



## MEMORANDUM

TO: FINANCIAL SERVICES ROUNDTABLE

FROM: Viet D. Dinh\*

RE: Analysis of Constitutional Objections to Sections 18 and 6 of  
the America Invents Act (H.R. 1249)

DATE: June 20, 2011

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### INTRODUCTION

The America Invents Act establishes reforms necessary to curb litigation abuses that are imposing significant burdens on American inventors. As part of that effort, the Act contains two sections establishing procedures through which an administrative tribunal — the Patent Trial and Appeal Board (the “Board”) — may conduct additional review to determine whether a patent was granted in error. First, Section 6 of the Act establishes a process through which an individual may file a petition seeking post-grant review of any patent within one year of its grant or reissuance. *See* Sec. 6 (amended § 321(c)). Second, Section 18 establishes a “transitional program” specific to post-grant review of certain business method patents. With a few delineated exceptions, those transitional proceedings “shall employ the same standards and procedures of [Section 6] post-grant review proceedings.” Sec. 18(b)(1). The most notable exception is that a petition for a transitional proceeding need not be brought within one year of a patent grant, but rather may be brought with respect to any covered business method patent “issued before, on, or after [the] date of enactment” of the Act. Sec. 18(b)(2). A petition for a transitional proceeding may only be brought, however, by an individual who “has been sued for infringement of the patent or has been charged with infringement under that patent,” and must be supported by grounds set forth in Section 18. Sec. 18(b)(1)(B)–(C).

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Section 18 transitional proceedings are thus governed by largely the same procedures that will govern post-grant review proceedings under Section 6. Those procedures, in turn, mirror in many respects procedures that already govern reexamination proceedings. As a result, the U.S. Court of Appeals for the Federal Circuit has already addressed and rejected the bulk of the constitutional arguments that are now being raised as objections to Section 18. Accordingly, those objections challenge not just the validity of Section 18, or even of Section 6; they challenge settled law affirming the constitutionality of the administrative scheme under which the Patent and Trademark Office (“PTO”) currently operates. For the same reasons that the Federal Circuit has already set forth, there is no merit to the constitutional arguments that are now being raised.

## ANALYSIS

### I. Section 18 Does Not Authorize a Taking Without Just Compensation.

The first constitutional objection raised with respect to Section 18 is that it takes a patent holder’s property without just compensation, in violation of the Fifth Amendment. The mere prospect of invalidation of a granted patent through PTO reexamination is not an unconstitutional taking. *See, e.g., Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985) (“*Patlex I*”) (retroactive application of reexamination statute does not violate Fifth Amendment); *Joy Techn, Inc. v. Manbeck*, 959 F.2d 226, 228 (Fed. Cir. 1992) (same). Critics of Section 18 nonetheless contend that it works a taking by altering claim preclusion principles because it permits a petitioner to seek a transitional proceeding to challenge a patent’s validity even if that petitioner has already failed to prove in an Article III proceeding that the patent in question is invalid. That argument misunderstands the nature of a judicial proceeding in which the validity of a patent might be subject challenge.

As the U.S. Supreme Court just recently affirmed, in a judicial proceeding a patent invalidity defense must be proven by clear and convincing evidence. *See Microsoft Corp. v. i4i Ltd. Partnership*, No. 10-290 (U.S. June 9, 2011), slip op. at 1; *see also In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008) (“a challenger who attacks the validity of patent claims must overcome the presumption of validity with clear and convincing evidence that the patent is invalid”). When a challenger fails to make that showing, “courts do not find patents *valid*,” but rather only find “that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court.” *Id.* (internal quotation marks omitted; emphasis altered). Accordingly, it has long been settled that “a court’s decision upholding a patent’s validity is not ordinarily binding on another

challenge to the patent's validity, in either the courts or the PTO." *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1429 n.3 (Fed. Cir. 1988) (citation omitted).

