

William & Mary Bill of Rights Journal

Volume *Volume 22 (2013-2014)*
Issue 2 *Professor Charles H. Koch, Jr. Memorial*
Symposium on Administrative Law

Article 16

December 2013

Calming Unsettled Waters: A Proposal for Navigating the Tenuous Power Divide Between the Federal Courts and the USPTO Under the American Invents Act

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Repository Citation

William Rose, *Calming Unsettled Waters: A Proposal for Navigating the Tenuous Power Divide Between the Federal Courts and the USPTO Under the American Invents Act*, 22 Wm. & Mary Bill Rts. J. 613 (2013), <https://scholarship.law.wm.edu/wmborj/vol22/iss2/16>

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**CALMING UNSETTLED WATERS: A PROPOSAL
FOR NAVIGATING THE TENUOUS POWER DIVIDE
BETWEEN THE FEDERAL COURTS AND THE USPTO
UNDER THE AMERICA INVENTS ACT**

William Rose*

INTRODUCTION

The U.S. system of patent law has a history of fluidity and uncertainty. This has been especially true over the past several decades as Congress, the United States Patent and Trademark Office (USPTO), and the federal courts have had to grapple with the legal and policy challenges presented by the astonishing rate of technological development and the skyrocketing value of patents.¹ The information-age technology boom dramatically increased the volume of patent applications, resulting in a major backlog at the USPTO.² This backlog has led to hurried review of patent applications and the issuance of a large number of low-quality patents.³ The deeper patent pool in turn stimulated the rise of patents as an offensive and defensive tool for businesses, which currently contributes to the already overcrowded federal court dockets.⁴

* I would like to thank my Note Editor Emilie Whitehurst for her feedback and assistance throughout the writing process and the Volume 22 Editorial Staff for selecting and preparing this Note for publication. I would also like to thank Professor Laura Heymann and Professor Kristen Osenga for providing insight that ultimately led me to write on this topic.

¹ See generally PRICEWATERHOUSECOOPERS, 2012 PATENT LITIGATION STUDY: LITIGATION CONTINUES TO RISE AMID GROWING AWARENESS OF PATENT VALUE (2012) [hereinafter 2012 PATENT LITIGATION STUDY], available at http://www.pwc.com/en_us/us/forensic-services/publications/assets/2012-patent-litigation-study.pdf; Petr Hanel, *Intellectual Property Rights Business Management Practices: A Survey of the Literature*, 26 TECHNOVATION 895, 896–98, 917–21 (2007) (discussing legal and policy changes that encouraged growth in patent applications and various methods of valuing intellectual property rights); Mark A. Lemley, *Reconceiving Patents in the Age of Venture Capital*, 4 J. SMALL & EMERGING BUS. L. 137, 140 (2000) (attributing the increase in patent volume to an emerging understanding among businesses that intellectual property rights are the key to modern corporate strategy).

² See generally Samuel Kortum & Josh Lerner, *Stronger Protection or Technological Revolution: What is Behind the Recent Surge in Patenting?*, 48 CARNEGIE-ROCHESTER CONF. SERIES ON PUB. POL'Y 247, 289–90 (1998) (asserting that the increase in patent volume is a direct result of a massive increase in research productivity and innovation, not “friendly” courts).

³ U.S. DEP'T OF COMMERCE, PATENT REFORM: UNLEASHING INNOVATION, PROMOTING ECONOMIC GROWTH & PRODUCING HIGH-PAYING JOBS 4 (2010) [hereinafter PATENT REFORM: DEP'T OF COMMERCE WHITE PAPER], available at http://www.commerce.gov/sites/default/files/documents/migrated/Patent_Reform-paper.pdf.

⁴ See generally Lemley, *supra* note 1, at 142–43 (discussing the emergence of tactical patent use by competing businesses).

However, the patent litigation explosion has also rendered far more subtle and insidious effects. The volume of cases and the pace of changing technology led courts to hand down decisions that are imprecise and difficult to resolve. In other words, the flood of patent cases has resulted in a vexingly shifting and incongruous doctrinal framework.⁵ The uncertainty created by the shaky doctrine, combined with the prospect of massive monetary damages awards, creates a positive feedback loop that continually fuels litigious behavior among patent holders.⁶ The net result of these developments is increased costs of obtaining and defending patents, uncertain patent rights, and an embarrassingly protracted delay in both the issuance of patents and the resolution of patent disputes.⁷ Many prominent figures even consider the current patent system to be broken, as this expense, uncertainty, and delay stifle the incentive to invent.⁸

These deleterious effects spurred Congress to pass the Leahy-Smith America Invents Act⁹ (AIA), which went into full effect on March 16, 2013. The major goals of the AIA are to increase the speed of patent application processing and dispute resolution, as well as to improve the overall quality of the patent pool.¹⁰ To accomplish these goals, the law provides the USPTO with increased funding, broad post-grant review powers, and sweeping new rulemaking authority.¹¹ In strengthening the USPTO, Congress is betting that the office can improve patent quality by ridding the current patent pool of “bad” patents¹² and preventing the issuance of such patents in the first place.¹³ Likewise, Congress hopes that the USPTO’s new review powers will provide a faster and cheaper alternative to litigation, and that the USPTO’s broad rulemaking authority will contribute to greater doctrinal certainty.¹⁴ Thus, in theory, a better funded

⁵ See DAN L. BURK & MARK A. LEMLEY, *THE PATENT CRISIS AND HOW THE COURTS CAN SOLVE IT* 22–29 (2009).

⁶ That is, so long as patent value keeps rising via indicia such as damages awards, patent case filings will continue to increase, patent doctrine will never solidify, and this opacity will translate into yet more litigation, thus closing the loop. See Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 892 (2001) (discussing disparate patent doctrine among district courts).

⁷ BURK & LEMLEY, *supra* note 5, at 22–29.

⁸ *Id.*

⁹ America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.).

¹⁰ Sarah Tran, *Patent Powers*, 25 HARV. J.L. & TECH. 609, 626 (2012).

¹¹ America Invents Act §§ 6–7, 10, 18. Section 10 concerns funding, and sections 6, 7, and 18 cover post-grant review and associated rulemaking powers. These provisions are further discussed throughout this Note.

¹² See BURK & LEMLEY, *supra* note 5, at 1–10. The authors decry the proliferation of poorly written patents and patents for “silly” inventions. *Id.* This Note refers generally to these sorts of patents as “bad” or “low-quality” patents.

¹³ See PATENT REFORM: DEP’T OF COMMERCE WHITE PAPER, *supra* note 3, at 7 (discussing post-grant review policies and predicting that between one-third and one-half of reviews will result in an invalidity decision).

¹⁴ *Id.*

and more powerful USPTO can extinguish the current positive feedback problem in the patent system.¹⁵ The resulting improvement in patent quality and doctrinal clarity, as well as the availability of a cheaper and faster alternative to litigation, will reduce the time and monetary costs of patent acquisition thereby strengthening the patent right and reinforcing the incentive to invent.

However, the AIA's expansion of USPTO power is not without concern. A major source of uncertainty that has plagued the patent system is the tenuous power divide between the USPTO and the Article III courts in administering that system.¹⁶ Traditionally, the federal courts have taken the lead role in shaping substantive patent doctrine and deciding matters of infringement and invalidity.¹⁷ However, the USPTO has steadily taken on more quasi-judicial and quasi-legislative roles over the past few decades.¹⁸ This proliferation of non-executive activity in the USPTO creates an uncertain boundary with the coordinate branches of government, even fomenting discussion that current USPTO practice violates separation of powers principles.¹⁹ The AIA seeks to alleviate this controversy by strengthening the USPTO and crystalizing this power divide.²⁰ But rather than resolving the separation of powers issue, the AIA brings it into the spotlight. Currently, the major separation of powers concern is the USPTO's reexamination authority, where it may declare a previously issued patent invalid even if that patent survived analogous validity challenges in federal courts.²¹ The AIA does away with reexamination proceedings, but it replaces them with much broader review proceedings: post-grant review and inter partes review.²² Additionally, the AIA grants the

¹⁵ See BURK & LEMLEY, *supra* note 5, at 23–25 (explaining the tendency of the overburdened USPTO review process to make errors in favor of issuing bad patents).

¹⁶ See Sarah Tran, *Administrative Law, Patents, and Distorted Rules*, 80 GEO. WASH. L. REV. 831, 843–54 (2012) (arguing that the Court of Appeals for the Federal Circuit has crafted a confusing power divide between the courts and the USPTO and has not provided a satisfactory rationale for this divide).

¹⁷ *E.g.*, *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335–36 (Fed. Cir. 2008) (holding that the USPTO does not have the authority to create or interpret substantive standards of patentability and patent eligibility).

¹⁸ See, *e.g.*, Clarisa Long, *The PTO and the Market for Influence in Patent Law*, 157 U. PA. L. REV. 1965, 1973 (2009) (discussing the USPTO's push to have administrative law principles govern patent law); Tran, *supra* note 10, at 620; Melissa F. Wasserman, *The PTO's Asymmetric Incentives: Pressure to Expand Substantive Patent Law*, 72 OHIO ST. L.J. 379, 382–83 (2011) (asserting that the USPTO has influenced substantive patentability standards despite the ban on substantive rulemaking by the office).

¹⁹ See, *e.g.*, *In re Baxter Int'l*, 678 F.3d 1357, 1366 (Fed. Cir. 2012) (Newman, J., dissenting); *In re Constr. Equip. Co.*, 665 F.3d 1254, 1257 (Fed. Cir. 2011) (Newman, J., dissenting).

²⁰ Dana Robert Colarulli, *The America Invents Act of 2011: What It Means for USPTO and the Challenge Ahead*, USPTO (Sept. 29, 2011), http://www.uspto.gov/aia_implementation/9-29-11_colarulli-presentation.pdf. Slide four explicitly mentions that one goal of the AIA is to increase certainty in the law. *Id.*

²¹ See, *e.g.*, *In re Baxter Int'l*, 678 F.3d at 1366 (Newman, J., dissenting); *In re Constr. Equip. Co.*, 665 F.3d at 1257 (Newman, J., dissenting).

²² America Invents Act, Pub. L. No. 112-29, §§ 6, 18, 125 Stat. 284 (2011).

USPTO unprecedented rulemaking authority regarding these new systems of review.²³ Thus, to some commentators, the expansive post-issuance review framework contemplated by the AIA represents an unconstitutional usurpation of the authority of Article III courts.²⁴ More pressing than the constitutional concern, these commentators further assert this erosion will have a pernicious effect on the patent system and the incentive to invent.²⁵

Despite its laudable goals, the AIA poses major challenges regarding its own implementation and administration. Via both major overhauls²⁶ and minor tweaks,²⁷ the AIA embodies the most sweeping change to patent law in over fifty years.²⁸ In fact, USPTO Director David Kappos, a strong supporter of the AIA, calls it “the most significant overhaul to our patent system, since the founding fathers first conceived of codifying a grand bargain between society and invention.”²⁹ Thus, even if the AIA achieves long-term clarity, the immediate effects will likely be increased confusion and litigation. A major source of initial controversy will be the proper role and function of the USPTO, as the dramatic expansion of USPTO authority seemingly encroaches on the traditional domain of the federal courts.³⁰

This Note explores the constitutional and prudential implications of the USPTO’s new powers and proposes an approach for judicial review of USPTO decisions under the AIA. Part I discusses the current patent system and its attending controversies, as well as specific provisions of the AIA that expand USPTO authority. With that foundation in place, Part II analyzes the myriad concerns surrounding the USPTO’s new powers. Despite compelling prudential and constitutional concerns, the analysis concedes that the post-grant and inter partes review provisions of the AIA should survive

²³ *Id.* § 18(d)(2) (giving the USPTO power to define what qualifies as a “technological invention” exempt from the post-grant review of business method patents).

