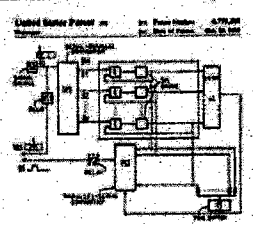
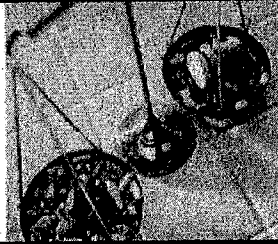
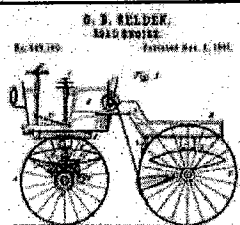
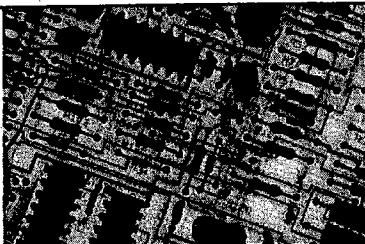


FEDERAL TRADE COMMISSION



To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy

A Report by the Federal Trade Commission
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overall picture cannot simply be portrayed as pro-patent.¹⁸¹

Nonetheless, the trends in validity rulings, coupled with the strong competitive concerns implicated by the quality of patents, direct attention to the nature of validity litigation. The evidentiary burdens that govern this process are the focus of the next section.

B. Presumption of Validity/Clear and Convincing Evidence

The Hearings focused attention on the significance attached in litigation to the issuance of a patent. The issue has two aspects. First, the Patent Act creates a presumption of validity applicable when a patent is challenged in federal court: "A patent shall be presumed valid."¹⁸² Second, the Federal Circuit has interpreted this requirement to impose a clear and convincing evidence standard on those who challenge validity.¹⁸³ Both the presumption

and the clear and convincing evidence standard apply even when a patent is challenged on the basis of prior art that the PTO never saw, although, in such circumstances, the new evidence may "carry more weight and go further toward sustaining the attacker's unchanging burden."¹⁸⁴ The combination of the presumption and standard of proof drew considerable attention from the panelists.

Critics questioned whether that combination can be justified. Some noted the disparity between directing the PTO to issue patents based on an assessment of a mere preponderance of the evidence and subjecting third parties who challenge those patents to a higher standard of proof.¹⁸⁵ Others questioned whether there was a logical basis for extending the presumption or standard to challenges based on prior art that the PTO had never considered.¹⁸⁶ Several of the panelists took a pragmatic perspective, questioning whether the limited examination possible in terms of hours available and ability to probe behind applicants' assertions justified the

¹⁸¹ See, e.g., Kitch 2/20 at 67-68; Myrick 3/19 at 46; Duffy 7/10 at 184; Wamsley 7/10 at 194; cf. ROBERT L. HARMON, PATENTS AND THE FEDERAL CIRCUIT 161 (5th ed. 2002 Supp.) (concluding that the "patent enforcement pendulum is swinging toward a more neutral position" than one in which the enforcement climate under the Federal Circuit had "strongly favor[ed] the patentee").

¹⁸² 35 U.S.C. § 282.

¹⁸³ See, e.g., *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir.), cert. denied, 469 U.S. 821 (1984); *SSIH Equipment S.A. v. United States Int'l Trade Comm.*, 718 F.2d 365 (Fed. Cir. 1983). Both cases relied upon the Supreme Court's opinion in *Radio Corp. of America v. Radio Engineering Laboratories*, 293 U.S. 1 (1934), which, spoke in terms of "more than a dubious preponderance" of evidence, "clear and satisfactory evidence," and evidence sufficient "to evoke a clear conviction," *id.* at 8-10, but did not expressly

establish a clear and convincing evidence standard. Panelists generally attributed the clear and convincing evidence standard to the Federal Circuit. See, e.g., Weinstein 2/27 at 533-34; Kesan 4/10 at 148.

¹⁸⁴ See, e.g., *American Hoist & Derrick*, 725 F.2d at 1360; Duffy 7/10 at 118, 120.

¹⁸⁵ See, e.g., T.S. Ellis 7/11 at 118-19; Thomas 10/25 at 137-38; Gambrell 10/25 at 148.

¹⁸⁶ See, e.g., Duffy 7/10 at 121 and John F. Duffy, *Nonobviousness: The Economics and Legal Process of the Doctrine* (7/10/02) (slides) at 17, at <http://www.ftc.gov/opp/intellect/020710johnfduffy.pdf> (hereinafter Duffy Presentation); Kushan 10/25 at 142; Gambrell 10/25 at 148.

presumption or the high standard of proof.¹⁸⁷

Defenders of the presumption and standard urged that a finding of validity by a neutral government agency using a knowledgeable examiner justifies placing a heavy burden on challengers.¹⁸⁸ Some observed that the Federal Circuit has recognized that the challenger's burden is partially discharged when new, material prior art is presented, and argued that any remaining advantages flowing from the presumption and high standard of proof have little, or only a measured, practical effect.¹⁸⁹ Others, in contrast, asserted that the presumption and standard can have compelling effects on both judges and juries.¹⁹⁰ District Judge Ellis worried that the clear and convincing evidence burden may work to undermine the role contemplated by the patent system for court

challenges to weed out faulty patents.¹⁹¹

Panelists put forward an array of possible changes. Some called for eliminating the presumption of validity,¹⁹² at least in cases involving new, material prior art.¹⁹³ Other testimony focused instead on the standard of proof, urging that it be reduced from clear and convincing evidence to preponderance of the evidence.¹⁹⁴ Still other testimony suggested that the presumption of validity and/or the clear and convincing evidence standard might be applied only when a patent has undergone examination under a heightened disclosure requirement or has survived an *inter partes* reexamination or some form of opposition proceeding.¹⁹⁵

¹⁸⁷ See, e.g., T.S. Ellis 7/11 at 118-19; Kirschner 2/26 at 289-90; Weinstein 2/27 at 533; Kesan 10/25 at 146; cf. Langenfeld 2/20 at 17 (deference to issued patents presumes high accuracy in examination process); Linck 4/9 at 67-68 (time pressures limit what practicably can be expected from examinations).

