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Reforming Patent Validity Litigation: The "Dubious Preponderance"

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REFORMING PATENT VALIDITY LITIGATION: THE “DUBIOUS PREPONDERANCE”

By Mark D. Janis[†]

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I. INTRODUCTION

In an environment in which corporate officials complain to Congress about the existence of patent “trolls,”¹ perhaps it should not come as a surprise that patent law reform proposals are finding a receptive audience. Major reports on the patent system compiled by the Federal Trade Commission (FTC)² and the National Academy of Sciences (NAS)³ advocate a number of reforms touching on both the administrative processes of the patent system and the treatment of patent rights in the courts. While the

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1. See *Patent Quality Improvement: Hearings Before the Subcomm. on Courts, the Internet and Intellectual Property of the House Comm. on the Judiciary*, 198th Cong. 21 (2003) [hereinafter *Patent Quality Improvement Hearings*] (testimony of David Simon) (defining patent trolls as “patent system bottom feeders” who buy “improvidently-granted patents from distressed companies for the sole purpose of suing legitimate businesses”).

2. FED. TRADE COMM’N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY (2003) [hereinafter *FTC REPORT*], available at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

3. NAT’L ACAD. OF SCIS., A PATENT SYSTEM FOR THE 21ST CENTURY (Stephen A. Merrill et al. eds., forthcoming 2004) [hereinafter *NAS STUDY*], available at <http://www.nap.edu/books/0309089107.html>.

reform proposals are not particularly notable for their originality,⁴ they are presented with a tone of urgency that has not been heard for some years.

The FTC Report identifies patent litigation as one area in need of scrutiny and selects the presumption of patent validity⁵ in patent litigation as a particular target for reform. According to the FTC Report, the *existence* of the presumption is “not objectionable” because the patent challenger should bear the burden of overcoming the U.S. Patent and Trademark Office’s (USPTO) determination of patentability.⁶ The Report’s objections focus on the standard of evidence for overcoming the presumption, and here, the FTC can discern “no persuasive reason” why the existing clear and convincing evidence standard should be retained.⁷ Instead, patent challengers should be able to overcome the presumption of validity by evidence that meets the preponderance standard, according to the Report.⁸

In one respect, it is not surprising that the FTC has focused on the presumption of patent validity. The presumption is an easy target; it enhances the leverage of the patent trolls.⁹ However, in another respect, the new focus on the presumption of validity may seem startling, at least to those within the patent community. The Federal Circuit’s pronouncements on the presumption of validity have become routine. In dozens of decisions, the Federal Circuit has repeated core principles: the patent challenger bears the ultimate burden of persuasion on patent invalidity;¹⁰ to carry this burden, the patent challenger must establish relevant facts by clear and convincing evidence;¹¹ clear and convincing evidence is “evidence which

4. Most of the proposals are eerily familiar, having been proposed—and discarded—in previous episodes of patent law reform stretching back to the 19th Century. I have previously commented on the reiterative nature of patent law reform. Mark D. Janis, *Patent Abolitionism*, 17 BERKELEY TECH. L.J. 899 (2002).

5. 35 U.S.C. § 282 (2000) (providing in relevant part that, “A patent shall be presumed valid. Each claim of a patent . . . shall be presumed valid independently of the validity of other claims The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.”).

6. FTC REPORT, *supra* note 2, ch. 5, at 28.

7. *Id.*

8. *Id.*

9. According to David Simon, “These patent trolls have the presumption of validity on their side. It is difficult to convince a jury of patent invalidity in light of the heightened evidentiary standard of clear and convincing evidence.” *Patent Improvement Quality Hearings*, *supra* note 1, at 4 (testimony of David Simon).

10. *See, e.g.*, *New England Braiding Co. v. A.W. Chesterton Co.*, 970 F.2d 878, 882 (Fed. Cir. 1992) (“The presumption acts as a procedural device which places the burden of going forward with evidence and the ultimate burden of persuasion of invalidity at trial on the alleged infringer.”).

11. *See, e.g.*, *Geneva Pharm., Inc. v. GlaxoSmithKline PLC*, 349 F.3d 1373 (Fed. Cir. 2003) (upholding summary judgment of invalidity for double patenting).

produces in the mind of the trier of fact an abiding conviction that the truth of the factual contentions is highly probable.”¹²

This Article critically examines the FTC’s proposals concerning the presumption of validity. In Part II, I identify two general functions of presumptions in law, the expressive and instrumental functions. In Part III, I argue that the FTC’s proposal overlooks the expressive function of the presumption of patent validity and I consider the insights that might be gained from considering the expressive function. In Part IV, I analyze the FTC’s arguments touching on the instrumental function of the presumption of validity, and conclude that they are plausible, but deserve refinement and further probing.

II. EXPRESSIVE AND INSTRUMENTAL FUNCTIONS OF PRESUMPTIONS

The FTC Report’s proposal to reform the presumption of validity provokes some fundamental questions about patent validity adjudication. Most directly, the Report encourages the patent community to think more carefully about what the presumption of validity is designed to accomplish. We might answer the question by returning to first principles—by considering the functions that presumptions are generally designed to perform in law and evaluating the reform proposals in light of those functions.

The Supreme Court has provided a framework for understanding presumptions and standards of evidence for overcoming presumptions. In *Addington v. Texas*,¹³ a civil commitment case involving a debate over the applicability of the clear and convincing standard (as opposed to the beyond a reasonable doubt standard), the Court attributed two functions to standards of proof: (1) “to indicate the relative importance attached to the ultimate decision;”¹⁴ and (2) to allocate the risk of error between the litigants.¹⁵ The first may be described as the “expressive” function and the second as an “instrumental” function.