²⁴ *See, e.g.*, Charles J. Cooper & Vincent J. Colatriano, *An Attack on Separation of Powers and Federal Judicial Power? An Analysis of the Constitutionality of Section 18 of the America Invents Act*, 13 *ENGAGE* 49, 50 (2012); Letter from Richard A. Epstein, Professor, N.Y. Univ. Sch. of Law and F. Scott Kieff, Professor, George Washington Univ. Sch. of Law, to the House Judiciary Comm. (Mar. 30, 2011), *available at* <http://www.scribd.com/doc/57945172/Letter-from-Richard-Epstein-and-F-Scott-Kieff>.

²⁵ *See, e.g.*, Cooper & Colatriano, *supra* note 24, at 52–53 (decrying the effect on finality of judgment); Epstein & Kieff, *supra* note 24 (noting that sections of the AIA “will transform the operation of the patent system for the worse”).

²⁶ *See* America Invents Act § 3. This section changes the patent entitlement from first to invent to first to file. *Id.*

²⁷ *See generally* America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011). For example, the AIA only slightly changes the definition of prior art, most notably by removing geographical limitations for all forms of prior art. *Id.* § 3(b)(1).

²⁸ The last major piece of patent legislation was the Patent Act of 1952. Pub. L. No. 66-593, 66 Stat. 792 (1952).

²⁹ David Kappos, *Re-Inventing the U.S. Patent System*, DIRECTOR’S FORUM: A BLOG FROM USPTO’S LEADERSHIP (Sept. 16, 2011, 5:45 PM), http://www.uspto.gov/blog/director/entry/re_inventing_the_us_patent.

³⁰ Tran, *supra* note 10, at 611.

a separation of powers challenge. The focus then switches to the role that the courts can play in shaping the contours and bounds of the USPTO's new powers.

Part III proposes an approach to judicial review of USPTO decisions that will provide a needed check on the USPTO's substantive rulemaking authority under the AIA. Specifically, when deciding challenges to rules promulgated by the USPTO, courts should strike down any rule that produces substantive effects that are "sufficiently grave."³¹ This approach ensures proper separation of powers by strictly vetting any challenged USPTO decision for indicia of substantive rulemaking.³² Furthermore, this approach comports with the important policy objectives of the AIA, as the benefits of a firm check on USPTO authority circulate to all stakeholders in the patent system, including the USPTO.

I. THE POLICY OF PATENT LAW, THE SEPARATION OF POWERS ISSUE, AND THE POWER SHIFT TO THE USPTO

Proper treatment of this issue first requires some understanding of the current system of patent law, its sources of tension, and the provisions of the AIA that bear directly on these tensions. This necessary foundation is provided below. Part A lays out the foundational aspects of patent law that are germane to this discussion, as these principles are central to any consideration of patent-law policy. Specifically, Part A concerns the power structure of the patent system and the dynamic incentives at the heart of the system. Part B presents the current controversy surrounding the division of power between the USPTO and the federal courts through the context of patent reexamination proceedings. Part C examines the AIA provisions that replace reexamination proceedings and generally expand USPTO authority. With this backdrop in place, one can appreciate how the AIA exacerbates preexisting tensions by greatly expanding the rule-making, rule-interpreting, and dispute-resolution functions of the USPTO.

A. Patent Law's Shaky Foundation

The recent passage of the AIA, combined with the steady rise in high stakes patent litigation,³³ has put the U.S. patent system in the spotlight perhaps more than ever

³¹ *Tafas v. Doll*, 559 F.3d 1345, 1369 (Fed. Cir. 2009) (Rader, J., concurring in part and dissenting in part) (quoting *JEM Broad. Co. v. FCC*, 22 F.3d 320, 327 (D.C. Cir. 1994) (emphasis omitted)).

³² See, e.g., Joseph Scott Miller, *Substance, Procedure, and the Divided Patent Power*, 63 ADMIN. L. REV. 31 (2011) (supporting the current procedural-substantive test for USPTO rulemaking).

³³ See 2012 PATENT LITIGATION STUDY, *supra* note 1; see also, e.g., Connie Guglielmo, *Apple, Samsung Debate Royalties as Judge in Patent Dispute Pushes Settlement, Urges "Horse Trading,"* FORBES (Aug. 16, 2012, 3:30 PM), <http://www.forbes.com/sites/connieguglielmo/2012/08/16/apple-samsung-debate-royalties-as-judge-in-patent-dispute-pushes-settlement-urges-horse-trading-live-blog/> (reporting testimony of an expert witness claiming Samsung owed Apple up to \$207 billion over copied designs).

before. This focus is well-warranted, as the Founding Fathers recognized that a well-devised, well-defined, and well-executed system of granting limited monopolies is critical to the welfare of the nation.³⁴ The ultimate goal of such a system is to incentivize invention,³⁵ disclosure,³⁶ and innovation,³⁷ thus advancing the nation's interests by ensuring favorable social and economic conditions domestically as well as bolstering the country's renown and prestige on the world stage. The following discussion describes the incentives that underlie patent policy, the division of power between the federal courts and the USPTO, and how these concepts are critically related.

At the heart of the patent system is the balancing of *ex ante* and *ex post* incentives.³⁸ The goal is to grant the inventor a sufficiently strong property right so as to encourage and reward his or her inventive effort while leaving the door open for future innovation by others.³⁹ Related to this is the truism that the public benefits greatly from disclosure and dissemination of ideas.⁴⁰ Although granting an inventor a limited monopoly in the form of a patent may cause problems such as reduced output and pricing above marginal cost, there would be no inventive activity in the first place without the right to exclude others from practicing the invention.⁴¹ This is because invention involves high

³⁴ See Letter from Thomas Jefferson, U.S. President, to Oliver Evans, American inventor (May 2, 1807), in 5 WRITINGS OF THOMAS JEFFERSON 76 (H.A. Washington ed., 1853) (stating that "ingenuity should receive a liberal encouragement").

³⁵ See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 294 (2003) (stating that a foundational principle of patent law is to allow inventors to internalize the positive economic benefits of their expenditures on research and development).

³⁶ See Rebecca Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1028 (1989) (discussing the proposition that a chief function of a patent system is to encourage disclosure because disclosure is crucial to future inventions and to the general public, but is only possible if the inventor receives a property right in exchange for this disclosure).

³⁷ See Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1661 (2003) (stating that the incentive to innovate is distinct from the incentive to invent and involves "turning an idea into a finished product").

³⁸ See SUZANNE SCOTCHMER, *INNOVATION AND INCENTIVES* 127 (2004); see also Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 TEX. L. REV. 989, 1043 (1997).

³⁹ See SCOTCHMER, *supra* note 38, at 127; Kenneth J. Arrow, *Economic Welfare and the Allocation of Resources for Invention*, RAND CORP. (1959), available at <http://www.rand.org/content/dam/rand/pubs/papers/2006/P1856.pdf> (arguing that information is a primary yield of invention and disclosure).

⁴⁰ See Arrow, *supra* note 39 (discussing the tremendous value to the public in disclosing innovations, but acknowledging that uncompensated disclosure can weaken the incentive for inventive activity absent a strong property-right protection). This fundamental problem is commonly known as "Arrow's Information Paradox." See, e.g., John R. Allison et al., *Software Patents, Incumbents, and Entry*, 85 TEX. L. REV. 1579, 1610 (2007).

⁴¹ E.g., Richard A. Posner, *Intellectual Property: The Law and Economics Approach*, 19 J. ECON. PERSP. 57, 57-58 (2005).

upfront or fixed costs in the form of research and development. By conferring the right to exclude others from practicing the invention, patents allow the inventor to monetize the invention and recoup these fixed costs. In exchange, the patentee must provide an enabling disclosure of the invention in the patent⁴² and must accept a limited patent term.⁴³ By contrast, without this right others would be free to copy the invention without incurring any fixed costs, effectively usurping the market from the inventor and depriving him or her of the chance to recover their own fixed costs of inventing.⁴⁴ With no hope of capturing these costs in the marketplace, there is virtually no incentive to invent, and the public would miss out on the benefits of incremental gains in science and technology.⁴⁵ However, excessively strong patent protection also harms the public, as it enables rent-seeking behavior by patentees and stymies the enrichment of the public domain.⁴⁶

Thus, the patent right involves a balancing of interests between current inventors, future inventors, and the general public. Effectively striking this balance requires a well-devised legal framework that is clearly and reliably enforced. This clarity allows inventors to better analyze the possibility and efficacy of obtaining patent protection, thereby incentivizing innovation and inuring the benefit of society. Clear patent rights also enable future inventors and members of the public to more accurately discern what they can and cannot do regarding patented technology. This should reduce instances of infringement, and of course infringement lawsuits, which in turn should allow the public greater freedom to operate.

One way to accomplish this clarity is through the preferential use of explicit rules rather than standards.⁴⁷ On its face, a “rule-heavy” system seems ideal for this task, as the chief virtue of such a system is its explicit delineation. However, patent law better lends itself to a “standards-heavy” approach. This owes primarily to the inherently unpredictable nature of technological development.⁴⁸ Adopting an inflexible

⁴² See 35 U.S.C. § 112(a) (2006) (requiring “enablement”).

⁴³ See § 154(a)(2).

⁴⁴ See Posner, *supra* note 41, at 72. The free-rider would still incur some fixed costs, but they are negligible compared to the fixed costs of invention. *Id.*

⁴⁵ See *id.* at 58–59.

⁴⁶ See generally Steve P. Calandrillo, *An Economic Analysis of Intellectual Property Rights in Information: Justifications and Problems of Exclusive Rights, Incentives to Generate Information, and the Alternative of a Government Run System*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 301 (1998) (discussing the perverse incentives that result from the temporary monopoly given to patent holders).

⁴⁷ See, e.g., *Mindgames Inc. v. W. Publ’g Co.*, 218 F.3d 653, 657 (7th Cir. 2000) (Posner, J.) (“Rules have the advantage of being definite and of limiting factual inquiry but the disadvantage of being inflexible, even arbitrary and thus overinclusive . . . Standards are flexible, but vague and open-ended; they make business planning difficult . . . and are more costly to adjudicate . . .”).

⁴⁸ See John F. Duffy, *Rules and Standards at the Forefront of Patentability*, 51 WM. & MARY L. REV. 609, 611 (2009); Craig Allen Nard, *Legal Forms and the Common Law of Patents*, 90 B.U. L. REV. 51, 90 (2010).

rule-based approach could suppress future inventive activity and, in a worst-case scenario, preclude and extinguish entire fields of potential innovation.⁴⁹ This fear is reflected in the fact that the common law surrounding patents has spawned a shifting system of standards, rather than bright-line rules.⁵⁰ Judges recognize that the law simply cannot comprehend the technical advances of the future and that standards provide the necessary flexibility and growing room to foster future innovation.⁵¹ Patent law is thus vexing in that inventors and the public would, at least in the short term, seem to benefit from more explicit rules and decisions. However, flexible standards play a key role in patent law, and the pace of technology places an even greater premium on flexibility.

This tension is at the heart of the shifting power divide between the USPTO and the courts. The courts, which are the traditional arbiters of substantive patent matters, consistently employ a flexible standards-based approach.⁵² The USPTO, traditionally tasked with day-to-day administration of the patent system, is much more rule-oriented.⁵³ Thus, given the expansive new grants of power under the AIA, an unchecked USPTO will result in a more rule-heavy patent system.⁵⁴ Indeed, a purported goal of the AIA is to foster inventive activity by providing greater clarity to the patent law, presumably by allowing the USPTO greater latitude to promulgate rules.⁵⁵

Congress, the USPTO, and the federal courts each play an important role in administering the patent system. However, common law has been the driving force for substantively shaping the patent law.⁵⁶ Accordingly, judges are the “principle architects” of patent policy.⁵⁷ When one considers that the subject matter involved in patent law is often highly specialized and technical, it may seem odd that judges play the central role in shaping patent policy.⁵⁸ Indeed, prior to 1982, regional circuits heard patent appeals

⁴⁹ See Duffy, *supra* note 48, at 613–14 (analyzing the failure of historical rules of categorical patentability but noting the success of patent standards); Nard, *supra* note 48, at 90–95 (explaining the movement away from “overinclusive” rule of patentability).

