

MEMO TO CONGRESS

A DISTRICT JUDGE'S PROPOSAL FOR PATENT REFORM: REVISITING THE CLEAR AND CONVINCING STANDARD AND CALIBRATING DEFERENCE TO THE STRENGTH OF THE EXAMINATION

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Patent reform is hot these days. This short Article gives my perspective, as a federal district court judge in a patent-intensive venue, on what is wrong, and my proposal for a simple, if only partial, fix. Over my decade on the bench in San Francisco, I have presided over more than one hundred patent infringement actions, ten of which went through trial. In my earlier career as a trial lawyer, I litigated two patent trials to completion. In this Article, I speak individually and for no one else. Although this Article sets forth a recommendation, my duty as a judge to faithfully uphold the law, whether or not Congress adopts my recommendation, will be foremost.

The foremost advantage of our patent system is that it protects one of the crown jewels of the United States—its intellectual property. The patent system's foremost problem is that too many invalid and weak patents get through the U.S. Patent and Trademark Office (PTO), which are then lorded over competitors and competitive products—without advancing any worthwhile interest. This is an unwelcome clog on commerce.

The vast explosion in patent litigation began in the mid-1980s, resulting from the reinvigoration of the patent system by Congress, including its establishment of the Court of Appeals for the Federal Circuit.¹ That court, which hears all patent appeals, did what Congress presumably wanted and breathed great strength into patents and their protection. Perhaps too much

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1. United States Court of Appeals for the Federal Circuit, About the Court, <http://www.cafc.uscourts.gov/about.html> (last visited Mar. 16, 2010).

so. So much reinvigoration occurred that patent litigation, once a quiet backwater of the federal courts until the 1980s, has become a swelling sea.

A central reason for the litigation boom is the presumption of validity and the “clear and convincing” standard: Patents are presumed valid under 35 U.S.C. § 282 and can only be set aside in litigation upon “clear and convincing” proof of invalidity.² This presumption of validity applies equally to all patents—even those that are almost certainly invalid. This is a huge advantage for the patent holder—and it is often an unfair advantage, given the ease with which applicants and their agents can sneak undeserving claims through the PTO. Because of the burnish of this presumption, patentees can use a weak, arguably invalid patent, to force an accused infringer through years of litigation. This is more than just a nuisance. Legal defense costs run, at the low end, about three million dollars per case, and range well over ten million dollars in some actions.³ In the United States, the number of patent infringement suits filed annually nearly doubled between 1994 and 2004.⁴ According to the Phoenix Center for Advanced Legal and Economic Public Policy Studies, patent litigation costs the economy 4.5 billion dollars annually.⁵

The presumption of validity and the clear and convincing standard would be wise if almost all patents were, in fact, valid. My own experience, however, has been that at least one-third of patent claims asserted in litigation should never have issued. I believe most lawyers, academics, and judges would agree that far too may invalid patents slip through the PTO, even though they would vary up or down from my percentage estimate.⁶ But invalid or not, they all receive the forensic advantage of a legal earthwork fortified by a protective moat, namely the presumption of validity in tandem with the clear and convincing standard of proof that is required to overcome that presumption.

2. 35 U.S.C. § 282 (2006).

3. George S. Ford et al., *Quantifying the Cost of Substandard Patents: Some Preliminary Evidence* 27 (Phoenix Ctr. Policy Paper Series, Paper No. 30, 2007).

4. See J. SHAWN MCGRATH & KATHLEEN M. KEDROWSKI, AM. BAR ASS'N, TRENDS IN PATENT DAMAGES, available at <http://www.docs.piausa.org/ABA/07-06-01-ABA-Report-On-Patent-Damages.pdf>.

5. Ford, *supra* note 3, at 3.

6. See, e.g., FTC, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW 6 (2003), available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf> (noting that Professor Mark Lemley, a panelist at a 2002 FTC and DOJ panel on patent reform, found that 45–46% of all patents litigated to final results are held invalid).