Evaluating a rule in light of its expressive function requires identifying the rule’s overlying message and assessing that message’s impact. Scholars have recognized that many debates “over the appropriate content of law” are in some part “debates over the statement that law makes”—that

12. *Buildex, Inc. v. Kason Indus., Inc.*, 849 F.2d 1461, 1463 (Fed. Cir. 1988) (internal quotation marks and citation omitted).

13. 441 U.S. 418 (1979).

14. *Id.* at 423.

15. *Id.*

is, debates over law's expressive function.¹⁶ A legal rule might be expressive in a weaker and a stronger sense. In the weaker sense, a rule may be purely symbolic, intended to accomplish nothing other than to make a statement, and it may succeed even if it is never actually enforced.¹⁷ In the stronger sense, a rule might be designed to provide a baseline for the eventual fashioning of new norms of behavior, without a tight connection between the rule and the behavior. The rule is designed to accomplish something other than merely to make a statement, but the statement is at least as important as the precise manner in which the rule is enforced.¹⁸ For example, the presumption of innocence in criminal cases is emblematic of our paramount concern about individual freedom and our deeply-rooted distrust of the power of the state. If the legislature proposed to "reform" the presumption of innocence, any thoughtful analysis of that proposal would need to consider how the proposal might alter the overlying message associated with the presumption and the broad social consequences of that alteration. An analysis that considered only the projected effects on actual case outcomes would be incomplete.

Evaluating a rule in light of its instrumental function requires assessing how the rule affects case outcomes. For example, in a criminal case, we might justify the strong presumption of innocence and its associated beyond a reasonable doubt standard by asserting that the overwhelming share of the risk of error (meaning an erroneous legal determination deriving from the found facts) should be allocated to the state.¹⁹ By contrast, in an ordinary civil case for damages, we might argue that no particular presumption is justified; the risk of error should be allocated equally among the parties, and thus application of a preponderance of the evidence standard would be appropriate.²⁰ If these respective classes of cases are considered to lie at opposite extremes of a spectrum, then there may be a class of intermediate cases that correlate with an intermediate standard. Civil cases may fall into this intermediate zone when the interests at stake are more important than loss of money, and in such cases, it would be inappropriate to allocate the risk of error equally. Thus, a moderate presumption should apply coupled to an intermediate standard, such as the clear and convincing standard, for overcoming the presumption. Accordingly,

16. *E.g.*, Cass R. Sunstein, *On the Expressive Function of Law*, 144 U. PA. L. REV. 2021, 2051 (1996).

17. *Id.* at 2023 (asserting that a proscription against flag-burning is an example of a rule that is expressive in the weaker sense, in that the flag-burning rule is not necessarily designed with the expectation that it will deter potential flag-burners).

18. *Id.* at 2025-27.

19. *Addington*, 441 U.S. at 423-24 (making this argument).

20. *Id.*

an analysis of a legal presumption from an instrumental perspective takes the presumption as a tool for achieving precise outcomes and assesses whether the presumption facilitates those outcomes.

We can understand the presumption of patent validity against this general backdrop. The FTC Report's proposed reforms to the presumption of validity should be considered in light of both the expressive and instrumental dimensions of the presumption. I take up that task in the remainder of this Article.

III. EXPRESSIVE FUNCTION OF THE PRESUMPTION OF VALIDITY

Consideration of law's expressive function has significant implications for patent law, a point that I develop in more detail elsewhere.²¹ Evaluating the FTC Report's reform proposals by considering the expressive function of the presumption of validity reveals three important insights. First, acknowledgment of the presumption's expressive function reminds us that the fact that we *have* a presumption of patent validity is as significant as the precise verbal formulation that we use for the standard of evidence for overcoming the presumption. Second, while it may be easy enough to manipulate that verbal formulation, it may be a very different and very subtle exercise to control the overlying message that the presumption of patent validity delivers, especially outside the patent community. Third, manipulating the verbal formulation without controlling the overlying message may yield some unpleasant surprises.

In particular, "reforming" the words of the evidentiary standard without controlling the overlying message may, ironically, result in changing everything while changing nothing. That is, one possible outcome of the proposed change to the preponderance standard for overcoming the presumption of patent validity is that the change will cause little difference in the outcomes of cases but, at least in the short term, those outside the patent community may perceive a dramatic change in the overlying message. Thus, judges will reach the same result that they would have reached under the old standard, substituting the words of the new standard but the perception may be that patents are less secure and the patent system deserves less respect.

The Supreme Court made a similar point in *Addington*. The Court expressed doubt about whether the choice of standard between clear and convincing and preponderance of the evidence would often make a difference in case outcomes, especially since it would be unwise to expect that

21. Mark D. Janis, *Patent Law's Expressive Quality* (Working Paper, 2004).

fact finders, particularly lay juries, would be adept at understanding the nuanced differences between the standards.²² At the same time, the Court resisted the notion that adoption of a particular standard of proof was a mere “empty semantic exercise.”²³

To illustrate the point about the potential for divergence between the words of the evidentiary standard and the overlying message of the presumption of validity, I consider three sets of cases: (1) cases immediately preceding the creation of the Federal Circuit, compared to early Federal Circuit cases; (2) more recent Federal Circuit cases; and (3) trademark cases adopting the preponderance standard.

A. Pre-Federal Circuit and Early Federal Circuit Cases on the Presumption of Validity

The adoption of the clear and convincing standard is widely attributed to the Federal Circuit, as the FTC Report points out.²⁴ The perception that the Federal Circuit enhanced the effect of the presumption of validity coincides with the generally received wisdom that the Federal Circuit adopted a pro-patent bias early in its tenure.²⁵ In turn, this correlates with one of the FTC Report’s themes: that the balance between patent and competition policy has swung too far in favor of patents.²⁶

The actual story is more complex. Contrary to common perception, before the creation of the Federal Circuit, most appellate courts had already adopted the clear and convincing standard of evidence for overcoming the presumption of patent validity.²⁷ Only the Sixth Circuit appeared to have

22. *Addington*, 441 U.S. at 424-25.