⁵⁰ See Nard, *supra* note 48, at 72–74 (asserting that Congress’s fear of the Supreme Court’s patent jurisprudence precluding whole fields of potential innovation was the rationale for the 1952 Act’s use of a standard rather than a rule to evaluate obviousness).

⁵¹ See *Diamond v. Diehr*, 450 U.S. 175, 182 (1991); *Diamond v. Chakrabarty*, 447 U.S. 303, 308 (1980). These cases each state the policy concerns regarding judicially created exclusions to patentable subject matter.

⁵² See, e.g., *Chakrabarty*, 447 U.S. at 308 (discussing the need to employ flexible standards regarding questions of patent eligibility).

⁵³ John M. Golden, *Patentable Subject Matter and Institutional Choice*, 89 TEX. L. REV. 1041, 1047 (2011) (providing the example of the USPTO’s “massive” Manual for Patent Examining Procedure filled with rules on applying patent-law doctrine to examinations).

⁵⁴ See *id.*

⁵⁵ See Colarulli, *supra* note 20.

⁵⁶ See, e.g., Nard, *supra* note 48, at 68–72 (discussing the respective roles of Congress and the courts in the development of U.S. patent law).

⁵⁷ *Id.* at 54.

⁵⁸ See Golden, *supra* note 53, at 1044 (discussing the federal judiciary’s “historic struggles” with the patent arena and suggesting a lack of “judicial facility” for “resolving problems in this area”).

from their respective district courts just as they would most other civil and criminal cases.⁵⁹ This arrangement led to disparate treatment of issues such as infringement and invalidity, as some circuits viewed patents more favorably than others.⁶⁰ This uneven treatment fomented great uncertainty in the patent law, compelling Congress to create the U.S. Court of Appeals for the Federal Circuit (CAFC) in 1982.⁶¹ The CAFC has exclusive subject matter jurisdiction over patent appeals.⁶² The general consensus is that consolidating patent appeals to the CAFC has clarified patent law and thereby strengthened patent rights and incentivized innovation.⁶³

Additionally, this consolidation of power came at the expense of USPTO authority. Since its inception, the CAFC has crafted limitations on the USPTO's authority regarding policy-setting, substantive rulemaking, and dispute resolution.⁶⁴ This strong judicial oversight sets patent law apart from other complex areas where agencies are afforded more expansive roles.⁶⁵ Indeed, this delineation has led some to accuse the judiciary of wrongfully usurping administrative authority from the USPTO instead of merely acting as a proper check on the executive office.⁶⁶ In particular, critics question the prohibition on substantive rulemaking by the USPTO and argue that the judicially created divide between valid procedural rules and invalid substantive rules is unworkable and baseless.⁶⁷

In light of these concerns, the USPTO has, with some success, pushed for increased authority and autonomy.⁶⁸ In 1999, the Supreme Court first criticized the CAFC's constraints on the USPTO in *Dickinson v. Zurko*.⁶⁹ Months later, Congress passed the American Inventors Protection Act,⁷⁰ which explicitly vested some rulemaking

⁵⁹ See, e.g., Nard, *supra* note 48, at 75.

⁶⁰ See *id.*

⁶¹ Matthew D. Henry & John L. Turner, *The Court of Appeals for the Federal Circuit's Impact on Patent Litigation*, 35 J. LEG. STUD. 85, 86 (2006).

⁶² See *id.*

⁶³ See *id.* at 112 (commenting on the uniformity that the CAFC brought to the invalidity doctrine).

⁶⁴ See *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1336 (Fed. Cir. 2008) (citing *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50 (Fed. Cir. 1996)) (holding that the Patent Office “lacks substantive rulemaking authority”).

⁶⁵ See, e.g., Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 271 (2007) (noting that other agencies like the Environmental Protection Agency and the Federal Communications Commission are given broad discretion due to their complex subject matter, whereas in the arguably more complex field of patent law, the courts reign in the USPTO).

⁶⁶ See Sapna Kumar, *Expert Court, Expert Agency*, 44 U.C. DAVIS L. REV. 1547, 1550 (2011); Ryan Vacca, *Acting Like an Administrative Agency: The Federal Circuit En Banc*, 76 MO. L. REV. 733, 733 (2011).

⁶⁷ Tran, *supra* note 16, at 845–54; see also Tran, *supra* note 10, at 650.

⁶⁸ See, e.g., Long, *supra* note 18, at 1966.

⁶⁹ 527 U.S. 150 (1999) (holding that the American Inventors Protection Act, not the CAFC, governs the standard of review of USPTO factfinding).

⁷⁰ American Inventors Protection Act, Pub. L. No. 106-113, 113 Stat. 1501A-552 (1999).

authority with the USPTO.⁷¹ Additionally, the USPTO currently practices several powers that are substantive-like and not clearly procedural.⁷² For example, the USPTO has the authority to expedite review of patents that cover technology deemed of national importance.⁷³ This discretion to prioritize inventions affects more than the patentee's procedural rights, as non-expedited patents necessarily spend more time in the USPTO than they would otherwise. Because the patent term is measured from the date of filing, this delay in issuance effectively shortens the patent term and thus directly touches the patentee's substantive rights.

The above discussion illustrates how patent law is by necessity one of the most fluid areas of the law, but also a field in dire need of greater certainty. The outline of responsibilities between the Article III courts and the USPTO is particularly cloudy. Far from clearing the fog, the AIA further clouds the picture by expanding the USPTO's authority regarding rulemaking and dispute resolution. Again, uncertainty in patent law diminishes the incentive to invent because inventors cannot be sure that they will be adequately protected and rewarded for their efforts.⁷⁴ It is particularly vital that inventors can predict with some certainty the available forums for defending or asserting their patent rights, as well as the likelihood of success in a given forum. If inventors can properly assess the benefits of securing intellectual property protection against the chance of costly litigation or losing their patent rights in a USPTO proceeding, they have greater incentive to invent in the first place.⁷⁵

B. Traditional Reexamination Proceedings and the Strain on the Separation of Powers

In reexamination proceedings, the USPTO considers the validity of a previously issued patent. There are two forms of traditional reexamination: *inter partes* and *ex parte*.⁷⁶ Both forms share threshold requirements and standard of review, the only difference being that the petitioner actively participates in *inter partes* review but not in *ex parte* review.⁷⁷ A petition for *inter partes* reexamination can be brought by any third party who demonstrates "a reasonable likelihood" of prevailing with respect to at least one of the claims challenged in the request.⁷⁸ To show invalidity, the challenger is limited to patents and printed publications. There is no discovery, nor any other vestiges

⁷¹ *Id.* § 4711–4712.

⁷² Golden, *supra* note 53, at 1046–47.

⁷³ 37 C.F.R. § 1.102 (2006) (containing provisions for expedited patent examination).

⁷⁴ *See* BURK & LEMLEY, *supra* note 5, at 22–29.

⁷⁵ *See id.*

⁷⁶ 35 U.S.C. §§ 302–307 (2006) (*ex parte* review); 35 U.S.C. §§ 311–318 (2006) (*inter partes* review).

⁷⁷ §§ 302–307 (*ex parte* review); §§ 311–318 (*inter partes* review).

⁷⁸ America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284 (2011). This slightly elevates the prior standard of "substantial new question of patentability." 35 U.S.C. § 303(a) (2006).

of trial practice in reexamination proceedings.⁷⁹ The patentee can appeal adverse rulings to the Board of Patent Appeals and Interferences (BPAI), and thereafter to the CAFC before estoppel.⁸⁰

The USPTO has reexamination authority regardless of whether the federal courts have already ruled as to the validity of the patent.⁸¹ Thus, an infringer who has failed to successfully prove invalidity in the courts may yet succeed before the USPTO.⁸² On the surface, reexamination proceedings appear to fly in the face of long-settled separation of powers principles. A fundamental aspect of the tripartite system set up by the Constitution is the final adjudicative authority of the federal courts.⁸³ Related to this is the prohibition on the courts issuing mere “advisory opinions” to potential litigants and coordinate branches of government.⁸⁴ Further, federal courts have exclusive subject matter jurisdiction over patent matters, including suits relating to infringement and validity.⁸⁵ This principle is further solidified by *Plaut v. Spendthrift Farm*,⁸⁶ where the Supreme Court stated that “Congress cannot vest review of the decisions of Article III courts in officials of the executive branch.”⁸⁷

However, these concerns lay largely dormant in light of the Supreme Court’s ruling in *In re Swanson*.⁸⁸ In *Swanson*, the Court examined the issue of USPTO reexamination proceedings subsequent to a challenger’s exhaustion of litigation opportunities in the federal courts.⁸⁹ The Court determined that because the USPTO employs a lower standard of review than the federal courts in assessing patent validity, the USPTO is performing a fundamentally different review than the courts even if the attack on validity is exactly the same in both forums.⁹⁰ In other words, the federal courts do not declare patents valid; rather, they merely hold that the party alleging invalidity has failed to meet his or her burden of proving invalidity via clear and convincing evidence.⁹¹ By this reasoning, if the USPTO reconsiders the question of validity using a preponderance

⁷⁹ America Invents Act § 6.

⁸⁰ See 35 U.S.C. §§ 305–306, 314–315 (2006).

⁸¹ See *In re Swanson*, 540 F.3d 1368, 1370–71 (Fed. Cir. 2008).

⁸² See *Cooper & Colatriano*, *supra* note 24, at 49; see also *In re Constr. Equip. Co.*, 665 F.3d 1254, 1257 (2011) (Newman, J., dissenting).

⁸³ See *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 176 (1803).

⁸⁴ See U.S. CONST. art. III, § 2, cl. 1 (Case or Controversy Clause); *Rescue Army v. L.A. Mun. Court*, 331 U.S. 549, 568 (1947) (articulating the policy reasons underlying the Court’s refusal to issue advisory opinions).

⁸⁵ 28 U.S.C. § 1338(a) (2006).

⁸⁶ 514 U.S. 211 (1995).

⁸⁷ *Id.* at 219.

⁸⁸ 540 F.3d 1368 (Fed. Cir. 2008).

⁸⁹ *Id.* at 1370–71.

⁹⁰ *Id.* at 1377. A finding of patent invalidity by the PTO during reexamination requires only “a preponderance of the evidence,” a lower showing than the “clear and convincing evidence” standard required by the federal courts. *Id.*

⁹¹ *Id.*

of the evidence standard, it does not render the court's decision as non-final or advisory and is thus not guilty of violating the separation of powers principle.⁹² The Court further determined that because the questions decided by the courts have not necessarily appeared before the USPTO, the USPTO's review of a previously adjudicated issue is within its express statutory authority to consider any "substantial new question of patentability."⁹³

Despite the Court's treatment of the separation of powers issue in *Swanson*, there have been significant rumblings as to the constitutionality of reexamination proceedings. When the CAFC considered an otherwise typical appeal of a patent reexamination in *In re Construction Equipment Co.*,⁹⁴ Judge Pauline Newman raised this very question in her dissent.⁹⁵ Judge Newman stated, "[t]his reexamination appeal raises a fundamental question—is a final adjudication [upholding a patent's validity], after trial and decision in the district court, and appeal and final judgment in the Federal Circuit, truly final? Or is it an inconsequential detour along the administrative path to a contrary result?"⁹⁶ Not surprisingly, the majority relied on *Swanson* to dismiss this query.⁹⁷ In a separate case five months later,⁹⁸ Judge Newman again raised the question in her dissent⁹⁹ and was again countered by the disparate standard of review principle underlying *Swanson*.¹⁰⁰

Although she has thus far been stymied by *Swanson*, Judge Newman raised this issue at a timely juncture, as the AIA gives the PTO even more discretion to review patents that survived prior validity challenges in the federal courts.¹⁰¹ The following section takes a closer look at the expanded role for the USPTO as contemplated by the AIA.