Notably, Congress has not adopted the clear and convincing standard. It evolved via caselaw.⁷ The standard arrived before the patent litigation explosion—indeed, it probably helped to bring on that explosion. Congress (or perhaps the Supreme Court) could intervene to conform the standard to the normal evidentiary standard used in trademark and other areas of the law, which is, as stated, by a preponderance of the evidence. No less than the Federal Trade Commission, not to mention distinguished professors, have urged this change!⁸

In 2003, the FTC released a careful critique of our patent system and suggested how to improve it.⁹ Their report listed many possible fixes. As a concession to the shortness of life, this Article focuses sharply on only one fix, a small change that would do much good: (1) to reduce the level of proof required to invalidate a patent to a preponderance of the evidence, the normal standard of proof in civil cases, and (2) to modulate the degree of deference due to the PTO by the extent to which the invalidity question surfaced during examination, and if the applicant prevailed on that invalidity question, the extent to which it was addressed. Under my proposal, Section 282 would be revised to state, in part,

A patent claim is presumed to be valid and may be found invalid only upon proof of invalidity by a preponderance of the evidence. In evaluating the question and in evaluating the degree of deference to be accorded a Patent and Trademark Office action or allowance, the trier of fact may take into account the extent to which the examiner was afforded a reasonable opportunity to address the specific question of invalidity and the extent to which the examiner reasonably addressed the specific question of invalidity.

Note well that my proposal would also expressly reduce or increase the deference accorded a PTO examination by the extent to which the same invalidity issue was or was not vetted by the agency. This would codify a wise suggestion the Supreme Court made recently when it said that the rationale for the presumption was “much diminished” when the prior art in question was not disclosed during the PTO’s examination.¹⁰

7. Doug Lichtman & Mark Lemley, *Rethinking Patent Law’s Presumption of Validity*, 60 STAN. L. REV. 45, 51–52, 61 (2007); Mark D. Janis, *Reforming Patent Validity Litigation: The “Dubious Preponderance”*, 19 BERKELEY TECH. L.J. 923, 924–25 (2004).

8. See FTC, *supra* note 6, at 32; Lichtman, *supra* note 7, at 49; Janis, *supra* note 7, at 926, 932–35.

9. FTC, *supra* note 6.

10. *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007).

I recognize that this change would not have a dramatic effect at the summary judgment stage, because changing the standard of proof and the degree of deference cannot overcome plausible, if weak, evidence of validity at the summary judgment stage. But one impact of the amendment would be at trial. No longer would juries woodenly accord great deference to PTO examinations wherein the key prior art issues never even surfaced or, if surfaced, were given short shrift. This, in combination with application of the lower burden of proof, would make the invalidity trial a fair contest and, in turn, deter at least some infringement actions based on weak patents. Another important impact would occur before patents ever reached the courthouse. In PTO prosecutions, the amendment would encourage more disclosure, and more *pointed* disclosure, thereby giving the PTO examiner a better chance to reach the right outcome.



How do so many weak patents slip through the PTO? The main reason is that the patent-application process before the PTO is largely one-sided. The only side that gets to present a case is the applicant, who has a manifest interest in slanting matters in a light most favorable to allowance. There is no adversary to present or argue the opposing view to the examiner. In fact, the competitors against whom the claims will eventually be asserted are often kept unaware of the entire proceeding.¹¹

Patent claims, once granted, have the force of law, that is, of rules and regulations. An issued patent claim amounts to an agency determination to exclude everyone but the patent holder (and its licensees) from practicing any commerce within the scope of the claim. One premise of the Supreme Court's *Markman* decision in 1996 was that patent claims are matters of "law," whose scope a judge must construe, rather than "fact" for a jury to construe.¹² Yet issuance of patent claims by the PTO is one of the few times in our legal system that rulemaking occurs without opportunity for public comment. Indeed, it occurs *ex parte*, with only the applicant's case presented to the agency.

