wright*, 94 U.S. 92, 96 (1876). However, unlike many property rights, the right to exclude under a patent “is a right that can only be conferred by the government.” *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985). A patent is not a natural right, but solely a product of positive law; its extent, duration, and validity is a matter that must be determined by the legislative branch. In

contrast with purely private rights, “the grant of a valid patent is primarily a public concern.” *Id.* In assessing the validity of a patent, the “threshold question usually is whether the PTO, under the authority assigned to it by Congress, properly granted the patent.” *Id.* As the Supreme Court recently reaffirmed, the statutory presumption of validity found in 35 U.S.C. § 282, is a reflection of the presumption of *administrative correctness* by the PTO. *Microsoft Corp. v. i4i Ltd. P’ship*, -- U.S. --, No. 10-290, slip op. 16-17 (2011).

Patents are issued after a limited, *ex parte* process in which the public has no opportunity to participate. The PTO largely only has before it the information provided by the inventor’s attorney. As a result, as courts have recognized, the PTO may not have all of the material information at the time it issues a patent. Therefore, although patents are presumed valid, “if the PTO did not have all material facts before it, its considered judgment may lose significant force.” *i4i*, slip op at 17.

The validity of a patent is not a matter that is ever fully and finally settled. Rather, it remains “ever-present,” *Patlex Corp.*, 758 F.2d at 600, because any defendant may assert an invalidity defense in patent litigation—even if the same issue has been previously litigated by another defendant. Prior to 1980, the only means by which a party could challenge the validity of a patent was through litigation in court. In 1980, however, Congress created an administrative reexamination procedure, designed to weed out patents that are invalid because they did not meet the requirements for patentability set forth in the Patent Act. *See* Public Law No. 96-517. Under these procedures, “[a]ny person at any time may file a request for reexamination by the [PTO] of any claim of a patent on the basis of any prior art” that was published. 35 U.S.C. § 302 (emphasis added).

Since 1980, therefore, the validity of a patent may be challenged several ways: A party who is sued for patent infringement may assert a defense of invalidity, which must be proven by the higher standard of clear and convincing evidence (in deference to the presumed correctness of the PTO’s decision), or a patent’s validity can be reviewed through a reexamination proceeding. Upon reexamination the PTO may confirm any patentable claim or cancel any unpatentable claim. Reexamination thus provides an opportunity for the PTO to review and correct its own work based on fuller information. As the Federal Circuit has described, “[t]he innate function of the reexamination process is to increase the reliability of the PTO’s action in issuing a patent by reexamination of patents thought ‘doubtful.’” *In re Etter*, 756 F.2d 852, 857 (Fed. Cir. 1985).

The reexamination process created in 1980 endured constitutional challenges similar to what opponents of the America Invents Act are marshalling today: the 1980 reexamination procedure was challenged by patent holders as an unconstitutional taking, as a violation of due process, as a violation of the Seventh Amendment right to a jury trial, and as a violation of separation of powers. *See Patlex Corp.*, 758 F.2d 598-599; *Joy Technologies v. Manbeck*, 959 F.2d 226 (Fed. Cir. 1992). Each of these challenges was soundly rejected by the United States Court of Appeals for the Federal Circuit.

Thus, to be clear, *under current law, at the instance of a party, the PTO may reexamine a patent that has been issued, and the validity of which has been unsuccessfully challenged in*

litigation. With this in mind, I first address the constitutionality of Sections 6 and 18 of the America Invents Act.

II. Section 6 of the America Invents Act Is Constitutional

Section 6 of the America Invents Act amends the Patent Act to create a post-grant review procedure available for a limited time (one year, in the current America Invents Act legislation) after the date a patent is granted. Section 6 also amends existing *inter partes* reexamination procedures to make them available after the period of time for post-grant review has passed or, if post-grant review has been initiated, after that post-grant review is complete. A key distinction between the post-grant review procedures and the *inter partes* reexamination procedures is the grounds and evidence that can be considered for invalidating a patent: as with current law, the *inter partes* reexamination procedure of Section 6 is limited to considering (1) whether a patent is invalid for failing to meet the Patent Act's requirements of novelty and non-obviousness (2) based on patents or printed publications.