C. The New USPTO Powers Under The America Invents Act

The AIA does away with reexaminations, but only in name. In fact, the AIA replaces reexaminations with a broad new post-issuance review framework that vests the

⁹² *Id.*

⁹³ *Id.* at 1379 ("As properly interpreted a 'substantial new question of patentability' refers to a question which has never been considered by the PTO; thus, a substantial new question can exist even if a federal court previously considered the question.").

⁹⁴ 665 F.3d 1254 (Fed. Cir. 2011).

⁹⁵ *Id.* at 1257 (Newman, J., dissenting).

⁹⁶ *Id.*

⁹⁷ *Id.* at 1256 n.3.

⁹⁸ *In re Baxter Int'l*, 678 F.3d 1357 (Fed. Cir. 2012).

⁹⁹ *Id.* at 1366 (Newman, J., dissenting).

¹⁰⁰ *Id.* at 1364.

¹⁰¹ See America Invents Act, Pub. L. No. 112-29, §§ 6, 18, 125 Stat. 284 (2011) (laying out post-grant review proceedings and the transitional program for covered business method patents).

USPTO with expansive new responsibilities and seemingly broad latitude to promulgate rules related to those responsibilities.¹⁰² Specifically, inter partes reexamination is replaced by the much broader post-grant review and inter partes review, and ex parte reexamination is replaced by the analogous ex parte review.¹⁰³ These third party challenges are handled by the newly created Patent Trial and Appeal Board (PTAB).¹⁰⁴ Each of these new forms of review is described below, highlighting the USPTO's new powers and the corresponding decline of judiciary influence.

Post-grant review and inter partes review together replace inter partes reexamination.¹⁰⁵ The two forms of review share many similarities, with the key differences being timing and the threshold requirements for review.¹⁰⁶ In stark contrast to the much more limited reexamination proceedings, post-grant review and inter partes review are essentially mini-trials within the USPTO.¹⁰⁷ Indeed, the title "Patent Trial and Appeal Board" belies the quasi-judicial role of the Board. Unlike traditional reexaminations, post-grant review and inter partes review involve a discovery period.¹⁰⁸ The USPTO has broad discretion to set the terms of this discovery.¹⁰⁹ Further, a party seeking post-grant review is not limited to patents and printed publications and can provide declarations and expert testimony.¹¹⁰ Estoppel also applies earlier under the new AIA framework.¹¹¹ Under traditional reexaminations, estoppel only applied after the exhaustion of all possible appeals.¹¹² With post-grant review and inter partes review, estoppel applies after the PTAB reaches its final decision.¹¹³ Ex parte reexamination is replaced by a very similar ex parte review process.¹¹⁴ However, in contrast to ex parte reexamination, the new proceeding denies the patentee the right to de novo review by a district court upon appeal from the USPTO ruling.¹¹⁵

¹⁰² *Id.*

¹⁰³ *Id.*

¹⁰⁴ *Id.* § 7. The PTAB replaces the BPAI.

¹⁰⁵ *Id.* § 6.

¹⁰⁶ *Id.* For post-grant review, the petitioner must show that it is "more likely than not" that a claim is either unpatentable or else presents a novel or unsettled legal question that is important to other patents or patent applications. *Id.* For inter partes review, the petitioner must show that there is a "reasonable likelihood" that petitioner will prevail with respect to at least one claim or else the petition must raise a novel or unsettled legal question. *Id.* Additionally, post-grant review is only available within nine months of the patent's issuance, whereas inter partes review only becomes available after the patent has been issued for at least nine months. *Id.*

¹⁰⁷ Tran, *supra* note 10, at 631; see also PETER S. MENELL ET AL., PATENT CASE MANAGEMENT JUDICIAL GUIDE 13–30 (2d ed. 2012), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2114398.

¹⁰⁸ Tran, *supra* note 10, at 632.

¹⁰⁹ *Id.*

¹¹⁰ America Invents Act § 6.

¹¹¹ *Id.*

¹¹² 35 U.S.C. § 315 (2006).

¹¹³ America Invents Act § 6.

¹¹⁴ *Id.* § 7.

¹¹⁵ Compare *id.*, with 35 U.S.C. § 305 (2006).

The AIA also creates a transitional post-grant review for certain business method patents.¹¹⁶ This transitional program is available only for patents that claim “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.”¹¹⁷ So-called “technological inventions” are exempt from this review.¹¹⁸ Further, Congress tasks the USPTO with creating “regulations for determining whether a patent is for a technological invention.”¹¹⁹ Although section 18 explicitly states that the AIA does not grant the USPTO the power to alter standards for patent eligibility,¹²⁰ the power to define a class of inventions exempt from post-grant review, in practical effect, comes dangerously close to doing this.¹²¹ Part III of this Note, discussing an approach to judicial review of USPTO actions, uses this specific example to demonstrate the baleful potential of the USPTO’s new rulemaking authority.

Clearly, the AIA significantly expands the role of the USPTO in determining the validity of issued patents. As with traditional reexaminations, the USPTO may review patents that are currently undergoing validity attacks in federal court or have already survived such attacks.¹²² But the AIA takes this power even further, as the USPTO’s new trial-like proceedings and considerable rulemaking discretion seem to mimic and minimize the role of the federal courts.¹²³ Again, post-grant review and inter partes review are to be conducted like trials, complete with discovery, declarations, and expert witnesses.¹²⁴ Further, the USPTO has discretion to set the rules for these proceedings.¹²⁵ The tightened estoppel provisions also represent potentially diminished access to the courts.¹²⁶

Thus, the expanded role of the USPTO appears to be at the expense of the federal courts.¹²⁷ The AIA’s stauncher critics argue that the power shift effectively strips the federal courts of constitutionally prescribed duties,¹²⁸ but others insist that a more robust USPTO is exactly what the patent system needs.¹²⁹

¹¹⁶ America Invents Act § 18.

¹¹⁷ *Id.* § 18(d)(1).

¹¹⁸ *Id.*

¹¹⁹ *Id.* § 18(d)(2).

¹²⁰ *Id.* § 18(e).

¹²¹ Tran, *supra* note 10, at 631.

¹²² Epstein & Kieff, *supra* note 24, at 3–4.

¹²³ *Id.* at 12–13.

¹²⁴ *See supra* notes 107–10 and accompanying text.

¹²⁵ America Invents Act §§ 6, 18.

¹²⁶ *See supra* notes 111–13 and accompanying text.

¹²⁷ *See generally* Tran, *supra* note 10.

¹²⁸ *See* Cooper & Colatriano, *supra* note 24, at 50; Epstein & Kieff, *supra* note 24, at 2.

¹²⁹ *See* Tran, *supra* note 10, at 610 (quoting USPTO Director David Kappos as stating that the new law will help “accelerate our economic recovery, and ensure[] that our nation’s innovators and job creators aren’t held back”).

II. CONSTITUTIONAL AND PRUDENTIAL ANALYSIS OF THE POWER SHIFT

A. The Case Against the USPTO's Expanded Power

The USPTO's new review powers and broad latitude to promulgate rules has the potential to poison the patent system.¹³⁰ There are numerous provisions in the AIA that seemingly usurp the traditional role of federal courts, leading some to allege that the law violates separation of powers principles.¹³¹ This is more than a mere academic curiosity; critics assert that the expansion of USPTO power at the expense of Article III courts stacks the deck against patentees, thereby reducing the incentive to invent.¹³² Further, a more powerful and poorly checked USPTO may lead to compounding inefficiencies within the office, and the pernicious effects of these inefficiencies will pass on to the rest of the patent system.

1. The New USPTO Authority May Violate the Separation of Powers

Critics of the AIA voice three main separation of powers concerns associated with the law.¹³³ First, the AIA unconstitutionally authorizes executive review of judicial decisions.¹³⁴ Second, the new law disrupts the court's traditional stay authority.¹³⁵ Third, the AIA authorizes administrative tribunals to perform roles that should be accorded to Article III judges and confers on the USPTO unconstitutionally broad rulemaking authority regarding these roles.¹³⁶

Any party who has had litigation commenced against them in federal court or is currently engaged in litigation may seek post-grant review in the USPTO.¹³⁷ The statutory language covers parties who have lost infringement cases, paid damages, and have exhausted appeal opportunities.¹³⁸ By allowing litigants who do not like their prospects in federal court to seek an ostensibly friendlier forum in the USPTO, potential infringers are given a "real advantage."¹³⁹ This is because if the infringer successfully proves invalidity during post-grant or inter partes review, the case is over.¹⁴⁰ However,

¹³⁰ See generally Cooper & Colatriano, *supra* note 24; Epstein & Kieff, *supra* note 24.

¹³¹ See generally Cooper & Colatriano, *supra* note 24; Epstein & Kieff, *supra* note 24.

¹³² See, e.g., Epstein & Kieff, *supra* note 24, at 1.

¹³³ See generally *id.*; Cooper & Colatriano, *supra* note 24.

¹³⁴ See Cooper & Colatriano, *supra* note 24, at 50–52.

¹³⁵ See Epstein & Kieff, *supra* note 24, at 12–13.

¹³⁶ See *id.* at 13.

¹³⁷ See *id.* at 3–4.

¹³⁸ America Invents Act, Pub. L. No. 112-29, § 6, 125 Stat. 284 (2011); see also Epstein & Kieff, *supra* note 24, at 3–4.

¹³⁹ Epstein & Kieff, *supra* note 24, at 3.

¹⁴⁰ E.g., America Invents Act § 6 (codified as amended at 35 U.S.C.A. § 315(e) (2012)); MENELL ET AL., *supra* note 107, at 659–60. Estoppel applies after the PTAB renders a final decision. *Id.*

even if the patentee is successful before the USPTO, he or she must return to court to get a remedy of damages or an injunction.¹⁴¹ Professors Richard Epstein and Scott Kieff state that “[t]he multiplication of these strategic possibilities thus introduces a tilt in the system with respect to patents that are subject to litigation.”¹⁴² Also of concern is section 18’s lack of a statute of limitations, which allows the losing party to “get a second bite at the apple so long as the challenged patent has yet to expire.”¹⁴³

The AIA provides further constitutional concerns pertaining to a litigant’s ability to seek relief in an Article III court. For example, section 18(b) allows a litigant in a “civil action alleging infringement of a patent” to seek a stay in order to pursue an administrative remedy before the USPTO.¹⁴⁴ Additionally, section 18(b)(2) strictly limits the CAFC’s role to reviewing these stay decisions.¹⁴⁵ In an infringement suit, this stay provision inures almost entirely to the benefit of the defendant-infringer.¹⁴⁶ In theory, the ability to seek a stay is available to both parties in an infringement dispute.¹⁴⁷ However, in practice, only the defendant has any incentive to request a stay, as the plaintiff should have every reason to pursue their claim in the courts.¹⁴⁸

Additionally, the factors and procedure involved determining whether to grant the stay under section 18(b) all favor the parties seeking USPTO review.¹⁴⁹ First, a petition for post-grant review should be granted as long as the petitioner demonstrates that “it is more likely than not that at least [one] of the claims challenged in the petition is unpatentable.”¹⁵⁰ If the petitioner meets this slight burden for a single claim, he or she may bring any additional claims of invalidity before the USPTO, however weak or dismal their chances were in court.¹⁵¹ Courts may therefore be quite liberal in deciding whether to grant a stay under the AIA.¹⁵² Further, the AIA places a heavy burden on the nonmoving party to show why the petition to stay should not be granted.¹⁵³ The language of section 18(b) requires the nonmoving party to show “undu[e]” prejudice or a “clear tactical advantage” for the moving party if the stay is to be granted.¹⁵⁴ Thus the

¹⁴¹ Epstein & Kieff, *supra* note 24, at 3–4.

