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**US patent decisions**

# High court decisions give the go-ahead to speedier IP transactions

Two recent decisions of the US Supreme Court and the *en banc* Court of Appeals for the Federal Circuit should help to clarify the law on patent validity and enforceability, and in turn facilitate IP monetisation and expedite transactions

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The US Supreme Court and the *en banc* Court of Appeals for the Federal Circuit (CAFC) have addressed the law on patent validity and enforceability in two recent decisions. In so doing they have added clarity and predictability to the value of US patent portfolios in a way that should facilitate IP monetisation and expedite IP transactions.

The Supreme Court recently addressed the legal standard for invalidating each individual claim of a US patent, maintaining a higher burden of proof and clarifying the strength of patents granted by the US Patent and Trademark Office (USPTO). The CAFC addressed the equitable standard for assessing the enforceability of a granted US patent, finding that a heightened threshold must be met before all claims can be held unenforceable due, for example, to a patent owner's alleged misconduct in procuring the patent from the USPTO. These decisions from US courts of last instance could shape the future of US IP law and help to expedite future IP transactions. Strengthening patents in this way will certainly shift the focus of transactions towards potential infringement issues and/or exploitation of the patent's claimed innovation by a potential licensee or purchaser; aspects that can be more readily evaluated by a potential licensee or purchaser without the need for litigation.

## Patent validity in *Microsoft Corp v i4i Ltd P'ship*

The Supreme Court's decision in *Microsoft v i4i* (131 SCt 2238 (2011)) addressed two questions regarding the appropriate evidentiary standard to be applied to patent invalidity challenges raised in federal courts by an accused infringer under 35 USC §282, which addresses the presumption of validity and defences to this. The Supreme Court first considered whether the relatively lesser 'preponderance of the evidence' standard should apply to all patent claim validity challenges, rather than the heightened, more onerous 'clear and convincing' standard. It then considered whether this heightened 'clear and convincing' standard should apply only to cases involving prior art previously presented to the USPTO and/or considered by the US patent examiner during the prosecution of the patent at issue. An affirmative answer to the second question would mean that the lower preponderance of the evidence standard would apply to an assessment of newly presented prior art not previously before the USPTO.

Clarification of this was so important because the elimination or reduced role of the clear and convincing standard in the review of a patent claim's validity would detract from the deference that US courts have traditionally afforded the USPTO and weaken the strength of granted patents. This could well lead to potential licensees and/or purchasers being less inclined to enter into transactions involving the intellectual property, even where they appreciated its importance.

As to the first question, the Supreme Court relied on the text and legislative history of 35 USC §282 to uphold the clear and convincing standard as the appropriate standard for patent claim validity challenges. Section 282 provides

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that “[a] patent shall be presumed valid” and “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity”. The Supreme Court noted that “while the statute explicitly specifies the burden of proof, it includes no express articulation of the standard of proof”. However, it held that “by stating that a patent is ‘presumed valid,’ Congress used a term with a settled meaning in the common law”. More specifically, by the time Congress drafted Section 282, there was a universal understanding that a presumption of validity is “not to be overthrown except by clear and cogent evidence”. As such, the Supreme Court refused to eliminate the common law understanding of the presumption of validity merely because Congress failed to

reiterate expressly this presumption when drafting the final text of Section 282.

As to the second question, the Supreme Court resisted the petitioner’s urging to “enact a standard of proof that would rise and fall with the facts of each case”. Instead, the Supreme Court applied the “same commonsense principle that the Federal Circuit has recognized through its existence – namely, that new evidence supporting an invalidity defense may ‘carry more weight’ in an infringement action than evidence previously considered by the PTO”, but the standard of proof would remain the same – clear and convincing.

In sum, the Supreme Court upheld an earlier CAFC decision to maintain the relatively higher burden of proof on an accused infringer who attempts to assert a defence of patent claim invalidity, and in so doing, restored greater predictability to the strength of US patent claims.

**Patent enforceability in *Therasense, Inc v Becton, Dickinson & Co***

In *Therasense v Becton Dickinson* (99 USPQ2d 1065 (Fed Cir 2011), the CAFC reviewed the appropriate standard for assessing patent enforceability under the doctrine of inequitable conduct. In this case both a lower federal district court and a three-judge panel of the Federal Circuit had previously upheld the unenforceability of the patent in suit based on the patentee’s failure to disclose briefs filed at the European Patent Office to the USPTO during prosecution. Recognising the “problems created by the expansion and overuse of the inequitable conduct doctrine”, the CAFC agreed to review the panel’s decision.

Inequitable conduct had been assessed by balancing the materiality of undisclosed prior art and/or statements made to the USPTO during prosecution of a patent application against evidence regarding the applicant’s intent to deceive the USPTO. In its *en banc* decision in *Therasense* the CAFC recognised that the existing low standards for materiality and intent increased adjudication costs, reduced the likelihood of settlement, increased strain on the courts and the USPTO and impaired patent quality. It therefore decided to review existing standards for finding intent to defraud and materiality.