23. *Id.* at 425.

24. FTC REPORT, *supra* note 2, ch. 5, at 26 n.183.

25. Mark D. Janis, *Patent Law in the Age of the Invisible Supreme Court*, 2001 U. ILL. L. REV. 387, 399-401.

26. *E.g.*, FTC REPORT, *supra* note 2, ch. 2, at 18-23.

27. It appears that the Courts of Appeals for the Second, Third, Fifth, Seventh, Eighth, and Ninth Circuits all had adopted the clear and convincing standard. *See, e.g.*, 2 DONALD S. CHISUM, PATENTS § 5.06 n.84 (2003) (citing relevant authority). For representative language, see, for example., *Manufacturing Research Corp. v. Graybar Elec. Co.*, 679 F.2d 1355, 1360 (11th Cir. 1982) (noting that the burden of establishing invalidity “is generally an onerous one” and requires the patent challenger to “demonstrate invalidity by clear and convincing evidence”), and *Hobbs v. United States Atomic Energy Commission*, 451 F.2d 849, 856 (5th Cir. 1971) (“[T]he presumption of patent validity may be rebutted only by a quantum of proof—whether it be called clear and convincing or beyond a reasonable doubt—which is greater than a mere preponderance.”). The Eighth Circuit followed a “substantial evidence” standard, but noted that “the proof which was considered adequate under the substantial evidence standard here would also suffice under the clear and convincing evidence test.” *Clark Equip. Co. v. Keller*, 570 F.2d 778, 795 n.17 (8th Cir. 1978).

squarely adopted a preponderance standard, and the court still required clear and convincing evidence where the prior art at issue was oral testimony of prior invention.²⁸ Despite the Sixth Circuit's adoption of the preponderance standard, the overlying message was that the patent system was "in distress,"²⁹ and that the presumption of validity was meaningless.³⁰

Soon after the creation of the Federal Circuit, the court adopted the clear and convincing standard³¹—hardly a watershed event, considering that the clear and convincing standard was already the majority rule. In addition, the Federal Circuit also addressed whether the presumption applied to prior art that the USPTO never had considered. The court held that the presumption still applied to such art, but that the patent challenger's burden was easier to discharge because the added burden of deference to the USPTO was absent.³² We might similarly suppose that this, too, was

28. See, e.g., *Dickstein v. Seventy Corp.*, 522 F.2d 1294, 1297 (6th Cir. 1975); see also *Saginaw Prod. Corp. v. E. Airlines, Inc.*, 615 F.2d 1136, 1240 (6th Cir. 1980) (utilizing the preponderance standard).

29. Abe Fortas, *The Patent System in Distress*, 53 J. PAT. & TRADEMARK OFF. SOC'Y 810 (1971).

30. According to former Justice Fortas:

Of course the law says that a properly issued patent is presumptively valid. But confronted by judicial hostility, this presumption is about as formidable as a silk screen against a machine gun. To many appellate judges, the presumption is something to acknowledge, and then to show that it's not controlling.

Id. at 810. To be sure, the fact that some courts were holding that the presumption of validity only applied to art that the USPTO had considered probably contributed to this message.

31. E.g., *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1360 (Fed. Cir. 1984). Indeed, in doing so, the Federal Circuit rejected a beyond a reasonable doubt standard, presumably an inappropriate standard for civil patent cases in the modern understanding, but still a formulation that enjoyed considerable support in older patent cases. See *Trans-World Mfg. Corp. v. Al Nyman & Sons, Inc.*, 750 F.2d 1552, 1560 (Fed. Cir. 1984) (discussing the issue and concluding that it was proper for the district court to instruct the jury that the clear and convincing standard applied to invalidity determinations).

32. According to Judge Rich in *American Hoist*:

When no prior art other than that which was considered by the USPTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job. . . . [¶] When an attacker, in sustaining the burden imposed by § 282, produces prior art or other evidence not considered in the USPTO, there is, however, *no reason to defer* to the USPTO so far as *its* effect on validity is concerned. . . . What the production of new prior art or other invalidating evidence not before the USPTO does is to eliminate, or at least reduce, the element

hardly a notable departure from pre-Federal Circuit law, because it seemed to leave courts free to act as they did prior to the establishment of the Federal Circuit: refusing to give the presumption of validity any real meaning in litigation involving newly-discovered prior art.

Yet the tone of the Federal Circuit's early opinions on the presumption of validity, in the context of other events then occurring in the patent system,³³ resulted in a very palpable change in the overlying message: the new message was that the Federal Circuit had "strengthened" the presumption of validity and had made it meaningful once again. The lesson here is important: there is no strict, inevitable correlation between the words of the evidentiary standard and the overlying message delivered by the presumption of validity. The message is independently significant for purposes of patent policy and, of course, for purposes of patent policy reform.

B. Modern Federal Circuit Cases

The Federal Circuit has never changed the words of the evidentiary standard for overcoming the presumption of patent validity. The court has instead repeated the standard in dozens, perhaps hundreds of opinions.³⁴ Yet it would be a mistake to assume that, because the words of the standard have remained constant throughout the Federal Circuit's tenure, the message of the presumption of validity has likewise remained constant or that there is a tight connection between the words of the standard and specific case outcomes.

of deference due the USPTO, thereby partially, if not wholly, *discharging* the attacker's burden, but neither shifting nor lightening it or changing the standard of proof.
725 U.S. at 1359 (emphasis original).

33. Events such as the consolidation of power in the new court, the character and track record of the judges on the new court, and the command that the new court "unify" patent law. For more on the before and after story on the presumption of validity, see Rochelle Cooper Dreyfuss, *The Federal Circuit: A Case Study in Specialized Courts*, 64 N.Y.U. L. REV. 1, 6, 18-21 (1989).