¹⁴² *Id.* at 4.

¹⁴³ *Id.*

¹⁴⁴ America Invents Act § 18(b)(1).

¹⁴⁵ *Id.* § 18(b)(2).

¹⁴⁶ Epstein & Kieff, *supra* note 24, at 12–13.

¹⁴⁷ America Invents Act § 18(b)(1). The text of section 18(b) draws no distinctions between the parties. *Id.*

¹⁴⁸ *See* Epstein & Kieff, *supra* note 24, at 3–4, 12–13. The plaintiff will likely favor the courts because they have the possibility of a remedy following a favorable ruling. *See id.*

¹⁴⁹ *See id.* at 12–13.

¹⁵⁰ America Invents Act § 6 (codified as amended at 35 U.S.C.A. § 324(a) (2012)).

¹⁵¹ Epstein & Kieff, *supra* note 24, at 13; *see also* America Invents Act § 6 (codified as amended at 35 U.S.C.A. § 324(a) (2012)).

¹⁵² *See* MENELL ET AL., *supra* note 107, at 2-48 to 2-49.

¹⁵³ Epstein & Kieff, *supra* note 24, at 12–13.

¹⁵⁴ America Invents Act § 18(b)(1)(C).

nonmoving party, who should almost always be the plaintiff-patentee, potentially faces a huge hurdle to prevent the suit from being stayed in favor of review before the USPTO.

Critics also decry the dynamics of the new PTAB and argue that administrative tribunals will perform roles properly accorded to Article III judges.¹⁵⁵ This concern is further compounded by the USPTO's broad rulemaking authority regarding these roles.¹⁵⁶ The administrative judges of the PTAB are to be appointed by the Secretary of Commerce, "in consultation" with the USPTO Director.¹⁵⁷ The AIA does not require a confirmation hearing for a lifetime appointment as with Article III judges, nor for a term appointment as with Article I judges in bankruptcy and tax courts.¹⁵⁸ In fact, there is no statement as to the term for which these judges are appointed.¹⁵⁹ Commentators worry that these judges will deal with only a very small number of cases, or even receive special appointments for a single case.¹⁶⁰ Thus, not only is the PTAB arguably usurping the responsibilities of the Article III courts, but the AIA provides sparse guidance in selecting, assigning, and retaining PTAB judges, which could greatly compromise the quality of post-grant review and inter partes review.¹⁶¹

Additionally, the Act confers numerous far reaching and broadly defined quasi-judicial and legislative duties upon the USPTO director.¹⁶² In particular, the director has the power to decide on matters involving discovery,¹⁶³ joinder of parties,¹⁶⁴ and consolidation of proceedings.¹⁶⁵ According to Epstein and Kieff:

In effect, the administrator has more power to fashion the rules for these adjudications than the federal courts have to modify the application of the Federal Rules of Civil Procedure, which require Congressional action for major modifications. It is flatly inconsistent with the American tradition of Separation of powers to extend to an administrative agency the power that is denied to the President and the Congress in setting up both Article I and Article III Courts.¹⁶⁶

¹⁵⁵ See Epstein & Kieff, *supra* note 24, at 12–13; see also Burk & Lemley, *supra* note 37, at 1659 (arguing that the federal courts are better suited than the USPTO to assess validity).

¹⁵⁶ Epstein & Kieff, *supra* note 24, at 13.

¹⁵⁷ America Invents Act § 7.

¹⁵⁸ See *id.*; Epstein & Kieff, *supra* note 24, at 12.

¹⁵⁹ See America Invents Act § 7; Epstein & Kieff, *supra* note 24, at 12.

¹⁶⁰ See, e.g., Epstein & Kieff, *supra* note 24, at 12.

¹⁶¹ See *id.* at 13; Burk & Lemley, *supra* note 37, at 1659.

¹⁶² See America Invents Act § 6.

¹⁶³ *Id.* (codified as amended at 35 U.S.C.A. § 316(a)(5) (2012)).

¹⁶⁴ *Id.*

¹⁶⁵ *Id.*

¹⁶⁶ Epstein & Kieff, *supra* note 24, at 13.

This authority thus seems poised to run afoul of the ban on substantive rulemaking by the USPTO.¹⁶⁷ That possibility, and how to guard against it, is thoroughly discussed throughout the remainder of this Note.

So the AIA contains provisions that arguably run directly counter to the separation of powers provided by the Constitution, as well as the related ban on substantive rulemaking by the USPTO. Further, the AIA's provisions may cut so heavily in favor of the alleged infringer that the practical effect will be the foreclosure to patentees of an Article III forum in which to pursue their claims.¹⁶⁸ Putting aside these constitutional issues, the USPTO's glut of new rulemaking responsibility poses serious administrative concerns, which are discussed in the next section.

2. A More Powerful USPTO May Actually Undercut the Act's Central Purposes

The USPTO freely admits its dislike of defending its decisions before the courts.¹⁶⁹ The purported justification for this aversion is a general lack of resources and a backlog of applications.¹⁷⁰ However, some commentators suggest that this aversion has more to do with the fact that the federal courts provide a more "level playing field" between the USPTO and inventors.¹⁷¹ It is therefore interesting that the same USPTO that bemoans its staffing and workflow issues would simultaneously push for more power.¹⁷² The AIA grants this power, and it is unclear how the currently understaffed USPTO will juggle the anticipated flood of post-grant review requests while simultaneously implementing the new review procedures and promulgating the rules to govern them. A more powerful and active USPTO may thus spawn pervasive new inefficiencies even if it does obviate the inefficiencies of the current regime.

First, the USPTO can expect an initial flood of inter partes review requests, which will later be supplemented by a flood of post-grant review requests.¹⁷³ This onslaught is nearly certain, as review before the USPTO is much cheaper than litigation before the courts.¹⁷⁴ The USPTO proceedings are designed to be relatively speedy,¹⁷⁵ but given the

¹⁶⁷ See *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991) (articulating the ban on substantive rulemaking by the USPTO); Tran, *supra* note 10. Tran argues throughout her article that the AIA effectively confers substantive rulemaking authority upon the USPTO. *Id.*

¹⁶⁸ See Epstein & Kieff, *supra* note 24, at 13 (explaining that section 18 may deny "the patent holder the benefit of an Article III (even and [sic] Article I) court in which to defend its position").

¹⁶⁹ Charles E. Miller & Daniel P. Archibald, *How the Senate Patent Reform Bill Would Abridge the Right of Judicial Review in Patent Reexaminations—and Why It Matters*, 3 LANDSLIDE 21, 25 (2010).

¹⁷⁰ *Id.*

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ See MENELL ET AL., *supra* note 107, at 4-25 to 4-26.

¹⁷⁴ See *id.* at 4-25.

¹⁷⁵ *Id.*

USPTO's current staffing issues and the plethora of novel responsibilities involved in these proceedings, a backlog of both application review and post-grant review seems likely. It may take extensive time for USPTO employees to learn to perform effectively their new duties. Until such time, the aggregate inefficiency created by this learning process will further hamper activity in the office. This inefficiency, combined with the flood of review requests, compounds the troubling potential of expansive USPTO authority. Thus, ironically, the sheer logistical challenge of implementing the new USPTO powers may undercut the intended purpose of those powers.

The concern deepens when one considers the USPTO's broad new rulemaking authority, which can potentially multiply this inefficiency.¹⁷⁶ Unchecked USPTO rulemaking authority compounds the previously mentioned challenges for employees, as the avalanche of new rules will continuously redraw the already complex maze of new powers and proceedings.¹⁷⁷ Further, unabated rulemaking by the USPTO will likely touch the substantive rights of patentees.¹⁷⁸ Just one example is the power of the USPTO to decide what qualifies as a "technological invention" exempt from the transitional post-grant review for business methods.¹⁷⁹ Any line drawn by the USPTO will inevitably lead to controversy, as it will create a class of patentees who feel that their patents are indeed for technological inventions but are nonetheless excluded by the USPTO definition. The result will be a host of disgruntled patentees filing suit against the USPTO, and the USPTO will have to marshal its already thin resources to respond to these challenges.

Thus, the power shift provided by the AIA may cause deep inefficiencies within the USPTO. The USPTO will be challenged by the volume of requests for post-grant and inter partes review, the process of learning how to best administer and structure these nascent forms of review, and the constant annoyance and expense of having to defend itself in court.

B. The Case for Expanded USPTO Power

Proponents of a strong role for the USPTO readily reconcile this power with the Constitution and espouse its prudential merit. They argue that critics ignore some important internal checks and limitations on USPTO authority. Likewise, they counter the main separation of powers concerns described above. Some supporters go even further, asserting that the USPTO is well-situated to handle its new duties and that this consolidation of power will in fact translate into efficiency and quality gains throughout the patent system.

¹⁷⁶ See Epstein & Kieff, *supra* note 24, at 13.

¹⁷⁷ See *id.*

¹⁷⁸ See Tran, *supra* note 10, at 631.

¹⁷⁹ America Invents Act, Pub. L. No. 112-29, § 18(d)(1), 125 Stat. 284 (2011).

1. The Act Comports with the Separation of Powers

Proponents of the new USPTO power argue that the AIA fully comports with the Constitution.¹⁸⁰ They provide compelling counters to the major separation of powers concerns,¹⁸¹ as well as justification for the USPTO's substantive rulemaking authority.¹⁸²

First, supporters of increased USPTO authority assert that the AIA does not authorize executive review of judicial decisions. Again, the rationalization is based on *Swanson's* "standards-of-review" reasoning:

The Section 6 procedures that govern Section 18 transitional proceedings do not authorize the [PTAB] 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." Accordingly . . . invalidation would not contravene separation of powers principles by allowing the Board to reopen or reconsider otherwise final judicial determinations.¹⁸³

In other words, courts require proof of invalidity by clear and convincing evidence and thus do not find patents valid, but only that the party alleging invalidity did not carry their evidentiary burden in proving invalidity before the court.¹⁸⁴ Thus, a judicial determination that a patent is not invalid does not indicate that the patent is thereafter infallibly valid; it simply means that the initial USPTO decision was not overcome by a sufficient evidentiary showing by the party alleging invalidity.¹⁸⁵

¹⁸⁰ Memorandum from Viet D. Dinh, Partner, Bancroft PLLC, to Financial Services Roundtable (June 20, 2011) [hereinafter Dinh Memo], available at <http://judiciary.house.gov/issues/Patent%20Reform%20PDFS/Constitutional%20Analysis%20Memorandum.pdf>.

¹⁸¹ See *id.* at 3–7; Letter from Michael W. McConnell, Professor, Stanford Law Sch., to Lamar Smith, Chairman, House Judiciary Comm., and John Conyers, Jr., Ranking Member, House Judiciary Comm. (June 23, 2011) [hereinafter McConnell Letter], available at <http://judiciary.house.gov/issues/Patent%20Reform%20PDFS/M%20McConnell.pdf>.

¹⁸² See Tran, *supra* note 10, at 650–54 (promoting a model in which the USPTO promulgates substantive rules in conformity with the plain language of the Patent Act).

¹⁸³ Dinh Memo, *supra* note 180, at 6 (citation omitted).