Section 6 is in harmony with the first principles of the Constitution and with the body of legal precedent addressing the existing reexamination procedures. The Patent Clause of the Constitution empowers Congress to “promote the Progress of Science and useful Arts” by granting patents to inventors, but it correspondingly limits Congress’ authority to grant patents that do not advance “the Progress of Science and useful Arts.” The Supreme Court has recognized that from the beginning our Founders have sought to strike that constitutional balance: “Thus, from the outset, federal patent law has been about the difficult business of ‘drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.’” *Bonito Boats*, 489 U.S. at 148 (quoting 13 Writings of Thomas Jefferson (Memorial ed. 1904) at 335). One manner in which Congress has fulfilled this mandate to strike the proper balance is through the existing reexamination procedures, which provide a mechanism for removing patents that should never have been granted by the PTO because they did not meet the requirements for a valid patent set by Congress in the Patent Act. As the Federal Circuit has observed, “[t]he reexamination statute’s purpose is to correct errors made by the government, to remedy defective governmental (not private) action, and if need be to remove patents *that should never have been granted.*” *Patlex Corp.*, 758 F.2d at 604 (emphasis added). A determination that a patent should never have been granted is no more a “taking” than is a determination that a putative landowner suffers a defect in title.

Accordingly, the revised *inter partes* reexamination procedures and the post-grant review procedures of Section 6 are hardly novel but rather are based on longstanding procedures established by Congress and repeatedly recognized as constitutional by the Federal Circuit in decisions such as *Patlex Corp.*, 758 F.2d 594, 607 (Fed. Cir. 1985) (emphasis added), *Joy Technologies*, 959 F.2d 226, 228-29 (Fed. Cir. 1992), and *In re Swanson*, 540 F.3d 1368, 1379 (Fed. Cir. 2008). As such, Section 6 does little more than expand the grounds for reexamination of patents, something Congress is plainly entitled to do pursuant to its authority under the Patent Clause (Article I, Section 8, Clause 8) of the Constitution.

Nor is there any conflict between Section 6 and other parts of the Constitution such as Article III and the Seventh Amendment. The gist of the arguments suggesting a conflict is that the PTO would be permitted to “overrule” final judicial determinations made by an Article III

court and/or jury of a patent's validity. But these arguments fail to understand the nature of judicial review of patent validity and fail to recognize the body of precedent that has rejected these arguments as applied against the current legal regime.

To begin, what exactly happens when issues of patent validity are litigated in district courts should be placed in proper context. As the Federal Circuit has explained, "Courts do not find patents 'valid,' only that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court under 35 U.S.C. § 282." *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1429 n.3 (Fed. Cir. 1988) (emphasis original and internal quotation marks omitted). For this reason, "a prior holding of validity is not necessarily inconsistent with a subsequent holding of invalidity and is not binding on subsequent litigation or PTO reexaminations." *In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008) (internal citations and quotation marks omitted). In other words, a district court decision that a patent is "not invalid" merely means that the challenger did not carry his burden; it does not mean that the patent is valid.

The existing reexamination procedures and the new post-grant review procedures proposed in the America Invents Act vest authority to determine validity upon reexamination in the agency entrusted by Congress with making the validity decision in the first instance – the PTO. It is entirely proper that this corrective action be taken by the PTO, with review by the Federal Circuit. It need not be limited to an Article III court in the first instance. "A defectively examined and therefore erroneously granted patent must yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes. This Congressional purpose is presumptively correct, and we find it carries no insult to the Seventh Amendment and Article III." *Patlex Corp.*, 758 F.2d at 604. In other words, under a well-settled body of case law, "the Constitution does not require that [courts] strike down statutes, otherwise having a reasonable legislative purpose, that invest administrative agencies with regulatory functions." *Id.* at 604-05. That holding is just as applicable to Section 6 of the America Invents Act as it is to the original reexamination procedures adopted in 1980.