Although the Section 6 post-grant review procedures that Section 18 adopts make clear that "the petitioner shall have the burden of proving a proposition of unpatentability," the petitioner need only prove invalidity "by a preponderance of the evidence." Sec. 6 (amended § 326(e)). Accordingly, under existing law, a judicial determination made under a more demanding evidentiary standard would be no more preclusive in a Section 18 or Section 6 proceeding than in existing reexamination proceedings.

That is true regardless of whether Section 18 might allow transitional proceedings to be brought by individuals who have already challenged a patent's validity in a judicial proceeding and lost. Indeed, the Federal Circuit has rejected that same argument in the context of a party that failed to prove invalidity in a judicial proceeding but then initiated a subsequent reexamination of the same patent. *See In re Swanson*, 540 F.3d at 1379. Noting, once again, that "a prior holding of validity is not necessarily inconsistent with a subsequent holding of invalidity," the court concluded that even when the proceedings involve the same challenger and the same challenges, a judicial proceeding "is not binding on subsequent litigation or PTO reexaminations." *Id.* at 1377 (quoting *Stevenson v. Sears Roebuck & Co.*, 713 F.2d 705, 710 (Fed. Cir. 1983)). As the court explained, "[t]o hold otherwise would allow a civil litigant's failure to overcome the statutory presumption of validity to thwart Congress' purpose of allowing for a reexamination procedure to correct examiner errors, without which the presumption of validity never would have arisen." *Id.* at 1378.

In sum, because claim preclusion principles do not bar transitional and post-grant review proceedings, the Act does not alter existing preclusion principles. The question of whether claim preclusion principles might create a property interest in a patent is therefore simply irrelevant to the constitutionality of the Act.

## II. The Act Does Not Present Any Separation of Powers Concerns.

The Act's opponents have also raised a variety of separation of powers arguments, most of which focus on the Act's purported encroachments upon the powers of Article III courts. Specifically, the Act is alleged to invest judicial authority in non-Article III judges, to authorize executive review of judicial decisions, and to interfere with the discretion of Article III judges to determine whether to stay a judicial proceeding. Those arguments rest on a combination of misunderstanding of the relevant constitutional principles and misrepresentation of the relevant provisions of the Act. Properly understood, the Act neither grants

judicial powers to non-Article III courts nor curbs the judicial power of Article III judges.

A. The Act Does Not Authorize Non-Article III Judges to Perform Judicial Functions.

“Article III does not confer on litigants an absolute right to the plenary consideration of every nature of claim by an Article III court.” *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 848 (1986). It has long been settled that Congress may employ non-Article III tribunals to adjudicate disputes involving public rights. *Id.* at 853–54 (“when Congress selects a quasi-judicial method of resolving matters that could be conclusively determined by the Executive and Legislative Branches, the danger of encroaching on the judicial powers is less than when private rights . . . are relegated as an initial matter to administrative adjudication” (internal quotation marks omitted)); *see also Thomas v. Union Carbide Agric. Prod. Co.*, 473 U.S. 568, 587 (1985) (public rights are not limited to disputes with the government).

As the Federal Circuit has recognized, although patent validity issues often arise in disputes between private parties, “the grant of a valid patent is primarily a matter of public concern,” as the right at issue “can only be conferred by the government.” *Patlex I*, 758 F.2d at 604. For that reason, the Federal Circuit has held that it is well within Congress’s authority, and does not contravene separation of powers principles, to establish non-Article III tribunals to reexamine whether a patent was validly granted. *See id.* (finding “no constitutionality infirmity . . . in patent reexamination by the PTO”). Section 18, in conjunction with Section 6, does no more than what Congress has done in the past — it authorizes administrative patent judges to reconsider whether a patent conferred by the government was improperly granted. Accordingly, neither Section 18 nor Section 6 grants non-Article III judges authority to adjudicate matters within the exclusive jurisdiction of Article III courts.