¹⁸⁴ See *id.*

¹⁸⁵ See *id.*

Supporters of increased USPTO authority also argue that the AIA does not interfere with the traditional stay authority of federal courts.¹⁸⁶ Notably, the AIA does not mandate that courts abstain while a transitional or post-grant review proceeding is pending.¹⁸⁷ Instead, the AIA explicitly states that the court “shall decide whether to enter a stay” while these proceedings are pending.¹⁸⁸ The law also does not curtail the courts’ current discretion as to whether to enter a stay. Indeed, section 18 merely reiterates the same criteria to guide a court’s decision whether to stay judicial proceedings while reexamination is pending that the courts have long used prior to the AIA.¹⁸⁹

Supporters of a broadly endowed USPTO also disagree that the AIA unconstitutionally authorizes non–Article III judges to perform judicial functions.¹⁹⁰ First, commentators point out that the Constitution does not “confer on litigants an absolute right to the plenary consideration of every nature of claim by an Article III court.”¹⁹¹ Indeed, it is well “settled that Congress may employ non–Article III tribunals to adjudicate disputes involving public rights.”¹⁹² Courts have conceded that when Congress confers a quasi-judicial dispute resolution authority to an executive office, “the danger of encroaching” on the judiciary and violating the separation of powers is minimal when public rights, and not private rights, are at play.¹⁹³

The CAFC recognizes patent disputes as matters involving public rights as opposed to private rights.¹⁹⁴ The CAFC reasons that, although patent validity disputes generally concern disputes between private parties, determining the grant of a valid patent is primarily a matter of public concern.¹⁹⁵ This is because the patent right in dispute can only be conferred by the government.¹⁹⁶ Thus, the CAFC’s stance indicates that allowing the USPTO to establish non–Article III tribunals to reexamine whether a patent was validly granted does not contravene separation of powers principles. Reiterating the public-private dichotomy mentioned above, the CAFC has reasoned that “[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

¹⁸⁶ *Id.* at 6–7. That is, requiring a showing of undue prejudice and clear tactical disadvantage is not a new or heightened standard. *Id.*

¹⁸⁷ *Id.*

¹⁸⁸ America Invents Act, Pub. L. No. 112-29, § 18(b)(1), 125 Stat. 284 (2011).

¹⁸⁹ Dinh Memo, *supra* note 180, at 6–7.

¹⁹⁰ *See, e.g., id.* at 4–5 (distinguishing USPTO procedure from Article III judicial functions).

¹⁹¹ *Id.* at 5 (quoting *Commodity Futures Trading Comm’n v. Schor*, 478 U.S. 833, 848 (1986)).

¹⁹² *Id.* (quoting *Schor*, 478 U.S. at 853–54).

¹⁹³ *Id.* (quoting *Schor*, 478 U.S. at 833); *see also* *Thomas v. Union Carbide Agric. Prod. Co.*, 473 U.S. 568, 587 (1985) (holding that the scope of so-called “public rights” is not limited to disputes with the government).

¹⁹⁴ *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985).

¹⁹⁵ *Id.*

¹⁹⁶ *Id.* (citing *Crowell v. Benson*, 285 U.S. 22, 50 (1932)).

been granted.”¹⁹⁷ The court’s holding and reasoning apparently apply regardless of whether the reexamination was commenced before entry of a final judgment.¹⁹⁸

Shifting to the AIA’s effect, commentators argue that the expansive role of the PTAB regarding post-grant review is constitutional.¹⁹⁹ They find support in the fact that these determinations are themselves subject to judicial review in the CAFC, thus providing an Article III venue for the parties involved in the dispute.²⁰⁰ Further, the AIA maintains the standard of review that the CAFC has traditionally employed in reviewing USPTO determinations of patent validity and does not contemplate the greater deference given to the decisions of other executive agencies.²⁰¹

Finally, supporters of the AIA argue that the USPTO’s broad new rulemaking authority should be embraced.²⁰² They assert that the current regime imposes an unworkable and incomprehensible test that allows the USPTO to enact procedural rules but deems substantive rules a violation of the separation of powers.²⁰³ However, the applicability of this test is in limbo. The procedural-substantive divide was most recently considered in *Tafas v. Doll*,²⁰⁴ where a three judge panel produced conflicting opinions as to what qualifies as a valid procedural rule as opposed to an invalid substantive rule, and indeed whether the test should be used in the first place.²⁰⁵ Proponents of the AIA argue that this inconclusive holding cripples the USPTO’s ability to enact needed rules without fear of sparking litigation, and Congress sought specifically to rectify this problem by granting the USPTO broad rulemaking authority under the AIA.²⁰⁶ Thus, the vexing *Tafas* ruling, as well as the legislative purpose of the Act, leads some to believe that the distinction between procedural and substantive rulemaking can be ignored without any constitutional concern.²⁰⁷ These proponents of broad USPTO power also argue that unfettered rulemaking power will in fact translate into a more efficient patent system,²⁰⁸ an assertion that is discussed and critiqued over the following several sections.

¹⁹⁷ *Id.*

¹⁹⁸ See Dinh Memo, *supra* note 180, at 5–6; McConnell Letter, *supra* note 181, at 1–2.

¹⁹⁹ See Dinh Memo, *supra* note 180, at 7–9.

²⁰⁰ See *id.* at 8.

²⁰¹ See, e.g., *In re Swanson*, 540 F.3d 1368, 1375 (Fed. Cir. 2008). In hearing appeals of USPTO decisions, the CAFC reviews legal determinations de novo and vets factual findings of support by substantial evidence. *Id.* at 1374–75.

²⁰² See Tran, *supra* note 10, at 650–52; see also Dinh Memo, *supra* note 180, at 7–9.

²⁰³ See Tran, *supra* note 16, at 845–54.

²⁰⁴ 559 F.3d 1345 (Fed. Cir. 2009).

²⁰⁵ Judge Prost broadly classified procedural rules as those that do not “‘foreclose effective opportunity’ to present patent applications for examination.” *Id.* at 1356 (quoting *JEM Broad. Co. v. FCC*, 22 F.3d 320, 326 (1994)). In Judge Rader’s view, the procedural-substantive divide is a question of degree, where a rule is substantive if it produces substantive effects that are “sufficiently grave.” *Id.* at 1369 (Rader, J., concurring in part and dissenting in part) (citations omitted). Judge Bryson simply rejected the procedural-substantive distinction. *Id.* at 1366 (Bryson, J., concurring).

²⁰⁶ See Tran, *supra* note 10, at 650.

²⁰⁷ See *id.* at 650–54.

²⁰⁸ See, e.g., *id.*

2. Expansive USPTO Power Can Benefit the Entire Patent System

The AIA's supporters argue the effects of expanded USPTO power will be almost entirely positive: the federal court dockets will be relieved;²⁰⁹ low-quality patents will be weeded out;²¹⁰ the speed of patent application review will increase;²¹¹ and the overall cost of obtaining and defending a patent will fall.²¹²

The cheaper cost of proceeding before the USPTO, as well as the extensive stay provisions under the AIA, will funnel many patent disputes away from the courts and into the USPTO.²¹³ Although this diversion may have efficiency costs in the USPTO,²¹⁴ the corresponding relief to the federal court dockets may offset these losses.²¹⁵ There are more subtle potential benefits in addition to docket relief. For instance, proceedings before the USPTO sharpen the issues for any future litigation.²¹⁶ This leaner judicial review should lead to appreciably faster resolution of patent disputes.²¹⁷ Likewise, the narrow focus of review aids the factfinder, which should translate into better-informed decisions, more coherent opinions, and clearer patent doctrine.²¹⁸ The net effect of this increase in judicial efficiency and efficacy is to strengthen the patent right, thereby increasing the incentive to invent.²¹⁹

Supporters of the AIA argue that the new review provisions will help “weed out” bad patents.²²⁰ In fact, the transitional post-grant review of business method patents is designed specifically for this purpose.²²¹ To many, business method patents are questionable at best, as they teeter on the edge of being unpatentable “abstract ideas.”²²² The AIA's creation of a specific post-grant review of business method patents allows review even if the challenge is outside the window for standard post-grant review, and is thus directly aimed at paring down this unpopular class of patents.²²³ Further, the lower

²⁰⁹ See, e.g., *id.* at 629.

²¹⁰ See, e.g., *id.* at 626.

²¹¹ See, e.g., *id.*

²¹² See, e.g., *id.*; see also BURK & LEMLEY, *supra* note 5, at 22–29.

²¹³ See MENELLE ET AL., *supra* note 107, at 4-25 to 4-26.

²¹⁴ See Epstein & Kieff, *supra* note 24, at 13.

²¹⁵ See Tran, *supra* note 10, at 626–29, 650–54 (arguing that the AIA will provide a net increase in efficiency of the patent system).

²¹⁶ See MENELLE ET AL., *supra* note 107, at 4-25 to 4-26.

²¹⁷ See Tran, *supra* note 10, at 626.

²¹⁸ See *id.*; BURK & LEMLEY, *supra* note 5, at 22–29.

²¹⁹ See BURK & LEMLEY, *supra* note 5, at 22–29; Tran, *supra* note 10, at 660–61.

²²⁰ Tran, *supra* note 10, at 626.

²²¹ See, e.g., Epstein & Kieff, *supra* note 24.

²²² See *Bilski v. Kappos*, 130 S. Ct. 3218, 3251 (2010) (Breyer, J., concurring); Ricardo Bonilla, Comment, *A Patented Lie: Analyzing the Worthiness of Business Method Patents After Bilski v. Kappos*, 43 TEX. TECH L. REV. 1285, 1291 (2011).

²²³ See America Invents Act, Pub. L. No. 112-29, § 18, 125 Stat. 284 (2011); MENELLE ET AL., *supra* note 107, at 654.

standard of review used by the USPTO makes it easier for challengers to successfully show invalidity of the challenged patent.²²⁴ Under the higher “clear and convincing evidence” standard used by the federal courts, “an improperly issued patent will often survive *even in the face of significant evidence that the patent should not have issued*. Thus, there are many mistakes that can be corrected only by the PTO—the agency that erroneously issued the patent in the first place.”²²⁵

Supporters of the AIA also argue that the power shift to the USPTO will result in a reduction of the cost to obtain and defend a patent. Even conceding the potential inefficiencies inherent in the USPTO’s adoption of novel authority, one can argue that the gain in judicial efficiency will more than compensate.²²⁶ But staunch proponents of USPTO power dismiss the possibility of these inefficiencies in the first place and argue that greater power and flexibility will actually translate into increased efficiency within the USPTO.²²⁷ Although the USPTO is currently understaffed and underfunded, Congress sought to redress these woes with the AIA.²²⁸ The USPTO will now have the power to set its own fees, its operating budget will increase, and funds generated by the USPTO will go directly back into the office rather than into the nation’s general budget fund.²²⁹ Additionally, the USPTO is opening four new regional offices over the coming years.²³⁰ These funding and infrastructure tweaks can allow the USPTO to hire and train more staff, thereby meeting the demands of the AIA.²³¹

Proponents further argue that there is no fear of unchecked substantive rulemaking by the USPTO.²³² First, the fact that the USPTO has long promulgated substantive-like rules without shaping substantive patentability standards may imply that the USPTO will continue this practice under the AIA.²³³ Likewise, the possibility of suit by dissatisfied patentees may act as a natural check on USPTO rulemaking.²³⁴ That is, because the USPTO will want to avoid the embarrassment and expense of defending itself in court, it will promulgate rules in a prudent, conservative manner.²³⁵ However, the following section of this Note demonstrates that this self-checking theory is far from airtight.

²²⁴ MENELL ET AL., *supra* note 107, at 654.

²²⁵ McConnell Letter, *supra* note 181, at 2.

²²⁶ See MANELL ET AL., *supra* note 107, at 4-25 to 4-26; Tran, *supra* note 10, at 661.

²²⁷ See Tran, *supra* note 10, at 661.

²²⁸ *Id.* at 630–31.

²²⁹ *Id.*

²³⁰ Press Release, USPTO, U.S. Commerce Department to Open Four Regional U.S. Patent Offices that Will Speed Up the Patent Process and Help American Businesses Innovate, Grow, and Create Jobs (July 2, 2012), available at <http://www.uspto.gov/news/pr/2012/12-40.jsp>.