In the United States, we usually believe that there are two sides to every story—that is certainly the premise of the adversary system and the even-handed way in which the courts try cases and Congress conducts

11. Applications are published eighteen months after filing, unless the applicant requests that the application remain unpublished and certifies that he has not and will not file for patent protection in a foreign jurisdiction that requires publication within eighteen months of filing. *See* 37 C.F.R. § 1.213 (2010).

12. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 388 (1996).

hearings. But the opposite premise is used in obtaining a patent. Even if there are two or more sides, the PTO listens to only one side, and trusts that side to state all positions fairly. The truth is that the applicants and their attorneys are skilled at prosecuting the case for patentability without revealing the best opposing arguments. Although they are obligated to disclose adverse prior art known to them, they sometimes fail to do so, or, if they do, they minimize these references with one-sided arguments or bury them in a long list of prior art references. No adversary is there to keep them honest and present the other side of the story. PTO examiners are overwhelmed with work, and often do not have the time to develop the best counterarguments. They are no match for the professionals who earn large sums for guiding patent applications through the PTO. In short, the core problem is that the agency engages in what amounts to rulemaking that is binding on the entire economy, yet gives only one party, the one with the greatest incentive to distort, an opportunity to be heard. No other patent system in the world is so one-sided.¹³

One of the advantages of my proposal is that it would incentivize patent applicants to search out the prior art, to explain it to the examiner, and to call attention to the most difficult questions of invalidity, all with a view toward overcoming the references and obtaining a stronger prosecution record for litigation. This would encourage more disclosure to the examiner and would benefit deserving patents. Conversely, it would work against weaker patents by assisting the examiner to see through them, or, if that opportunity was denied to the examiner, it would be easier for an adversary to “undo” the patent in court. This small change would be easy to write into Section 282 and would in no way interfere with continuing consideration of longer-range reforms.

To be sure, recent reforms now allow a third party to have a limited voice to the PTO. Pre-issuance, i.e., prior to allowance of a patent, current PTO procedures allow a third party to submit prior art in two ways: “protests”¹⁴ and “third-party submissions.”¹⁵ In post-issuance, i.e., post-allowance,

13. *See, e.g.*, Convention on the Grant of European Patents arts. 99–105, Oct. 5, 1973, 1065 U.N.T.S. 255 (establishing post-grant opposition procedure); *see generally* Dale L. Carlson & Robert A. Migliorini, *Past as a Prologue for Patent Reform: Experience in Japan with Oppositions Suggests an Alternative Approach for the U.S.*, 88 J. PAT. & TRADEMARK OFF. SOC'Y 101 (2006) (describing the Japanese patent opposition system); Anna Mayergoyz, *Lessons from Europe on How to Tame Trolls*, 42 CORNELL INT'L L.J. 241, 260–63 (describing the European patent opposition system).

14. U.S. PATENT AND TRADEMARK OFFICE, MANUAL OF PATENT EXAMINATION PROCEDURE §§ 1900–1920 (8th ed. 7th rev., 2008) [hereinafter MPEP].

15. *Id.* §§ 1134–1134.01.

procedures, a third party may make a challenge through the “reexamination” process.¹⁶ It is worth pausing over these reforms to explain why they leave the basic problems unsolved.

These limited procedures do not cure the problem. A protest allows a any third-party member of the public to submit information challenging a pending patent application. It may include a listing of patents, publications, or other information relevant to the prosecution process. The third party may also explain the relevance of each reference. The protest, however, must be submitted *prior to the date* the application is published or a notice of allowance is mailed, whichever occurs first. A patent is published, pursuant to 35 U.S.C. § 122 (subject to exceptions), eighteen months from the filing date. Thus, to challenge a pending patent, the challenger must somehow already be aware of the existence of the application, which is usually a secret. (Patent applicants are understandably unlikely to make this information available to parties who would be adverse to their position.) Notably, this procedure does not allow for an open third-party submission process wherein the general public is put on notice of a pending application and provided an opportunity to give input. Further, once the protest is filed, the applicant will take pains to “distinguish” all of the references, but the protestor is not allowed to participate in any follow-up. In short, there is no public notice or opportunity for public comment.