Other aspects of the procedures set forth in Section 6 similarly confirm that the Board is not exercising Article III judicial functions. For instance, the Board “deals only with a ‘particularized area of law,’” *Schor*, 478 U.S. at 852 (quoting *Northern Pipeline Constr. Co. v. Marathon Pipe Line Co.*, 458 U.S. 50, 85 (1982) (plurality opinion)); indeed, its appointees (like the appointees of the present Board of Patent Appeals and Interferences) are required to be “persons of competent legal knowledge *and scientific ability*” that will be brought to bear in the Board’s particular area of expertise. Sec. 6(a) (emphasis added). The Board’s post-grant review determinations are subject to judicial review in the Federal Circuit, and the

Act does not alter the standard of review that the Federal Circuit has traditionally employed in reviewing administrative determinations of patent validity. *See, e.g., In re Swanson*, 540 F.3d at 1375 (reviewing legal determinations de novo and factual findings for substantial evidence); *see also Schor*, 478 U.S. at 853 (finding relevant to determination of agency’s constitutionality that its legal rulings were subject to de novo review in an Article III court). Finally, like the agency in *Schor*, the Board is not given “all ordinary powers of district courts,” such as “presid[ing] over jury trials or issu[ing] writs of habeas corpus.” *Id.* (quoting *Northern Pipeline*, 458 U.S. at 85). In short, the Board as established under Section 6 is invested with no more Article III authority than the PTO was when the Federal Circuit affirmed its constitutionality in *Patlex I*.

For that reason, there is also no constitutional problem presented by the Act’s provisions relating to appointment of administrative patent judges, which are largely the same as those that presently exist for administrative patent judges serving on the Board of Patent Appeals and Interferences. Because these are not Article III positions, they need not be subject to Senate confirmation or lifetime appointment. Nor do these administrative judges need to be appointed for a statutorily fixed term. A fixed term of appointment necessarily contravenes the essential Article III guarantee that judges “shall hold their offices during good behavior.” U.S. Const., art. III, sec. 1. But the Constitution does not contain any converse requirement that Congress *must* set forth a statutory duration for the appointment of non-Article III judges. Accordingly, the mere fact that the Act does not fix the term of these appointments does not, in and of itself, create any constitutional concern.

#### B. The Act Does Not Authorize Executive Review of Judicial Decisions.

It is well settled that “Congress cannot vest review of the decisions of Article III courts in officials of the Executive Branch.” *Plaut v. Spendthrift Farm*, 514 U.S. 211, 219 (1995). But, as the Federal Circuit has already held in the context of reexamination proceedings, subsequent administrative invalidation of a patent that has withstood challenge in an Article III proceeding does not contravene that prohibition. *See In re Swanson*, 540 F.3d at 1379 (holding that PTO reexamination does not run afoul of *Plaut*). As noted above, *see supra*, Part I, because judicial proceedings challenging the validity of a patent require proof of invalidity by clear and convincing evidence, “courts do not find patents *valid*,” but rather only find “that the patent challenger did not carry the burden of establishing invalidity in the particular case before the court.” *Id.* at 1377 (internal quotation marks omitted; emphasis altered). In a reexamination proceeding, by contrast, an invalidity determination need only be supported by a preponderance of the

evidence. *Id.* at 1377–78. Accordingly, even when the same challenger and same challenges are presented in both proceedings, “[t]he court’s final judgment and the [executive agency’s] rejection are not duplicative — they are differing proceedings with different evidentiary standards for validity.” *Id.* at 1379. Because the latter therefore does not “disturb [a] court’s earlier holding,” “there is no Article III issue created when a reexamination considers the same issue of validity as a prior [judicial] proceeding.” *Id.*

The same is true with respect to Section 18. The Section 6 procedures that govern Section 18 transitional proceedings do not authorize the Board to re-open final judicial proceedings. They instead allow an individual to petition for a separate administrative review proceeding in which the Board may determine, under rules specific to those transitional proceedings, whether a patent was validly issued in the first place. Although a “petitioner shall have the burden of proving a proposition of unpatentability” in such proceedings, that burden, like the burden in reexamination proceedings, is only “by a preponderance of the evidence.” Sec. 6 (amended § 326(e)). Accordingly, to the extent that transitional proceedings may result in invalidation of patents that withstood earlier judicial challenges, that invalidation would not contravene separation of powers principles by allowing the Board to reopen or reconsider otherwise final judicial determinations.