²³¹ Tran, *supra* note 10, at 631.

²³² *Id.* at 650–51.

²³³ *Id.* at 651–52. *But see* Wasserman, *supra* note 18, at 382–83 (asserting that the USPTO has played a large role in developing substantive patent law standards despite the purported ban on its substantive rulemaking authority).

²³⁴ See Tran, *supra* note 10, at 658.

²³⁵ See *id.*

III. A MODEL OF JUDICIAL REVIEW TO CHECK OVERBROAD USPTO RULEMAKING UNDER THE AIA

There is no doubt that the AIA shifts responsibility from courts to the USPTO and alters the availability of those forums to parties in a patent dispute. This expansion of power strains the already tenuous power divide between the USPTO and the Article III courts. However, because of *stare decisis* and current administrative-law framework, any constitutional challenges to the delegation of post-grant review authority contemplated by the AIA will most likely fail.²³⁶ Regardless, these concerns should be kept in mind during the inevitable interplay between the courts and the USPTO that will determine the contours of authority under the AIA. Although the post-grant provisions should pass constitutional muster, the text is rife with ambiguity.²³⁷ Given the magnitude of the legislation and the importance of patents to our economy,²³⁸ the metes and bounds of USPTO authority under the AIA will be heavily litigated even if the law itself should survive judicial scrutiny.²³⁹

Therefore, although the AIA clearly shifts responsibility from the courts to the USPTO, the courts are in a position to establish the limits of the USPTO's power under the Act.²⁴⁰ In other words, by ensuring that the USPTO exercises its new authority in a manner that comports with the Constitution, *stare decisis*, and legislative intent, courts can properly check USPTO authority and preserve the role of the judiciary in the patent system. Such a judicial backstop can benefit all stakeholders in the patent system, including the USPTO itself.²⁴¹

The following Parts propose a model of judicial review that will provide this needed check on USPTO overreaching under the AIA. This approach is aimed at preventing the proliferation of improper substantive rulemaking by the USPTO. The approach is illustrated through a hypothetical challenge to a USPTO rule and is compared to the alternative of expressly allowing the USPTO substantive rulemaking authority. This illustration and comparison demonstrates the merits of a strong check on USPTO rulemaking authority, as well as the numerous dangers of deferring to substantive rulemaking by the USPTO.

²³⁶ See, e.g., Dinh Memo, *supra* note 180, at 2–9; McConnell Letter, *supra* note 181, at 2.

²³⁷ Jan Wolfe, *What Effects Will the America Invents Act Have on U.S. Patent Law?*, LAW.COM (Sept. 13, 2011), <http://www.law.com/jsp/cc/PubArticleCC.jsp?id=1202514170593> (quoting retired CAFC Judge Paul Michel describing the AIA as “full of ambiguities”).

²³⁸ See, e.g., Brief of 37 Law, Business, and Economics Professors as Amici Curiae Supporting Petitioner at 3–6, 17, *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238 (2011) (No. 10-290).

²³⁹ Tran, *supra* note 10, at 611 (stating that the AIA will cause a “raging debate” over the proper relationship between patent law and administrative law).

²⁴⁰ See *id.*

²⁴¹ See, e.g., Miller, *supra* note 32 (praising the CAFC’s procedural-substantive test in assessing the validity of USPTO rules).

A. The Approach: Giving Teeth to the Procedural-Substantive Test

In reviewing challenges to USPTO rules and decisions, the courts should apply a stricter version of the current procedural-substantive test. Specifically, courts should employ the standard articulated by Judge Rader in *Tafas v. Doll*, where a rule is deemed substantive and struck down if it produces substantive effects that are “sufficiently grave.”²⁴²

Again, under the procedural-substantive test, the USPTO may validly enact procedural rules but is barred from enacting substantive rules.²⁴³ However this test is heavily criticized and has even been called “murky and normatively defective.”²⁴⁴ There is some truth to this complaint, as CAFC judges do not agree on the terms of its applicability,²⁴⁵ and the USPTO has long enacted substantive-like rules.²⁴⁶ This confusion, combined with the legislative intent to generally expand USPTO authority, leads some commentators to urge a policy of judicial deference to the USPTO’s substantive rule-making authority under the AIA.²⁴⁷

However, a far better approach is to apply a stricter version of the procedural-substantive test, with the burden on the USPTO to show that a rule is clearly procedural and does not substantially impact the substantive rights of patentees.²⁴⁸ By strictly vetting any challenged USPTO action for indicia of substantive rulemaking in this way, the courts provide a firm check on USPTO overreaching, preserve their own role in deciding substantive matters of patent law and ensure the continued availability of an Article III forum to parties in a patent dispute. Importantly, this approach is not at odds with the central purpose of the AIA: namely, to allow the USPTO the necessary authority, including rulemaking authority, to improve patent review and dispute resolution.

²⁴² *Tafas v. Doll*, 559 F.3d 1345, 1369 (Fed. Cir. 2009) (Rader, J., concurring in part and dissenting in part) (citations omitted).

²⁴³ *See, e.g.*, *Animal Legal Def. Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991).

²⁴⁴ *Tran, supra* note 10, at 650.

²⁴⁵ *Tafas*, 559 F.3d at 1345. The *Tafas* case produced three separate opinions as to the applicability of the procedural-substantive test, and these conflicting views have yet to be resolved. *Id.*

²⁴⁶ *Tran, supra* note 10, at 658. *Tran* points out that under 35 U.S.C. § 2(b)(2), the USPTO has the authority to designate certain classes of patents for expedited review. *Id.* at 653; *see also* Wasserman, *supra* note 18, at 382–83.

²⁴⁷ *See U.S. Patent and Trademark Office: Hearing Before the H. Comm. on the Judiciary*, 111th Cong. 57 (2010) (statement of David Kappos, Director, USPTO) (asserting the efficacy of maximal USPTO rulemaking authority); *Tran, supra* note 10, at 626; Letter from Gary Locke, Sec’y of Commerce, U.S. Dep’t of Commerce, to Patrick J. Leahy, Chairman, Comm. on the Judiciary, U.S. Senate, and Jefferson B. Sessions, III, Ranking Member, Comm. on the Judiciary, U.S. Senate 3 (Oct. 5, 2009), available at http://www.uspto.gov/aia_implementation/locke-letter-oct-05-2009.pdf (arguing that the USPTO should have substantive rulemaking authority).

²⁴⁸ *See* Miller, *supra* note 32, at 50–51.

The remaining sections elucidate this approach to judicial review of USPTO actions under the AIA. The next Part exhibits this method in action and demonstrates its numerous advantages over the alternative of allowing substantive rulemaking by the USPTO. Following that discussion, the remaining arguments for the alternative approach are refuted.

B. Illustrating the Approach Through a Hypothetical

The preferred method of applying the procedural-substantive test is well illustrated through a hypothetical involving one of the many ambiguities stemming from the USPTO's broad rulemaking authority.

As mentioned throughout this Note, section 18 of the AIA provides that "technical inventions" are excluded from the special post-grant review of business method patents.²⁴⁹ Further, the AIA grants the USPTO the authority to enact "regulations for determining whether a patent is for a technological invention."²⁵⁰ What exactly constitutes technological inventions is a source of confusion, and the USPTO may therefore choose to expressly define the term.²⁵¹ However, this will necessarily create a class of patentees who are tabbed for post-grant review, but feel that their patents cover technological inventions.²⁵²

These disgruntled patentees can challenge the USPTO definition in federal court, at which point the reviewing court must decide whether the USPTO's definition amounts to procedural or substantive rulemaking. This example is particularly interesting because it is not entirely clear to which category this USPTO action belongs. On the one hand, the USPTO has congressional authority to enact "regulations for determining whether a patent is for a technological invention,"²⁵³ and defining the term will allow the USPTO to better carry out the process of post-grant review. On the other hand, explicitly defining "technological invention" determines the classes of inventions that are eligible for the transitional program, thereby directly impacting patentees' substantive rights in their intellectual property.²⁵⁴

With that background, one can begin to appreciate the consequences of the court's decision. If the court defers to the USPTO's rulemaking authority, it must either embrace a relaxed interpretation of what constitutes a procedural rule or else expressly hold that the USPTO has valid substantive rulemaking authority under the AIA. Such a course entails either adopting Judge Bryson's rejection of the procedural-substantive distinction in *Tafas*²⁵⁵ or broadening Judge Prost's holding that rules are procedural so

²⁴⁹ America Invents Act, Pub. L. No. 112-29, § 18(d)(1), 125 Stat. 284 (2011).

²⁵⁰ *Id.* § 18(d)(2).

²⁵¹ *See, e.g.,* Tran, *supra* note 10, at 637.

²⁵² *See id.*

²⁵³ America Invents Act § 18(d)(2).

²⁵⁴ *See* Tran, *supra* note 10, at 631.

²⁵⁵ 559 F.3d 1345, 1366 (Fed. Cir. 2009) (Bryson, J., concurring).

long as they do not alter substantive standards of patent eligibility.²⁵⁶ By contrast, the court can adopt Judge Rader's procedural-substantive test.²⁵⁷ Under that test, the definition may be found to gravely impact the substantive rights of patentees and, therefore, represent an invalid substantive rule.²⁵⁸ The latter approach is preferable from both a constitutional and prudential standpoint.²⁵⁹ First, that approach comports with separation of powers principles, preserves access to Article III courts for patentees, and ensures would-be patentees strong rights in their intellectual property. Second, this strong check on USPTO overreaching creates efficiencies that inure to the benefit of all stakeholders in the patent system. Compared to the alternative, this approach will signal the USPTO to focus exclusively on the effective administration of its core duties, thereby benefiting every level of the patent system.

Following Judge Rader's procedural-substantive test from *Tafas* would ensure proper separation of powers by affirming and strengthening the ban on substantive rulemaking by the USPTO. A more deferential review under the AIA eviscerates the proper separation of powers. Allowing the USPTO free reign to define categories of inventions exempt from post-grant review can easily lead to more and more substantive-like rulemaking activity.²⁶⁰ Over time, this may allow the USPTO to essentially manipulate or circumvent the patentability and patent-eligibility standards properly set by Article III courts.²⁶¹ The approach articulated by Judge Rader and endorsed by this Note effectively guards against this unconstitutional usurpation. Further, this approach preserves the would-be inventor's access to an Article III forum and reinforces the incentive to invent. If courts defer to USPTO rulemaking, the unchecked USPTO will naturally and gradually strengthen its own authority, thereby chipping away access to an Article III forum.²⁶² Because this scenario is premised on the courts' deference to the USPTO, patentees have little hope of a favorable decision if they challenge an overbroad USPTO rule. Thus, unchecked USPTO power stacks the deck against inventors, creating uncertainty in the strength of patent protection and diminishing the incentive to invent.²⁶³ By contrast, paring down USPTO rulemaking and

²⁵⁶ *Id.* at 1353–54 (majority opinion). A court could not plausibly reach this result through a wholesale adoption of Prost's test, as any definition of "technological invention" will necessarily alter substantive standards of patent eligible subject matter. *See Tran, supra* note 10, at 631.

²⁵⁷ *Tafas*, 559 F.3d at 1368 (Bryson, J., concurring).

²⁵⁸ *Id.* (Rader, J., concurring in part and dissenting in part). Judge Rader's test, advocated by this Note, would likely find any overbroad definition of "technological invention" to gravely impact the substantive rights of patentees, because such a definition will subject a broad class of patentees to the possibility of losing their patents. *See Tran, supra* note 10, at 631.

²⁵⁹ *See generally* Miller, *supra* note 32 (discussing the merits of the CAFC's procedural-substantive test).

²⁶⁰ *See, e.g.*, Epstein & Kieff, *supra* note 24, at 13.