34. A few recent examples include: *Elan Corp., PLC v. Andrx Pharmaceuticals, Inc.*, 366 F.3d 1336, 1340 (Fed. Cir. 2004) ("Patents are presumed to be valid, 35 U.S.C. § 282 (2000), and an accused infringer challenging the validity of a patent under the on-sale bar must demonstrate by 'clear and convincing evidence"); *Golden Blount, Inc. v. Robert H. Peterson Co.*, 365 F.3d 1054, 1058 (Fed. Cir. 2004) ("To establish invalidity, the supporting facts must be shown by 'clear and convincing evidence.'"); *Norian Corp. v. Striker Corp.*, 363 F.3d 1321, 1326 (Fed. Cir. 2004) ("The jury was correctly instructed that a party seeking to invalidate a patent must do so by clear and convincing evidence.").

The Federal Circuit's cases contain isolated hints that the standard is reasonably fluid despite the court's *pro forma* deployment of it. For example, when it perceives a good case for invalidating claims, the Federal Circuit has been known to observe that "even under a 'clear and convincing' standard, proof need not be airtight."³⁵ The court has also held that the jury need not be instructed that the presumption of validity exists, so long as the jury is instructed that facts establishing invalidity must be tested by the clear and convincing standard.³⁶

The Federal Circuit's *Rochester* opinion illustrates the fluidity of the clear and convincing standard.³⁷ The claims concerned methods to inhibit the activity of the human COX-2 enzyme (implicated in arthritis) by administering a compound that "selectively inhibits activity of the [COX-2] gene product."³⁸ The patent disclosed the existence and function of COX-2, as well as a screening assay for determining whether a screened drug displayed the COX-2 selectivity.³⁹ However, the patent did not disclose any actual drug possessing the desired COX-2 selectivity, and the patentee (*Rochester*) acquiesced in the defendant's assertion that no actual drug existed as of the application filing date.⁴⁰ The defendant (*Searle*) challenged validity on written description grounds and prevailed on summary judgment before the district court.⁴¹ On appeal, *Rochester* argued that because *Searle* had not introduced any evidence in support of the written description theory, *Searle* could not as a matter of law overcome the presumption of validity.⁴² However, the Federal Circuit disagreed. According to the court, the presumption of validity does not foreclose the possibility that "the patent in suit proves its own validity" and *Rochester*'s patent "clearly and convincingly does just that."⁴³

Rochester reinforces the proposition developed in the preceding section: that the Federal Circuit is capable of changing the overlying message delivered by the presumption of validity without changing the language of the evidentiary standard. If it becomes *de rigueur* at the Federal Circuit to

35. *Buildex Inc. v. Kason Indus., Inc.*, 849 F.2d, 1461, 1464 (Fed. Cir. 1988) (overturning the district court's fact finding as to the existence of a pre-critical date offer as clearly erroneous and thus reversing the district court's legal conclusion that the patent was not invalid for violating the on-sale bar).

36. *Chiron Corp. v. Genentech, Inc.*, 363 F.3d 1247 (Fed. Cir. 2004).

37. *University of Rochester v. G.D. Searle & Co.*, 358 F.3d 916 (Fed. Cir. 2004).

38. *Id.* at 918 (quoting U.S. Patent No. 6, 048,850 (issued Apr. 11, 2000)).

39. *Id.*

40. *Id.* at 930.

41. *Id.* at 919.

42. *Id.* at 930.

43. *Id.*

speak of patents clearly and convincingly proving their own invalidity, then, with the passage of time, the overlying message of the presumption of validity will change even if the language of the evidentiary standard remains constant.

By analogous reasoning, we should be wary of a reform proposal that seeks to effectuate changes in case outcomes simply by changing the language of the evidentiary standard. Such a proposal presumes a tight connection between the language of the standard and the outcomes of cases. That is, it fixates on the instrumental function of the presumption of validity to the apparent exclusion of the expressive function. In so doing, it exaggerates the extent to which changes to the language of the presumption can be used as a strategy for fine-tuning the patent systems.

C. Trademark Cases: Experience with the Preponderance Standard

Experience with trademark cases reinforces the point that the words of the evidentiary standard and the message associated with a presumption of validity may diverge such that case outcomes are very difficult to predict based merely on the choice of evidentiary standard. The current regime for adjudicating trademark validity resembles the FTC Report's proposed regime for adjudicating patent validity. The Lanham Act provides a presumption of validity for marks registered on the Principal Register,⁴⁴ and a number of courts have embraced the preponderance standard as the quantum of evidence required to overcome the presumption. Despite the existence of a statutory presumption of validity, many courts seem to have taken the message that the presumption in trademark cases is to be ignored altogether: in many decisions, the presumption either is not mentioned at all or is largely trivialized.⁴⁵ For example, in *Tie Tech, Inc. v. Kinedyne Corp.*, Tie Tech registered the product configuration trade dress of its hand-held welding cutter.⁴⁶ After a lengthy prosecution, including an ap-

44. 15 U.S.C. § 1115(a) (2000) (providing that a mark registered on the Principal Register "shall be prima facie evidence of the validity of the registered mark").

45. Courts have held that the presumption only shifts the burden of production to the trademark challenger. *E.g.*, *Liquid Controls Corp. v. Liquid Control Corp.*, 802 F.2d 934, 937 (7th Cir. 1986). Also, some courts have held that the presumptions are of the bursting bubble variety: where the trademark challenger has met the burden of producing rebuttal evidence, the presumptions disappear. *Igloo Products Corp. v. Brantex, Inc.*, 202 F.3d 814 (5th Cir. 2000); *Lane Capital Mgmt., Inc. v. Lane Capital Mgmt., Inc.*, 192 F.3d 337 (2d Cir. 1999); *Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 83 F.3d 169 (7th Cir. 1996). *But see Americana Trading, Inc. v. Russ Berrie & Co.*, 966 F.2d 1284 (9th Cir. 1992) (rare example of a case calling for a district court to give greater weight to the presumptive effect of registration).