### C. The Act Does Not Interfere With Courts’ Traditional Stay Authority.

Finally, the provisions of the Act relating to obtaining a stay of a judicial infringement action pending resolution of a transitional proceeding present no encroachment upon the judicial functions of Article III courts. The Act does not require courts to abstain while a transitional or post-grant review proceeding is pending, but instead plainly states that “the *court* shall decide whether to enter a stay” in such situations. Sec. 18(c)(1) (emphasis added). Nor does the Act cabin in any material way a court’s existing discretion to make that determination; to the contrary, the criteria that Section 18 establishes to guide a court’s stay analysis are the same criteria that courts have long been applying when determining whether to stay a judicial proceeding while a reexamination proceeding is pending.

For example, “several courts have denied a stay where it would cause undue prejudice, present a clearly tactical disadvantage to the non-moving party, or when the case is in a late stage of litigation and has already been marked for trial.” *Lentek Int’l, Inc. v. Sharper Image Co.*, 169 F. Supp. 2d 1360, 1362 (M.D. Fla. 2001) (collecting cases). Section 18 similarly instructs courts to consider “whether discovery is complete and whether a trial date has been set,” as well as “whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present

a clear tactical advantage for the moving party.” Sec. 18(c)(1)(B)–(C). Moreover, the Act explicitly expands judicial control over the decision to grant a stay by ensuring parties a second layer of judicial review: either party may take an immediate appeal of a stay decision to the Federal Circuit, which may review the district court’s determination de novo. Sec. 18(c)(2). Accordingly, there is no merit to the suggestion that the stay procedures set forth in Section 18 alter traditional presumptions regarding or materially limit — let alone limit in any constitutionally suspect way — the authority of Article III judges to determine whether to stay judicial proceedings pending resolution of a transitional or post-grant review proceeding.

### III. The Act Does Not Delegate Unconstitutional Authority to the Director.

Finally, opponents of the Act have raised two constitutional arguments relating to the scope of authority Section 6 and Section 18 grant to the Director of the PTO. Those arguments, once again, contravene settled precedent arising out of materially indistinguishable circumstances.

#### A. The Director’s Authority to Authorize Transitional and Post-Review Proceedings Raises No Constitutional Concerns.

First, the argument has been raised that some sort of constitutional problem arises out of the fact that Section 6 grants the Director unreviewable authority to determine whether to authorize a transitional or other post-grant review proceeding. *See* Sec. 6 (amended § 324(e)). But the Director has long had unreviewable discretion to determine whether to grant a request for reexamination, *see* 35 U.S.C. § 302(c) (“A determination by the Director . . . that no substantial new question of patentability has been raised will be final and nonappealable.”), and the Federal Circuit has already considered and rejected constitutional challenges to that authority. *See Patlex Corp. v. Mossinghoff*, 771 F.2d 480 (Fed. Cir. 1985) (“*Patlex II*”). In *Patlex II*, the court concluded that due process safeguards do not require judicial review of the Director’s “preliminary decision” to institute an administrative proceeding so long as the patent holder retains the “opportunity to participate after the threshold determination, and to appeal from final examiner and agency action.” *Id.* at 485–86. Because the patent holder remained free to participate in and appeal from the reexamination proceeding, the court concluded that the Director’s unreviewable discretion was constitutional. *Id.*