²⁶¹ *See* Jonathan S. Masur, *Patent Inflation*, 121 *YALE L.J.* 470, 473–74 (2011) (suggesting that the USPTO has already played a role in expanding patent-eligible subject matter); Wasserman, *supra* note 18, at 382–83.

²⁶² *See* Wasserman, *supra* note 18, at 382–83.

²⁶³ *See id.*

preserving access to Article III courts should strengthen patent protection and incentivize innovation because courts are traditionally a friendlier forum than the USPTO from the inventor's perspective.²⁶⁴

Additionally, and perhaps somewhat counter-intuitively, the USPTO actually stands to gain from a judicial approach that places a strong check on its own power. Specifically, the USPTO can benefit immensely from the clarity provided by this robust review, as it sends an unambiguous signal to enact only rules that are clearly procedural, or else risk the embarrassment and inconvenience of having those rules challenged and overturned.²⁶⁵ Again, this is preferable to the alternative, where the court's deference would embolden the USPTO to naturally and gradually assume more responsibility.²⁶⁶ This would have an insidious effect from an administrative efficiency standpoint, as the USPTO is already understaffed for its current duties.²⁶⁷ Although this deference rests on a good-faith belief that such leeway is needed to better administer the patent system,²⁶⁸ an unchecked USPTO may bite off more responsibility than it can chew.²⁶⁹ Allocating already sparse manpower to take on this glut of new responsibilities will lead to systemic inefficiency in the USPTO and distract employees from performing their core duties. For one, USPTO employees will need time to figure out how best to perform their roles and responsibilities under the avalanche of new rules.²⁷⁰ Worse, the value of patent rights is such that patentees will challenge overbroad USPTO rules regardless of their chance of success,²⁷¹ and this onslaught of litigation will further divert resources from the USPTO's most essential tasks. In contrast, a tight judicial filter on the USPTO's substantive rulemaking authority ensures that the USPTO will focus exclusively on those crucial tasks. Compared to a more bloated, quasi-judicial USPTO, this narrower focus provides efficiencies that can be reallocated to better administering the patent review process, with benefits passing to the USPTO and all stakeholders in the patent system.

C. Pitfalls of Deferring to Substantive Rulemaking by the USPTO

The above discussion illustrates that a strict prohibition of substantive rulemaking by the USPTO is far preferable to an approach that simply defers to the USPTO. Still,

²⁶⁴ See generally Burk & Lemley, *supra* note 37.

²⁶⁵ See generally Miller, *supra* note 32.

²⁶⁶ See Long, *supra* note 18, at 1966 (asserting that the USPTO has long "been vying to gain more influence" in defining the substantive basis of patent law).

²⁶⁷ See Tran, *supra* note 10, at 630–31 (discussing the current USPTO staffing and funding woes).

²⁶⁸ See, e.g., *id.* at 650–61.

²⁶⁹ See Long, *supra* note 18, at 1966.

²⁷⁰ See Tran, *supra* note 10, at 630–31.

²⁷¹ See 2012 PATENT LITIGATION STUDY, *supra* note 1, at 6 (indicating a rise in patent litigation that is independent of any signals regarding likelihood of success).

some commentators opine that courts should allow the USPTO substantive rulemaking authority under the AIA.²⁷² Again, a major criticism of the current procedural-substantive test is that it is “murky and normatively defective,”²⁷³ and unduly reigns in the USPTO. Contrary to the approach advocated by this Note, courts could seemingly eliminate this confusion by simply allowing the USPTO to promulgate substantive rules.²⁷⁴ This Part discusses the purported rationale for that approach and why that rationale is misguided.

Besides the foreclosure of the vexing procedural-substantive distinction, proponents offer three additional benefits of broad deference to USPTO rulemaking authority. First, granting the USPTO express authority to promulgate substantive rules does not entail any major change, as the USPTO has long enacted substantive-like provisions.²⁷⁵ Second, the USPTO can be relied upon to self-regulate its substantive rulemaking authority as it will naturally wish to minimize the expense and potential embarrassment of litigation.²⁷⁶ Third, complete deference to the USPTO’s rulemaking authority crystallizes the office’s powers and responsibilities, thereby allowing the USPTO to more effectively administrate the patent system.²⁷⁷ Each of these arguments is treated below, starting with the fundamentally flawed premise that eliminating the procedural-substantive distinction will actually increase clarity as compared to Judge Rader’s approach.

It is self-serving and short-sighted to assert that abandoning the procedural-substantive test will eliminate the inherent uncertainty of that distinction. It contributes nothing to simply argue that eliminating something will obviate the problems surrounding it. While such a statement is true on its face, it ignores downstream consequences. In the case of the USPTO rulemaking authority, abandoning the substantive-procedural distinction may eliminate confusion at this threshold level, but this present clarity is bought with untold future opacity. Deference to substantive rulemaking authority will lead to an onslaught of challenges in court, thus spawning multiple areas of active and unresolved controversy. The resulting doctrine will likely include many tests that are as “murky and normatively defective” as the current procedural-substantive distinction, if not more so. Given the choice between the two sources of confusion, it is better to stick with the known evil and adhere to the procedural-substantive distinction.²⁷⁸

²⁷² See generally Tran, *supra* note 10.

²⁷³ *Id.* at 650.

²⁷⁴ See *id.*

²⁷⁵ See *id.* at 651.

²⁷⁶ See *id.* at 658 (“The surest way for the USPTO to avoid challenges to the substantive nature of its rules is to promulgate rules that have limited applicability or effect.”).

²⁷⁷ See *id.* at 659–60.

²⁷⁸ See, e.g., *Wal-Mart Stores, Inc. v. Samara Bros.*, 529 U.S. 205 (2000). In this trademark infringement case, the Supreme Court noted that although the distinction between product design, to which a trademark may not attach, and product packaging, to which a trademark may attach, is a challenging one, it is far preferable to the more uncertain alternative of deciding whether a product design is “inherently distinctive.” *Id.* at 215.

Furthermore, if the courts adopt Judge Rader's approach and give some needed bite to this test, the procedural-substantive distinction becomes a clear, unequivocal mandate for the USPTO to avoid overbroad rulemaking.²⁷⁹ Thus, the assertion that allowing the USPTO substantive rulemaking authority will increase clarity in the patent system is fundamentally flawed.

Proponents of USPTO substantive rulemaking authority also argue that the USPTO's history of enacting substantive-like rules dispels any concerns regarding this authority.²⁸⁰ The gist of this argument is that because the USPTO has responsibly enacted substantive-like rules in the past, it will continue to do this in the future.²⁸¹ This assertion is overly optimistic. Most critically, it ignores the onerous cocktail created by mixing the AIA's broad grants of power and ambiguous terms with the USPTO's unchecked authority to promulgate rules according these terms.²⁸² Given this new mixture, one simply cannot use the past to predict the behavior of the USPTO under the AIA.²⁸³ Further, the USPTO has long balked at judicially imposed restraints on its power,²⁸⁴ so a judicial endorsement of USPTO substantive rulemaking authority would come as an effective windfall to office administrators. With the backing of both Congress and the courts, these administrators would have every reason to push this authority to the limit and no corresponding incentive to exercise discretion and restraint. It is therefore naïve to suppose that, because the USPTO exercised moderate substantive-like rulemaking under the current patent regime, it will continue to do so under the broader authority of the AIA. Again, this problem is avoided by the rigorous approach to judicial review espoused in this Note.²⁸⁵

The assertion that the USPTO will restrain its substantive rulemaking in order to minimize controversy and costly litigation is similarly wanting. Indeed, this self-checking argument fails for analogous reasons as the argument just considered. Again, the proposition that courts should allow the USPTO substantive rulemaking authority removes a major check on the power of that agency and implicates a degree of deference to its future rulemaking decisions.²⁸⁶ This deference, combined with unchecked rulemaking authority, will embolden the USPTO to act as sweepingly as it pleases with minimum fear of defeat in court.²⁸⁷ Further, even if the USPTO loses isolated challenges, the relaxed stance of the courts should allow the USPTO to enact rules much

²⁷⁹ See generally Miller, *supra* note 32.

²⁸⁰ See Tran, *supra* note 10, at 651.

²⁸¹ *Id.* But see Wasserman, *supra* note 18, at 382–83 (asserting that the USPTO has played a large role in developing substantive patent law standards despite the purported ban on its substantive rulemaking authority).

²⁸² See Wasserman, *supra* note 18, at 382–83.

²⁸³ See *id.*

²⁸⁴ See, e.g., Long, *supra* note 18, at 1966 (discussing the USPTO's various efforts to gain more influence in substantive matters of patent law).

²⁸⁵ See *supra* Part III.A.

²⁸⁶ See Long, *supra* note 18, at 1975.

²⁸⁷ See *id.*; see also Wasserman, *supra* note 18, at 382–83.

faster than they can be challenged. Thus, the USPTO has no incentive to self-regulate its rulemaking under this deferential model of judicial review. Indeed, given the history surrounding the interplay of the USPTO and the courts, there is every reason to predict that the USPTO will fully exploit any leeway granted by the courts.²⁸⁸ By contrast, the model of judicial review advocated by this Note ensures self-regulation by the USPTO, as it presents the agency with the easy choice between self-regulation and defeat in court.

Finally, proponents of unfettered USPTO rulemaking authority argue that the patent system as a whole is best served by a robust, unrestricted USPTO.²⁸⁹ However, allowing the USPTO substantive rulemaking authority will lead to far more confusion than it initially eliminates. Even assuming for the sake of argument that this authority will not obscure more than it elucidates, this point is still vulnerable on other grounds. The argument rests on the premise that allowing the USPTO to promulgate rules without fear of judicial overrule will result in efficiency gains within the office.²⁹⁰ However, an attending consequence of unchecked rulemaking by the USPTO is that the USPTO will take on more and more power through this rulemaking.²⁹¹ Again, the already understaffed USPTO will have to find a way to manage this ballooning sphere of administrative responsibility. Further, discontented patentees will fight tooth and nail against this expanding authority. Even if such challenges face an uphill battle, there will be no shortage of prospective inventors and patentees willing to take up the fight.²⁹² The USPTO must still expend manpower and resources even if it wins every time. Thus, compared to a scenario that checks overbroad rulemaking by the USPTO, allowing substantive rulemaking authority will lead to efficiency losses on at least two fronts: those losses inherent in grappling with nascent and ever-expanding authority and those losses appurtenant to the inevitable flood of litigation that will accompany this authority.

CONCLUSION

Under the AIA, current administrative tensions in patent law will be magnified by the USPTO's unprecedented gains in authority. Many argue that the USPTO's new powers amount to an outright violation of the separation of powers provided by the Constitution. Although these arguments present intriguing merits, they are likely doomed to failure. However, the courts are in a prime position to reign in USPTO rulemaking authority under the AIA. By requiring the USPTO to bear the burden of showing that a rule is clearly procedural and does not substantially impact the substantive

²⁸⁸ See, e.g., Long, *supra* note 18, at 1966.

²⁸⁹ See Tran, *supra* note 10, at 650–60.

²⁹⁰ See *id.*

²⁹¹ See Long, *supra* note 18, at 1966.

²⁹² This is owing to the increasing awareness of the value of patents. See 2012 PATENT LITIGATION STUDY, *supra* note 1, at 6.

rights of patentees, the courts can place a firm and necessary check on USPTO rule-making authority. This model of judicial review will prevent the erosion of the court's key role in shaping patent law, and will incentivize inventors by preserving access to an Article III forum. Further, this approach sends a clear signal to the USPTO to enact only procedural rules and to operate within the confines of those rules, thereby focusing the USPTO on its core duties under the AIA. Thus, this approach benefits all stakeholders in the patent system by preserving the constitutional separation of powers, bolstering the incentive to invent, and fostering efficiency within the USPTO.