46. 296 F.3d 778, 781 (9th Cir. 2002).

peal to the Trademark Trial and Appeal Board, the registration issued.⁴⁷ One of the principal issues in the prosecution was the functionality of the claimed trade dress.⁴⁸ Tie Tech subsequently sued Kinedyne for the trade dress infringement, but Kinedyne won on summary judgment on the ground that the registration was invalid for functionality.⁴⁹ On appeal, the Ninth Circuit acknowledged that “the plaintiff in an infringement action with a registered mark is given the prima facie or presumptive advantage on the issue of validity, thus shifting the burden of production to the defendant to prove otherwise.”⁵⁰ However, the court made clear that the effect of the presumption was negligible. According to the court, once the presumption of validity was overcome, “the mark’s registration is merely evidence ‘of registration,’ nothing more.”⁵¹ Thus, the Ninth Circuit rejected the proposition that the registration “should be treated as something of an expert’s affidavit on its validity.”⁵² Moreover, the court asked very little of the defendant in agreeing with the lower court that the defendant had overcome the presumption of validity. The defendant merely presented functionality allegations that likely were the same as those raised during the prosecution.⁵³ It is difficult to discern how the existence of the registration, and the corresponding presumption, made any material difference in the case.⁵⁴

In other decisions, the presumption and the associated preponderance standard is a matter of controversy. For example, in *Burke-Parsons-Bowlby Corp. v. Appalachian Log Homes, Inc.*,⁵⁵ the validity issue centered on whether the mark “APPALACHIAN LOG STRUCTURES” used in connection with the construction of log residences was primarily geo-

47. *Id.*

48. *Id.*

49. *Id.* at 781-82.

50. *Id.* at 783.

51. *Id.*

52. *Id.* at 784.

53. *See id.* at 783 (reciting the three aspects the defendant cited it believed to be functional).

54. Functionality provides a particularly good illustration. In cases involving unregistered trade dress, the Lanham Act expressly assigns to plaintiffs the burden of proving non-functionality. 15 U.S.C. § 1125(a)(3) (2000). Had *Tie Tech* involved unregistered trade dress, the plaintiff would have been required to produce evidence raising a fact issue as to functionality pursuant to discharging its burden of proof. In the actual case, the plaintiff was compelled to produce evidence raising a fact issue as to functionality pursuant to discharging its burden of coming forward with evidence in response to defendant’s allegations. *Tie Tech*, 296 F.3d at 784-86. In practical terms, it is difficult to distinguish between the two.

55. 871 F.2d 590 (6th Cir. 1989).

graphically descriptive, and, if so, whether the mark owner had demonstrated evidence of secondary meaning.⁵⁶ In the registration process, the trademark examiner requested evidence of secondary meaning, the applicant submitted evidence, and consequently, the examiner acceded to registration.⁵⁷ In subsequent litigation, the district court had invalidated the registration on the grounds that the mark was geographically descriptive and the evidence of secondary meaning was insufficient to overcome descriptiveness.⁵⁸ The Sixth Circuit upheld the district court, stating that while the USPTO's decisions were given deference, the presumption was rebuttable, and plaintiff's evidence of secondary meaning was insufficient.⁵⁹

However, the remaining judges disagreed as to the effect of the presumption. According to Judge Krupansky, in his concurring opinion, the presumption did not even shift the ultimate burden of proof from the trademark owner.⁶⁰ Instead, once the trademark challenger introduced evidence rebutting the presumption—which seemed to require little here—the ultimate burden of proof, including the heavy burden of proving secondary meaning, reverted to the trademark owner.⁶¹ In contrast, Judge Guy's dissent offered a dramatically different view of the effect of the presumption of validity. Judge Guy argued that a trademark challenger must submit “very persuasive” evidence to overcome the presumption.⁶² Quoting from an old Second Circuit decision,⁶³ Judge Guy asserted that the trademark challenger not only bears the burden of going forward to challenge validity, but also bears the burden of proof. The presumption of validity is “strong,” and courts should not “overrule the action of the Patent Office to whose care Congress has entrusted the preliminary determination as to whether a mark fulfills the requirements of the statute.”⁶⁴

In fairness, any confusion that might result from adopting a preponderance standard for patent validity would probably be less severe than

56. *Id.* at 592-93

57. *Id.* at 595.

58. *Id.* at 595-96.

59. *Id.* at 596.

60. *Id.* at 597 (Krupansky, J., concurring).

61. *Id.* (Krupansky, J., concurring).

62. *Id.* at 598 (Guy, J., dissenting).

63. *Id.* at 598-99 (Guy, J., dissenting) (quoting *Aluminum Fabricating Co. v. Season All-Window Corp.*, 259 F.2d 314, 316 (2d Cir. 1958)). Illustrating the malleability of the preponderance standard, the Second Circuit in *Aluminum* was evidently applying a preponderance of the evidence standard for overcoming this strong presumption of validity. The Second Circuit remarked that in order to prevail, the trademark challenger had to “put something more into the scales than the registrant” had put into the scales. *Aluminum*, 259 F.2d at 316.

64. *Burke-Parsons-Bowlby Corp.*, 871 F.2d at 598 (Guy, J., dissenting).

that existing in the trademark area. Unlike the Lanham Act provision, § 282 of the Patent Act expressly provides that “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such validity.”⁶⁵ Nonetheless, the point remains that merely changing the language of the patent law standard to “preponderance” by no means ensures that courts will converge around a uniform approach to assessing patent validity evidence. Trademark law suggests that a change to a preponderance standard may simply inject ambiguity as to the governing message that the presumption of patent validity is intended to deliver. This would then open the door to a plurality of different approaches to implementing the presumption in individual cases.