Clarifying this standard was important because lower standards of review regarding a patent's enforceability would again result in weakened patents. An accused infringer could challenge an entire patent's enforceability based on marginal evidence of inequitable conduct discovered after a lawsuit had been filed and discovery commenced. As would have been the case with a lowered burden of proof for establishing invalidity, a lesser standard for assessing inequitable conduct would diminish the strength of granted US patents and render a potential licensee and/or purchaser less inclined to enter a transaction involving even key intellectual property that it relied upon in its ongoing business.

Under *Therasense* the CAFC concluded that the intent requirement cannot be met merely by showing that an omission or misrepresentation amounted to gross negligence or negligence under a 'should have known' standard. An accused infringer must show that "the applicant knew of the reference, knew that it was material, and made a deliberate decision to withhold it" to satisfy the intent prong of inequitable conduct. A court may infer intent from indirect or circumstantial evidence, but may not find intent to deceive if multiple reasonable inferences may be drawn from the evidence. In addition, intent to deceive and materiality must be determined separately. For example, intent may not be shown by proving that an applicant knew of a reference, should have known of its materiality and decided not to submit it to the USPTO. Similarly, because the party alleging inequitable conduct carries the burden of proof, the patentee's inability to provide a good-faith justification for withholding a reference does not, by itself, prove intent.

In addressing the materiality requirement of inequitable conduct, the CAFC concluded that materiality is a 'but-for' requirement, meaning that a reference is material if the USPTO would not have allowed the claim but for the failed opportunity to consider an undisclosed reference in the applicant's possession. The CAFC stated that courts must assess 'materiality' according to the lesser 'preponderance of the evidence' standard, giving claims the broadest interpretation possible. However, an exception to the materiality requirement may be found in cases involving affirmative egregious misconduct.

In sum, the CAFC's decision to tighten the standard that an accused infringer must satisfy when attempting to assert a defence of inequitable conduct as a basis for making an entire patent unenforceable will strengthen US patents.

#### **Assessing IP value and expediting transactions**

It is to be hoped that the confirmation of stricter, more predictable legal and equitable standards of patent validity and enforceability will lead to greater predictability for defensive challenges to patents in US federal courts. This in turn should help to expedite patent transactions by reducing the need for litigation to close a deal. Under the Supreme Court's decision in *i4i*, a patent's validity cannot be effectively challenged in the absence of a strong prior art position. With regard to past challenges based on alleged unenforceability due to inequitable conduct, a more relaxed standard had fuelled litigation and deterred expedited transactions. Even weak prior art documents that were in the patent owner's possession during prosecution, but which were not disclosed to the USPTO, were deemed a

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viable defence that warranted judicial review. As such, the enforceability of US patents had been a wild card in attempted IP transactions. Due diligence in a patent transaction almost required that the viability of an enforceability defence be explored. For example, a potential licensee or purchaser would refuse to license or purchase the patent, effectively challenging the patent owner to initiate US litigation and its attendant complex, costly discovery process. This strategy was adopted with an expectation that a basis for inequitable conduct would be uncovered.

By lending predictability to a patent's strength in terms of its validity and enforceability, parties to a transaction can focus on whether purchasing or licensing the patent will benefit their portfolio. Any agreement can, of course, include clauses to protect the purchaser or licensee against a future determination of invalidity and/or unenforceability. As such, parties may be more willing to enter into such transactions without antecedent US litigation to scrub the integrity of the patent owner's legal rights.

### **The role of patent re-examination**

Where questionable prior art exists with respect to a patent that is the subject of a potential IP transaction, the USPTO re-examination procedure can be used to assess its impact on patent validity. Although the procedure does not afford the full scope of litigation discovery, it does offer the lesser standard of review in assessing patent validity because the USPTO does not afford a patent a presumption of validity that must be challenged under the clear and convincing standard of proof. Rather, the preponderance of the evidence standard applies within the USPTO, and a US re-examination examiner is entitled to consider the broadest reasonable scope of a claim when assessing its patentability under this eased standard of review.

### **Conclusion**

Recent key US high court decisions have clarified the law on patent validity and enforceability. Those seeking to sell or license US patents should benefit from these decisions through more streamlined transactions without always having to resort to

time-consuming litigation. Of course, there will still be disagreements over validity and enforceability, and these defences will remain staples of US IP litigation. Disputes over the scope of a claim for purposes of assessing infringement will also continue to exist. However, with enhanced deference to USPTO determinations in the granting of US patents, transactions involving a US patent can focus on the scope of the patent claims at issue, and the value of a portfolio to a potential purchaser or licensee. **iam**

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