Nor does it matter, for constitutional purposes, that the PTO may reconsider the validity of patents that are, or have been, adjudicated by district courts. In *In re Swanson*, 540 F.3d 1368 (Fed. Cir. 2008), the Federal Circuit specifically considered and rejected the argument that *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995), prohibited reexamination of a patent by the PTO after that patent had survived an invalidity challenge in court. *See Swanson*, 540 F.3d at 1378-79 ("[The patentee] argues that this reading of the statute—allowing an executive agency to find patent claims invalid after an Article III court has upheld their validity—violates the constitutionally mandated separation of powers, and therefore must be avoided. We disagree."). As the Federal Circuit held, "the court's final judgment and the examiner's rejection are not duplicative—they are differing proceedings with different evidentiary standards for validity. Accordingly, there is no Article III issue created when a reexamination considers the same issue of validity as a prior district court proceeding." *In re Swanson*, 540 F.3d 1368, 1379 (Fed. Cir. 2008) (citation omitted). Because Section 6 merely broadens the kinds of invalidity challenges that can be pursued during reexamination, that holding would apply to the America Invents Act as well. *Plaut* simply does not apply.

Relatedly, invalidation of a patent by the PTO (or by a court, for that matter), after it has been adjudicated “not invalid” in one particular case, does not purport to undo a court’s judgment in an earlier case. The PTO has no authority to disturb a final judgment of a court, and nothing in the proposed Act would change that. Rather, it would remain within the discretion of the district court to determine whether relief from a final judgment was appropriate under Rule 60(b) based on changed circumstances. *See Amado v. Microsoft Corp.*, 517 F.3d 1353, 1363 (Fed. Cir. 2008). Nothing in Section 6 purports to alter the standards under which a court determines whether to grant relief from a final judgment. Accordingly, there is no constitutional problem under *Plaut*.

III. Section 18 of the America Invents Act is Constitutional

Section 18 of the America Invents Act is equally constitutional. As an initial matter, it is important to recognize that Section 18 does nothing more than apply the more robust post-grant review provisions of Section 6 to existing business-method patents. By any measure, this is not a “taking” within the meaning of the constitution (unless for the past thirty years patent law has been effecting “takings” each time a reexamination takes place). The constitutional arguments that have been marshaled against Section 18 – that it applies “retroactively” to existing patents, that it would change the rules of the game, or that it would upset settled property rights – were rejected by the Federal Circuit in *Patlex Corp.* and again in *Joy Technologies*. These are the precedents that would govern any future challenge to Section 18.

I understand that critics of Section 18 are arguing that it improperly singles out business-method patents and that it creates a “second bite at the apple.” I find both sets of arguments to be unpersuasive as a constitutional matter. First, Congress is well within its authority to determine that a particular subset of patents warrant closer administrative review than other patents due to their history and development. Business-method patents are relatively novel creatures, and far removed from what the Founders would have envisioned when they sought to “promote the Progress of Science and the useful Arts.” Prior to the 1990s, business-method patents were largely unheard of. The surge in the issuance of such patents followed the 1998 decision of the Federal Circuit in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), which has been widely viewed as having opened the door to business-method patenting. The increase in business method patents does not appear to be abating. According to the PTO, the number of business-method patent applications that issued as patents jumped from 494 in 2002 to 3649 in 2010. *See* <http://www.uspto.gov/patents/resources/methods/applicationfiling.jsp> (last visited June 14, 2011). In the intervening 13 years since *State Street*, the PTO and the courts have struggled to determine when such patents should issue. The Supreme Court’s decision last Term in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010), offered some clarification, reaffirming the basic minima required to be patent-eligible subject matter under 35 U.S.C. § 101. Nonetheless, in light of the continuing confusion over such patents, and the paucity of traditional published prior art at the time such patents were issued, it is entirely rational—and thus constitutionally appropriate—for Congress to make the judgment that it wants to provide a mechanism for ensuring that adequate vigor went into the PTO’s decision to issue a business-method patent, and that such further review helps to ensure that this category of patents is subject to the same quality of review as other patents were. *See eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 397 (Kennedy, J., concurring) (noting the “suspect validity of some” business-method patents). Given Congress’s

general authority to allow administrative reexamination, as well as judicial challenge, to an already-issued patent, there can be no valid objection to Congress's decision to focus these reexaminations on a class of patents that, because of their novelty, were especially prone to improvident grant.

Second, providing a more robust reexamination procedure does not create a second bite at the apple. By their nature, patents are continuously subject to challenge, whether in court or before the PTO. As noted above, patents are initially issued after an entirely *ex parte* process in which no one else is allowed to participate. To the extent a patent's validity has been challenged in court, the challenge is only reviewed for *clear and convincing evidence* that the PTO erred in granting the patent. That does not answer the question of whether or not the PTO made a mistake – only reexamination provides a vehicle for answering that question. To the extent this is a second bite, it is at a different apple. Section 18 does not create any more opportunities for challenge than there are under existing law. It simply allows reexamination on a broader array of theories than allowed today.