D. Conclusions Regarding the Presumption’s Expressive Function

In targeting the presumption of validity for reform, perhaps the FTC Report chose unwisely. For the reasons detailed above, changing the words of the evidentiary standard might make little difference in case outcomes. At the same time, the overarching message that the presumption of validity sends is such a potent indicator of the overall state of the patent system that a proposal to alter it might provoke a visceral reaction within the patent community that may undercut the credibility of other aspects of the FTC patent reform agenda. Moreover, the proposal and the reaction it might engender may serve to polarize the debate, activating latent tensions between the antitrust and patent communities. It would be highly unfortunate if this proposal, and the reaction to it, diverts attention from other important proposals for patent reform appearing in the FTC’s Report, such as the proposal for post-grant revocation, as discussed in more detail in the following part.

IV. INSTRUMENTAL FUNCTION OF THE PRESUMPTION OF VALIDITY

While typical reform proposals, like those of the FTC Report, overlook the expressive quality of the presumption of validity, they do focus considerable attention on the instrumental function of the presumption (and its associated clear and convincing standard). The FTC Report’s instrumental arguments for changing to a preponderance standard are plausible, but not ironclad.

65. 35 U.S.C. § 282 (2000); *see also* *New England Braiding Co. v. A.W. Chesterton Co.*, 970 F.2d 878, 882 (Fed. Cir. 1992) (“The presumption acts as a procedural device which places the burden of going forward with evidence and the ultimate burden of persuasion of invalidity at trial on the alleged infringer.”).

The Report's principal arguments for reforming the presumption of validity are not expressly instrumentalist, but can be understood in instrumental terms. First, the FTC Report argues that the *ex parte* examination scheme has proven to be of only limited effectiveness in discriminating between patent-worthy and patent-unworthy inventions, so patentees should not enjoy the benefit of "a heightened evidentiary standard" against validity challenge in litigation.⁶⁶ That is, as between the patentee and patent challenger, the limitations of *ex parte* practice counsel against insulating the patentee to such a great extent from the risk of error. Instead, the patentee should bear a greater degree of risk of an erroneous judgment as to validity.⁶⁷

Second, the FTC Report asserts that the clear and convincing standard facilitates anticompetitive uses of patents because patentees are emboldened in the knowledge that it will be difficult for any challenger to rid the marketplace of a "bad" patent⁶⁸ and, of course, correspondingly difficult to make out a claim that the patent litigation was motivated by anticompetitive impulses.⁶⁹ The FTC's analysis is thoughtful and its arguments are plausible. However, its treatment of the presumption of validity is cursory and gives too little attention to at least two complicating factors: (1) the interconnections between validity and scope doctrines; and (2) the inter-

66. FTC REPORT, *supra* note 2, ch. 5, at 28.

67. One weakness of a purely instrumental account of the presumption of validity, at least as articulated in the referenced section of the FTC Report, is that it seems to encourage an undue focus on allocating risks between the private litigants without adequately addressing the risks (or benefits) running to third parties. Some third party effects support the FTC's proposal, but others do not.

A few simple examples suffice to make the point. Assume that litigation between a patentee and a patent challenger results in a correct judgment that a patent is invalid. That judgment has preclusive effect against the patentee. As a result, third parties enjoy the benefit of operating in the patent-free environment, but only the patent challenger bears the risk. Discarding the clear and convincing standard in favor of a preponderance standard might seem attractive in such circumstances insofar as it might facilitate the patent challenger in acting to rid the marketplace of an invalid patent, to the benefit of both the challenger and the public.

Similarly, assume that litigation results in an erroneous judgment upholding patent validity. The patent can be enforced against third parties and may *de facto* enjoy a "strengthened" presumption of validity. Discarding the clear and convincing standard again might appear attractive in such circumstances.

68. This argument is facially problematic because it seems to start from the premise that everyone can agree on which patents are in fact of "questionable validity," when resolving that issue is, of course, the very point of patent validity litigation.

69. For an explanation of the relevant law on allegations of anticompetitive patent litigation, see HERBERT HOVENKAMP ET AL., 1 IP AND ANTITRUST 11-1 to -38 (2001 & Supp. 2004).

connections between validity litigation and other mechanisms for resolving validity disputes.

A. Litigating Validity Versus Litigating Scope

While the FTC's arguments are plausible, they suffer from tunnel vision. Patent validity issues do not exist in isolation from other patent law doctrines.⁷⁰ It is a mistake to suggest changes to patent validity doctrines without accounting for the interconnections between validity and other doctrines, such as patent scope, especially in light of the fact that the law of patent scope has been particularly volatile in the past decade.

Consider the following possible consequence of adopting the FTC Report's proposal concerning the presumption of validity. Current conventional wisdom holds that the Federal Circuit is pursuing a policy which combines a relatively liberal approach to patent validity (meaning that patents are perceived as difficult to invalidate) with a relatively restrictive approach to patent scope (meaning that patent infringement is perceived as being easy to avoid, particularly infringement under the doctrine of equivalents).⁷¹ Such an approach may reflect a view about the appropriate balance between giving a fair reward to inventors and giving fair notice to the public. Suppose that the Federal Circuit were subjected to a legislatively-imposed change to the evidentiary standard for overcoming the presumption of validity.⁷² If a legislative change made it easier for challengers to invalidate patents, might the Federal Circuit react by restructuring its current restrictive approach to patent scope? For example, the court might apply the claim construction axiom that courts will construe claims

70. For a few examples consider the connections between validity and claim construction, validity and infringement generally, and validity and the limitations on equivalency. *See, e.g.*, *Smithkline Diagnostics, Inc. v. Helena Labs. Corp.*, 859 F.2d 878, 882 (Fed. Cir. 1988) (stating that claims are construed consistently for validity and infringement); *Lewmar Marine, Inc. v. Barient, Inc.*, 827 F.2d 744, 747 (Fed. Cir. 1987) (commenting on the symmetry between infringement and validity determinations); *Wilson Sporting Goods Co. v. David Geoffrey & Assoc.*, 904 F.2d 677, 685 (Fed. Cir. 1990) (holding that validity determinations are relevant to an infringement analysis that uses the hypothetical claim methodology); *see also Johnson & Johnston Assoc., Inc. v. R.E. Serv. Co.*, 285 F.3d 1046, 1063 (Fed. Cir. 2002) (Lourie, J., concurring) (discussing the interplay between foreseeability as an equivalency concept and obviousness).