¹⁸⁸ See Garner 10/25 at 136, 163-64.

¹⁸⁹ See, e.g., Garner 10/25 at 136; Linck 10/25 at 151-53; Taylor 10/25 at 158-60.

¹⁹⁰ See, e.g., Seide 3/19 at 219 (because of the presumption of validity, the standard to invalidate a patent in court is "much higher" than the standard during examination); Gambrell 10/25 at 39-40 (the presumption of validity and clear and convincing evidence standard tell a jury that "unless we find something devastating[ly] effective against it, we're going to affirm it"), 150-51 (jurors "see the seal on the patent, they hear clear and convincing evidence, and their likelihood of going for the defendant is much slighter than it is for the patentee"), 153-54.

¹⁹¹ See T.S. Ellis 7/11 at 119-20; see also Sung 2/8 (Patent Session) at 141-42 (noting possible *in terrorem* effect of presumption of validity and clear and convincing evidence standard against challenging invalid patents).

¹⁹² See, e.g., Friedman 2/27 at 357; Kieff 4/10 at 162 (decrease or eliminate presumption of validity).

¹⁹³ See, e.g., Duffy 7/10 at 121 and Duffy Presentation at 17; Gambrell 10/25 at 148, 150-51. One panelist suggested that the presumption might be retained, but with a delayed effective date. Dickinson 10/25 at 91 (analogizing to incontestability of certain trademarks after five years).

¹⁹⁴ See Thomas 10/25 at 138; Gambrell 10/25 at 150-51; see also Lemley, 95 Nw. U. L. REV. at 1528-29; cf. Kunin 7/10 at 138 (preponderance of the evidence standard "perhaps being, let's say, a little bit more realistic from the standpoint of permitting the presumption to be rebutted").

¹⁹⁵ See Kesan 4/10 at 148-49, 10/25 at 62, 145-46; T.S. Ellis 7/11 at 126 (tying clear and convincing evidence standard to meeting enhanced disclosure requirements a good idea); see also Kesan, 17 BERKELEY TECH. L. J. at 773-75. But see Kushan 10/25 at 143 (unfair to withhold presumption of validity from a patent whose validity was never even questioned).

Analysis

As a simple matter of burden assignment, the presumption of validity is not objectionable. The patent has been examined and found valid by the PTO. If the patent subsequently is challenged, the burden of persuasion rests with the party seeking to overturn the PTO's ruling.¹⁹⁶

But there is no persuasive reason why the level of that burden should be clear and convincing evidence.¹⁹⁷ As panelists underscored, the PTO's determinations supporting issuance of patents are based only on a preponderance of the evidence. Perhaps even more telling, those determinations are reached under tight time constraints and on an *ex parte* basis allowing minimal opportunity to hear a third party's opposing views. All the failings of *ex parte* examination discussed *supra* in Ch. 5(II) – limited examiner time, the limited nature of applicants' disclosure obligations, limited access to potentially vital prior art and third-party expertise, the need for examiners to accept applicant's positions on point after point under presumption after presumption – have profound implications given that the burden rests on the PTO to demonstrate that patents should not issue. Rather than suggesting a basis for weighting judicial

¹⁹⁶ See Thomas 10/25 at 138 ("The burden is probably properly upon an accused infringer"); Linck 10/25 at 151-52 ("The presumption . . . is really a burden shifting device to put the burden on the challenger.").

¹⁹⁷ It is not expressed in the Patent Act. As one commentator, analogizing to a tennis match, observes, "§ 282 [stating the presumption of validity] determines who will serve first, but does not regulate the height of the net." Charles E. Phipps, *The Presumption of Administrative Correctness: The Proper Basis for the Clear and Convincing Evidence Standard*, 10 FED. CIR. BAR J. 143, 148 (2000).

review in the patentee's favor, these factors state a compelling case against imposing a heightened evidentiary standard on those challenging patent validity.¹⁹⁸

Recommendation. To the extent that the clear and convincing evidence standard distorts the litigation process, as some of the panelists indicate, it is a matter for particular concern. Litigation is a mechanism for focusing enhanced attention on those patents that are most likely to hold commercial significance and for weeding out from this group those patents that should not have been granted.¹⁹⁹ If these market-selected inquiries cannot be conducted on a level playing field, there is serious potential for judicially confirming unnecessary, potentially competition-threatening rights to exclude.²⁰⁰ Accordingly, the Commission recommends that legislation be enacted specifying that challenges to the validity of a patent be determined based on a preponderance of the evidence.

C. Willfulness/Treble Damages

A second aspect of litigation that drew substantial discussion was willful infringement. Pursuant to 35 U.S.C. § 284,

¹⁹⁸ Any benefit from enhanced certainty resulting from the heightened, "clear and convincing" evidentiary standard thus carries the potential harm of reduced accuracy and increased costs of error.

¹⁹⁹ See Kieff (stmt) 4. As noted *supra* in Ch. 5(III), post-grant review procedures would fill a similar role.

²⁰⁰ See Lemley, 95 Nw. U. L. REV. at 1529 (relying on in-depth litigation to eliminate examination errors in the cases that really matter will not work if validity litigation "defers to the cursory review already conducted. Based on what we know of patent examinations, deference is not appropriate.").