If the PTO issues a patent notwithstanding the protest, the patent holder is able to argue in litigation that the reference was “before the examiner” and the patent issued regardless, meaning that the examiner must have felt the reference did not stand in the way of patentability. Given the presumption of validity, this is a hard argument to overcome in litigation by clear and convincing evidence. Rather than protest in this way, opponents¹⁷ of the proposed patent will thus usually prefer to “keep their powder dry” and wait to be sued in a courtroom where they will have a more fair, two-sided contest on the prior art (despite the burden of the presumption of validity and the necessity to overcome it with clear and convincing evidence).

The third-party submission option is also problematic. Like protests, a third-party submission may be filed by any member of the public against a pending application. Submissions must be submitted within two months from the date of publication, or prior to the mailing of a notice of allowance, whichever comes first. Unlike protests, however, each third-party submission

16. *Id.* §§ 2209, 2609.

17. Opponents of the patent are usually those parties who are likely to be sued by the eventual patent holder.

is limited to ten patents and publications. *Curiously, explanations of the submissions are not allowed.*¹⁸ Without explanations, the examiner must evaluate the submissions without the guidance of the third party who may be well versed in the art. Again, potential litigants are afraid to utilize this alternative, realizing that if the patent issues anyway, the patent holder will argue in later litigation that the reference was “before the examiner,” and the examiner nevertheless allowed the claim. Furthermore, in the event a patent is allowed within the eighteen-month window prior to publication, this avenue never becomes available at all. Illustrating how seldom the third-party submission is used, for every 500 patent applications published in 2007, the PTO received only *one* such submission.¹⁹

Post-issuance, a third party may challenge a patent through the reexamination process.²⁰ This process allows a third party to attack an issued patent claim on the ground that it is invalid based on prior patents and publications. There are two types of reexamination: *ex parte* and *inter partes*. *Ex parte* reexamination can be requested by any party, including a third party. But other than a response to an initial statement by the patent owner addressing the request,²¹ the reexamination will be limited to a dialogue between the patent owner and the PTO. There is *no* other opportunity for third-party input. By comparison, *inter partes* reexaminations, available since 1999, provide for *continued* examiner communication with the third party. Throughout the process, within thirty days of the patent owner's responses to the PTO, the third party is permitted to respond by written comment. Moreover, the third party may appeal an examiner's decision to the Board of Patent Appeals and Interferences, and later to the Federal Circuit. Significantly, however, the third party is estopped, in any later district court civil action, from asserting the invalidity of any claim on any ground that the he raised or could have raised during the proceeding. Unlike in court proceedings, however, the process does not provide for interrogatories, depositions, subpoenas, live testimonies, or witness cross-examinations. This is a significant downside: critics take issue with the estoppel aspect of *inter partes* reexamination.²² Even the PTO has admitted that this is the most

18. See MPEP, *supra* note 14, § 1134.01(d) (“A submission under this section shall not include any explanation of the patents . . . [and] is also limited to ten total patents or publications.”).

19. CTR. FOR PATENT INNOVATIONS, N.Y. LAW SCH., PEER-TO-PATENT: FIRST ANNIVERSARY REPORT 6 (2008), available at <http://dotank.nyls.edu/communitypatent/P2Panniversaryreport.pdf>.

20. MPEP, *supra* note 14, §§ 2209, 2609.

21. *Id.* § 2212.01.