71. For an acknowledgment of the conventional wisdom and citations to statistical studies that may support the conventional wisdom, *see*, for example, FTC REPORT, *supra* note 2, ch. 5, at 25.

72. I recognize that the clear and convincing standard is a judicial creation, and that reform proposals contemplate that the Federal Circuit could change to the preponderance standard without Congressional intervention. If the Federal Circuit cannot be persuaded to change the standard, then presumably reform proposals would advocate that the reforms be effectuated through legislative change.

so as to preserve their validity, rather than the currently popular counter-axiom that courts are not entitled to rewrite claims.⁷³ Additionally, the Federal Circuit might adjust the verbal formulation for equivalency⁷⁴ to make it easier for patentees to capture infringers under the doctrine of equivalents, or the court might relax the doctrine of prosecution history estoppel by displaying a greater willingness to find that patentees had overcome the *Festo* presumption.⁷⁵

This notion—that action on the presumption of validity might precipitate an equal and opposite reaction in other doctrines, yielding zero net momentum—need not be viewed as a prediction of Federal Circuit recalcitrance or general Federal Circuit peevishness. The Federal Circuit might legitimately take the view that it has struck the right balance between validity and infringement (between reward to the patentee and notice to the public), and that sound patent policy would demand a reconsideration of the law of claim scope in response to a change in the law of patent validity. Whether this particular prediction about the Newtonian dynamics of patent jurisprudence is accurate is largely beside the point. Policymakers should not assume that a change to the presumption of validity will only affect validity and will generate no compensating reaction elsewhere in the patent system.

B. The Presumption of Validity as a Channeling Mechanism

Just as patent validity doctrines do not exist in isolation from other patent doctrines, patent litigation as a mechanism for resolving patent validity disputes does not exist in isolation from other mechanisms for resolving patent validity disputes. Those mechanisms are many, including private action in the form of license negotiations or formal alternative dispute resolution and administrative action in the form of post-grant revocation schemes⁷⁶ or even *ex parte* examination. Proposals to reform the presumption of validity seem to focus on how the reforms might change parties' behavior in litigation, but seem to ignore the prospect that reforms

73. See *Phillips v. AWH Corp.*, 363 F.3d 1207, 1218 (Fed. Cir. 2004) (Dyk, J., dissenting in part) (discussing axiom and counter-axiom).

74. See *Warner-Jenkinson Co., Inc. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 39-40 (1997) (delegating from the Supreme Court to the Federal Circuit authority to establish the precise verbal formulation for equivalency).

75. See *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, (2002) (establishing the *Festo* presumption); *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 344 F.3d 1359 (Fed. Cir. 2003) (elaborating on the factors for rebutting the *Festo* presumption), *cert. denied*, 121 S. Ct. 2018 (2004).

76. For a description of such schemes and a detailed proposal to create such a scheme in U.S. law, see Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Law*, 11 HARV. J.L. & TECH. 1 (1997).

might change parties' incentives to resolve validity disputes through mechanisms other than litigation.

The most serious potential impact concerns post-grant administrative revocation. All other factors being equal, the FTC Report's recommendation concerning the presumption of validity might work at cross-purposes with the Report's very important recommendation to create a post-grant revocation system.⁷⁷ To the extent that the presumption of validity operates as a channeling mechanism, directing validity disputes towards or away from the courts, the proposal to discard the clear and convincing standard may encourage patent challengers to resolve validity disputes in court and correlatively discourage use of any newly-created administrative revocation scheme.

This result would be a serious step backwards. As compared to validity litigation, well-designed post-grant revocation schemes offer the promise of quicker, cheaper resolution of patent validity disputes.⁷⁸ While the Report argues that post-grant revocation is desirable because it reduces the private costs of *challenging* validity,⁷⁹ a more ambitious claim can be made: such a system might reduce overall private costs of *litigating* validity—meaning private costs incurred by both the challenger and the patentee—if such a system diverts validity disputes away from the courts, which are more expensive fora for both parties. If the facts bear this claim out, we should retain a robust presumption of validity, exactly the opposite of the FTC Report's proposal.

Unfortunately, we have little experience so far with the use of the presumption of validity as a channeling device between roughly equivalent, alternative fora for resolving validity disputes. For example, under current law, the clear and convincing standard applies in litigation but not in reexamination.⁸⁰ If all other factors were equal—if litigation and reexamination were roughly equivalent fora for resolving validity disputes—we would expect that this combination of evidentiary standards would channel patent challengers away from litigation and towards reexamination. This outcome has not occurred; from the patent challenger's perspective, even *inter partes* reexamination is not a rough substitute for litigation.⁸¹

77. For the FTC's recommendation concerning post-grant administrative revocation, see FTC REPORT, *supra* note 2, ch. 5, at 15-24.

78. *Id.* at 20. Of course, one should not underestimate the difficulty of designing a revocation system well.

79. *Id.*

80. For a discussion of relevant precedent, see Janis, *supra* note 76, at 63-69.

81. For a discussion of the reasons, see Mark D. Janis, *Inter Partes Reexamination*, 10 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 481 (2000).