The same analysis applies with respect to Section 6. Just as with the reexamination proceeding at issue in *Patlex II*, a transitional or other post-grant review proceeding under Section 6 “lacks those special circumstances of irreparable harm which have characterized exceptions to the general rule” that due

process is satisfied by the availability of judicial review before an administrative determination becomes final. *Id.* at 486. Section 6, like existing reexamination proceedings, therefore more than meets the requirements of due process. Indeed, under Section 6, the patent holder has the opportunity to participate not just in any transitional or post-grant review proceeding that the Director ultimately authorizes, but also in the preliminary proceeding through which the Director makes that threshold determination. *See* Sec. 6 (amended § 323); *compare Patlex II*, 771 F.2d at 485 (affirming constitutionality of regulation that prohibited patent holder from participating in threshold determination to authorize reexamination). And the patent holder retains the right to appeal the Board’s decision to the Federal Circuit at the conclusion of the administrative proceeding. *See* Sec. 6 (amended § 329). Accordingly, the Director’s authority to authorize transitional and other post-grant review proceedings raises no constitutional concerns.

#### B. The Director is Not Delegated Unconstitutional Authority to Establish Applicable Procedural Rules.

Section 6 also does not give the Director overly broad authority to establish the procedures that govern Section 6 and Section 18 proceedings. To the extent that the non-delegation doctrine remains a justiciable limit on Congress’s power, it applies “[o]nly if [a court] could say that there is an absence of standards for the guidance of the Administrator’s action, so that it would be *impossible* in a proper proceeding to ascertain whether the will of Congress has been obeyed.” *Misretta v. United States*, 488 U.S. 361, 379 (1989) (quoting *Yakus v. United States*, 321 U.S. 414, 425–26 (1944); *emphasis added*). Section 6 does not come close to running afoul of that forgiving standard.

First, as to the initial determination whether to authorize a post-grant review, the Act sets forth with specificity the procedures by which both the petitioner and the patent holder may present their arguments to the Director, *see* Sec. 6 (amended §§ 323–24), and establishes a substantive standard by which the Director’s determination must be guided: “[t]he Director may not authorize a post-grant review to commence unless the Director determines that the information presented in the petition, if such information is not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable,” which “may also be satisfied by a showing that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.” Sec. 6 (amended § 324(a)–(b)). The Director’s decision must be made in a certain time frame and must be presented in writing made available to the public. Sec. 6 (amended § 324(c)–(d)). Accordingly, the Director’s remaining



discretion to develop the details relating to those procedures does not present a viable non-delegation concern.

Section 6 also provides intelligible standards to govern the Director's establishment of the procedural rules applicable to transitional and post-grant review proceedings. On a broad level, Section 6 specifies that "in prescribing regulations under this section, the Director shall consider the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings instituted under this Chapter." Sec. 6 (amended § 326(b)). Section 6 also sets forth specific details regarding the various regulations the Director must establish. For example, it provides that "discovery shall be limited to evidence directly related to the factual assertions advanced by [the] parties," and requires the Director to prescribe sanctions for discovery designed "to harass or to cause unnecessary delay or an unnecessary increase in . . . cost." Sec. 6 (amended § 326(a)(6)–(6)). It also requires the Director to establish procedures for a patent holder to obtain a protective order, to provide additional evidence and expert opinions, to amend the patent, and to obtain an oral hearing. Sec. 6 (amended § 326(a)(7)–(10)). Those are hardly the makings of a successful claim of unconstitutional delegation of legislative authority.

## CONCLUSION

When considered against a proper understanding both of the provisions of the America Invents Act as well as existing legal doctrine regarding the administrative scheme that governs patent examination, the constitutional objections to Section 18 plainly lack merit. Indeed, those objections call into question not just Section 18 or the America Invents Act, but numerous decisions that the Federal Circuit has repeatedly reaffirmed over the past three decades. Because those challenges have been properly rejected in materially indistinguishable contexts, they provide no basis for rejecting the critical patent reforms that the America Invents Act will bring about to strengthen and protect legitimate patent holders.