Moreover, just as a criminal defendant can be acquitted under a beyond-a-reasonable-doubt standard, but found civilly liable under a preponderance standard, there is also nothing unusual about the fact that a patent may be upheld in court (where a thumb is decidedly on the scale of the patentee), but subsequently rejected as invalid by the PTO during reexamination. That is exactly what happened in *Translogic Technology, Inc. v. Hitachi, Ltd.*, 250 F. App'x 988 (Fed. Cir. 2007), and *In re Translogic Tech., Inc.*, 504 F.3d 1249 (Fed. Cir. 2007). In the *Translogic* cases, the district court found the asserted patent to be infringed and not invalid. While the case was pending, the PTO reexamined the patent in an *inter partes* proceeding and found the patent was improperly issued and, thus, invalid. The Federal Circuit affirmed, and thus found that the judgment of infringement in the case against Hitachi had to be vacated. The only material difference between the law today and the procedures contemplated in Section 18, is that Section 18 allows a broader array of invalidity arguments to be presented to the PTO. Moreover, nothing in Section 18 purports to alter how principles of res judicata and collateral estoppel would apply to a final judgment after all appeals are resolved, or to change the standard for a district court to determine whether relief should be granted under Rule 60(b). Thus, as discussed above, the procedures in Section 18 and Section 6 do not present any of the constitutional concerns identified in *Plaut v. Spendthrift Farm, Inc.*, 514 U.S. 211 (1995).

Nor is there anything constitutionally suspect about limiting the review of existing business-method patents to those that have actually been asserted in court (or threatened to be asserted, such that a declaratory judgment action could be brought). Rather, such a decision serves to limit the burden on the PTO and to focus the use of limited resources on reexamining patents that, if improperly issued, are more detrimental to the economy. It is like limiting challenges to land claims to competing users of the land. Again, I see nothing in section 18 that purports to alter or interfere with application of existing principles of res judicata or collateral estoppel in the context of a final judgment, or to alter the standard for obtaining relief from a final judgment.

Finally, Section 18(c) provides that a party that initiates a PTO reexamination may also seek a stay of ongoing litigation pending reexamination from the court where ongoing litigation is pending. It is the court, not the PTO, that decides whether or not to grant a stay. That is

consistent with existing law. *See, e.g., Medichem, S.A. v. Rolabo, S.L.*, 353 F.3d 928, 936 (Fed. Cir. 2003) (“[A] stay of proceedings in the district court pending the outcome of the parallel proceedings in the PTO remains an option within the district court’s discretion.”). Although Section 18(c) provides a list of factors for a district court should consider, these factors are quite balanced and provide the district court with ample discretion. Indeed, these are the factors *currently used by district courts* in deciding whether to grant a stay pending reexamination. *See, e.g., Akeena Solar Inc. v. Zep Solar Inc.*, 2010 WL 1526388, *1 (N.D. Cal. 2010); *Broadcast Innovation, L.L.C. v. Charter Communications, Inc.*, 2006 WL 1897165, *4 (D. Colo. 2006); *Motson v. Franklin Covey Co.*, 2005 WL 3465664, *1 (D.N.J. 2005); *Tap Pharm. Prods. Inc. v. Atrix Labs., Inc.*, 70 U.S.P.Q.2d 1319, 1320 (N.D. Ill. 2004). Moreover, Section 18(c) provides for immediate appellate review of a decision to grant or deny a stay, ensuring that this discretion is not abused.

* * *

In sum, there is nothing novel or unprecedented, much less unconstitutional, about the procedures proposed in sections 6 and 18 of the America Invents Act. The proposed procedures simply expand existing reexamination procedures to a broader array of invalidity issues. And under settled case law, the application of these new reexamination procedures to existing patents is not a taking or otherwise a violation of the Constitution. Congress’s decision to make these new reexamination procedures available only to a subset of existing patents – a category of patents that Congress could rationally believe were more suspect than other patents – represents a constitutionally proper decision on how to expend limited resources.

Sincerely,



Michael W. McConnell

cc: Congressman Goodlatte
Congressman Watt