The concept of the presumption and the evidentiary standard as channeling devices deserves more attention in policy debates over the instrumental function of the presumption of validity.⁸² In addition, the concept ties in with a larger scholarly debate over the appropriate allocation of responsibility among institutions of the patent system for deciding closely contested questions of patentability. In that larger debate, Professor Lemley has argued that the *ex parte* examination scheme is best designed to provide a quick look at patentability, so that we should push close questions of patentability forward to another system that is better suited to resolve contested issues.⁸³ The companion argument to Professor Lemley's view is that validity litigation is an expensive and cumbersome mechanism for resolving patent validity, so that we should push at least some close questions of patentability backwards to another system that is capable of resolving contested issues, even if that other system lacks all of the trappings of litigation. Both arguments highlight the importance of creating an intermediate space between the *ex parte* system and litigation, such as a post-grant revocation scheme, and of also creating procedural mechanisms that move disputes towards that intermediate space. A thoughtfully-designed presumption of validity is one such mechanism.

A key task for future patent policymakers is to arrive at a thoughtful design, one that achieves an optimal blend of *ex parte* examination, administrative revocation, and litigation for resolving validity disputes. There is currently no clear choice among many alternatives. I have suggested in this Article that the merits of the current clear and convincing standard as compared to the preponderance standard, but neither I nor anyone else would claim that the current standard has been an unalloyed success. Professor Rai has suggested that the clear and convincing standard might be restricted to patents that have survived post-grant revocation proceedings, but has acknowledged that this scheme might disadvantage truly pioneering inventions because such inventions might be so remote from the prior art that no one would see fit to bring a post-grant revocation.⁸⁴ Others have suggested that the Federal Circuit return to the rule that

82. The concept also has implications for another of the FTC Report's arguments, namely that the USPTO uses a preponderance standard in *ex parte* examination and thus, the courts should also use the same standard in validity litigation. FTC REPORT, *supra* note 2, ch. 5, at 28. This equivalency in standards is certainly not required, nor even necessarily desirable, if the presumption is being used deliberately to channel disputes either towards or away from the courts.

83. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1508-11 (2001).

84. See Arti Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035 (2003).

the clear and convincing standard applies only to litigation challenges that are based on prior art that the USPTO has already considered, but not as to challenges based on other prior art.⁸⁵

This proposal that the clear and convincing standard only apply to the considered prior art raises a number of questions. First, what does it mean for the USPTO to “consider” prior art? Does it mean that there is actual evidence that the examiner studied and applied the reference or does it merely mean that the examiner completed the ministerial steps necessary to allow the prior art to be listed on the front page of the patent? Second, would a return to this rule merely encourage parties to submit more voluminous information disclosure statements, adding to examiners’ workloads and decreasing the available time that an examiner can spend studying any given prior art reference? Third, despite Federal Circuit statements to the contrary, do courts today *de facto* withhold the clear and convincing standard when the challenger presents prior art that the USPTO has never considered?

My goal in this Article is not to select a clear winner from among these alternatives. Rather, my goal is to point out that the presumption of validity, even when viewed solely in instrumental terms, can play a significant role in mediating between alternative fora for resolving patent validity questions. Reform proposals concerning the presumption of validity should take this role more seriously.

V. CONCLUSION

Some eighty years ago, in *Radio Corp. v. Radio Engineering Laboratories, Inc.*, Justice Cardozo wrote perceptively about the presumption of patent validity.⁸⁶ Although his opinion preceded the codification of the

85. See, e.g., Dan L. Burk & Mark A. Lemley, *Policy Levers in Patent Law*, 89 VA. L. REV. 1575, 1660 (2003); Charles E. Phipps, *The Presumption of Administrative Correctness: The Proper Basis for the Clear and Convincing Evidence Standard*, 10 FED. CIR. B.J. 143 (2000). For another variation, see Clarence J. Fleming, *Should the Clear and Convincing Standard for Rebutting the Presumption of Validity Apply When the Challenger Raises a Substantial New Question of Patentability?*, 80 J. PAT. & TRADEMARK OFF. SOC’Y 146 (1998) (proposing a legislative change to § 282 that would specify that the preponderance standard applies when the challenger raises a substantial new question of patentability). The “substantial new question” standard appears in current reexamination provisions. 35 U.S.C. § 302 (2000). It has a dismal history, in which the USPTO has used the standard to find a substantial new question almost as a matter of routine. The standard has never proven capable of facilitating finely-calibrated judgments distinguishing between worthy and frivolous challenges to patentability and would likely result in the use of the preponderance standard in nearly all litigated cases.

86. 293 U.S. 1, 7-8 (1934) (internal citations omitted).

presumption of validity in the 1952 Act,⁸⁷ his words are still relevant today:

A patent regularly issued, and even more obviously a patent issued after a hearing of all the rival claimants, is presumed to be valid until the presumption has been overcome by convincing evidence of error. The force of that presumption has found varying expression in this and other courts. Sometimes it is said that in a suit for infringement, when the defense is a prior invention, "the burden of proof to make good this defense" is "upon the party setting it up," and "every reasonable doubt should be resolved against him." Again it is said that "the presumption of the validity of the patent is such that the defense of invention by another must be established by the clearest proof—perhaps beyond reasonable doubt." The context suggests that in these and like phrases the courts were not defining a standard in terms of scientific accuracy or literal precision, but were offering counsel and suggestion to guide the course of judgment. Through all the verbal variances, however, there runs this common core of thought and truth, that one otherwise an infringer who assails the validity of a patent fair upon its face bears a heavy burden of persuasion, and fails unless his evidence has more than a dubious preponderance.⁸⁸

In response to the FTC's proposal, I am dubious about the preponderance. The FTC has not made its case for altering the standards associated with the presumption of patent validity, either by a clear and convincing evidence standard or even by a preponderance. The presumption of patent validity is as much a malleable expression of ambitions as it is an instrument of precise calibration. Reform proposals should bear in mind the presumption's dual character as both expression and policy tool.

87. Patent Act, Pub. L. No. 82-593, 66 Stat. 729 (1952) (codified as amended in 35 U.S.C.)

88. *Radio Corp.*, 293 U.S. at 7-8.