22. See, e.g., Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents:*

frequently identified inequity that deters third parties from filing requests for inter partes reexamination of patents.²³

Ultimately, all sides should have a fair opportunity to be heard *before* issuance and *before* heels are dug in. Professor Jay Kesan of the University of Illinois has argued that from a psychological standpoint, a pre-grant opposition system makes sense.²⁴ Post-decisional cognitive dissonance refers to the idea that once a person (the examiner) is committed to an outcome, the amount of evidence needed to change the person's viewpoint is greater than if the evidence was being presented prior to a decision being made.²⁵ By allowing parties to offer evidence of unpatentability *before* a patent is issued, this problem could be reduced.²⁶



Although many reform proponents favor more fundamental improvements in the way patents are granted, I believe such reforms may be too contentious to be adopted in the foreseeable future. To take one example, if U.S. patent law was amended to allow full and fair notice and opportunity for public comment prior to allowance of any patent claim, then

Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help, 19 BERKELEY TECH. L.J. 943, 967 (2004) ("This [reexamination estoppel] creates huge risks for challengers, who must trust that the USPTO will not make any mistakes in handling the reexamination. There is no opportunity to litigate the issue again in court. The broad consensus among patent experts is that these risks are too great."); Sherry M. Knowles et al., *Inter Partes Patent Reexamination in the United States*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 611, 627 (2004) ("The *inter partes* reexamination procedure places so many constraints on third-party requesters of such reexamination that, as some patent attorneys have stated, 'It would be legal malpractice to recommend a client initiate an *inter partes* reexamination.'").

23. U.S. PATENT AND TRADEMARK OFFICE, REPORT TO CONGRESS ON INTER PARTES REEXAMINATION 7 (2004), available at <http://www.uspto.gov/web/offices/dcom/olia/reports/reexamreport.pdf>.

24. See Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L.J. 763, (2002); see also telephone interview with Jay P. Kesan, Professor of Law, Univ. of Illinois (Nov. 19, 2009). Most foreign countries have implemented a post-grant system. Kesan refers to empirical data from Germany and Japan to support his argument that a pre-grant system is more effective. Kesan, *supra*, at 781. Data shows that in Germany and Japan, two countries that have switched from a pre-grant to post-grant system, more patents are likely to be challenged in a pre-grant opposition setting. *Id.* When both countries had post-grant opposition systems in place, there was a decrease in opposition proceedings and increase in court initiated invalidation trials. *Id.* Kesan claims that "the perception that opponents are more likely to mount a successful challenge to a patent in a pre-grant system seems to have played a role in the decreasing number of challenges in the post-grant system." *Id.* at 782.

25. Kesan, *supra* note 24, at 780.

26. *Id.*

the usual rule favoring exhaustion of administrative remedies, if carried forward as well, would require at least all competitors within the cross-hairs of the claims to present all grounds for invalidity or other challenges to the PTO for consideration. And, in subsequent litigation, a court would be bound to uphold the agency determination so long as it was supported by substantial evidence or had a rational basis. Thus, while such a reform would improve the chances that the PTO would “get it right,” such an amendment would seriously restrict the ability of the federal courts to set aside invalid patents. Such an amendment would make the PTO the almost exclusive arbiter of invalidity and relegate the courts to deciding issues of infringement and damages. This would, in turn, necessitate a large expansion in the PTO examiner staff and the resources available to them, a shift in resources that might be quite expensive. Certainly, it would slow down the timeline for obtaining a patent and invite competitors to throw up roadblocks against allowance. Those who profit from the status quo would surely lobby against such sweeping reforms. Perhaps most importantly, would American industry and congressional experts be comfortable giving up the safeguard offered by the federal courts as a check against invalid patents?

With or without more sweeping reforms, I return to my original, more modest proposal, one easily adaptable to the existing statutory framework: that Congress (1) reduce the standard for proving invalidity to a preponderance of the evidence, and (2) modulate the degree of deference to be accorded to PTO actions in accordance with the extent to which the examiner was afforded a reasonable opportunity to consider the specific question of invalidity, and the extent to which the examiner in fact reasonably addressed it. As stated, this will incentivize patent applicants and their counsel to lay bare the relevant prior art, to draw attention to the specific points of possible invalidity (while, of course, stating why allowance should nonetheless be granted), and thus enable an office action explaining how, if at all, the references do or do not restrict the proposed invention. This will strengthen deserving patents and winnow out at least some undeserving ones. Based on my immersion in many patent cases, I am convinced that this would discourage litigation based on weak patents without reducing the protection that we all wish to be accorded to deserving patents.

