No. 13-296

IN THE
Supreme Court of the United States

HYUNDAI MOTOR AMERICA, INC.,

Petitioner,

v.

CLEAR WITH COMPUTERS, LLC,

Respondent.

On Petition for a Writ of Certiorari To the United States Court of Appeals For the Federal Circuit

BRIEF OF WASHINGTON LEGAL FOUNDATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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QUESTION PRESENTED

A jury hearing a dispute concerning the validity of a patent may appropriately be asked to decide factual issues related to the question of patent validity. Nonetheless, this Court has made clear that patent validity is ultimately a question of law to be determined by the trial judge. The Court held in *Microsoft Corp. v. i4i Ltd.*, 131 S. Ct. 2238 (2011), that federal patent law requires an invalidity defense to be proven by "clear and convincing evidence."

The Question Presented by this case is:

Whether, following *i4i Ltd.*, a district court may ignore the fact/law distinction and in so doing instruct a jury to apply the heightened "clear and convincing" standard not only to disputed factual aspects of an invalidity claim, but also to the legal aspects of such a claim—including the ultimate question of a patent's invalidity?

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BRIEF OF WASHINGTON LEGAL FOUNDATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

INTERESTS OF *AMICUS CURIAE*

The Washington Legal Foundation (WLF) is a non-profit public interest law and policy center with supporters in all 50 states.[1] WLF devotes a substantial portion of its resources to defending free enterprise, individual rights, and a limited and accountable government. WLF has regularly appeared before this Court and the U.S. Court of Appeals for the Federal Circuit in cases raising important patent law issues. *See, e.g., Caraco Pharmaceutical Labs., Inc. v. Novo Nordisk A/S*, 132 S. Ct. 1670 (2012); *i4i Ltd. v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010), *aff'd*, 131 S. Ct. 2238 (2011).

WLF is concerned that the Federal Circuit's longstanding approach to distinguishing issues of fact from issues of law has the effect of making jurors the final arbiters of patent validity. Moreover, by failing to explain to jurors that the "clear and convincing" standard of proof applies to questions of fact and not to questions of law, the jury instructions routinely endorsed by the Federal Circuit create precisely the risk that Justice Breyer recently warned against: that

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[1] Pursuant to Supreme Court Rule 37.6, WLF states that no counsel for a party authored this brief in whole or in part; and that no person or entity, other than WLF and its counsel, made a monetary contribution intended to fund the preparation or submission of this brief. All parties have consented to this filing; letters of consent have been lodged with the Court. More than 10 days prior to the due date, counsel for WLF provided counsel for Respondent with notice of WLF's intent to file.

the "clear and convincing" standard may end up "roaming outside its fact-related reservation," thereby creating a risk that "discoveries or inventions will . . . receive legal protection where none is due." *Microsoft Corp. v. i4i Ltd.,* 131 S. Ct. 2238, 2253 (2011) (Breyer, J., concurring).

The recent proliferation of "patent trolls" has been well documented. The term refers to entities that buy up large numbers of patents with no intention of practicing the inventions described therein but rather with the intention of demanding tribute from a large swath of the business community. WLF deems it irrelevant whether Erich Spangenberg (the manager of Respondent Clear with Computers, LLC) can properly be labeled a "patent troll." Rather, given the business community's well-supported conclusion that "patent trolls" are creating a drag on the American economy by threatening to sue companies for employing time-tested methods of conducting business, WLF's principal concern is that the Court take steps to ensure that the Federal Circuit's case law does not unnecessarily hamper companies that choose to challenge patents of questionable validity. WLF is concerned that if the decisions below are allowed to stand, companies will conclude that the task of demonstrating invalidity is too burdensome and that paying tribute to "patent trolls" is the most sensible course of action.

STATEMENT OF THE CASE

As described in detail at Pages 6-8 of the Petition, Respondent Clear with Computers, LLC is the assignee of a patent (the " '739 patent") that describes a method for presenting consumers with computer-

generated, customized sales proposals that are tailored to the previously-expressed interests of each consumer. On the same day that the '739 patent was issued by the Patent and Trademark Office in 2009, Respondent filed an infringement suit in the U.S. District Court for the Eastern District of Texas against Petitioner Hyundai Motor America, Inc. Hyundai defended by arguing, *inter alia*, that the '739 patent was both obvious and anticipated by the prior art, and thus invalid.

When this Court issued its *i4i Ltd.* decision in 2011, the jury trial in these proceedings was under way. The *i4i* case decided several patent-law issues of relevance here, including that a patent challenger does not meet its burden of persuasion on the issue of invalidity unless it introduces "clear and convincing evidence" of invalidity. 131 S. Ct. at 2245-49. Justice Breyer wrote a separate opinion, joined by Justices Scalia and Alito, to "emphasiz[e] that in this area of the law as in others the evidentiary standard of proof applies to questions of fact and not to questions of law." *Id.* at 2253 (Breyer, J., concurring). He stated:

> Courts can help to keep the application of today's "clear and convincing" standard within its proper legal bounds by separating factual and legal aspects of an invalidity claim, say, by using instructions based on case-specific circumstances that help the jury make the distinction or by using interrogatories and special verdicts to make clear which specific factual findings underlie the jury's conclusions. See Fed. Rules Civ. Proc. 49 and 51. By isolating the facts (determined with help of the "clear and convincing" standard), courts can

> thereby assure the proper interpretation or application of the correct legal standard (without use of the "clear and convincing" standard). By preventing the "clear and convincing" standard from roaming outside its fact-related reservation, courts can increase the likelihood that discoveries or inventions will not receive legal protection where none is due.

Id.

Relying explicitly on the *i4i Ltd.* opinions, counsel for Hyundai asked the trial judge to instruct the jury that while an alleged infringer must prove disputed factual issues surrounding validity by "clear and convincing evidence," the ultimate legal questions surrounding invalidity (including obviousness and anticipation) must be answered without use of the clear and convincing standard. The district judge rejected that request, stating that he was "going with the clear and convincing standard" for all aspects of the invalidity question and would not base his instructions on *i4i Ltd.* Pet. App. 37a.

Counsel for Hyundai later elaborated his objection to the court's proposed "clear and convincing" charge as follows:

> Where an invalidity case relies not upon pure factual issues . . . but when it involves the application of legal standards . . . to the facts, that in that circumstance, the clear and convincing burden does not apply. And because we don't have any pure factual issues here—any pure factual issues in our invalidity case, we

> don't think the clear and convincing standard applies in this case, even though it would if we were asserting a different kind of invalidity theory.

Id. at 39a. Rather than challenging counsel's assumption that Hyundai's invalidity case presented no pure factual issues and/or offering to limit the "clear and convincing" instruction to those issues, the district judge responded, "The Court is going to stand by its previous ruling." *Id.* at 40a. The judge then instructed the jury, "You will use the clear and convincing evidence standard with regard to the issue of invalidity." *Id.* at 41a.

The jury rendered a verdict that included findings that Hyundai failed to "prove" that any of the claims included in the '739 patent were invalid based on either anticipation or obviousness. *Id.* at 45a-46a. The trial judge denied Hyundai's motion for judgment as a matter of law and for a new trial without specifically addressing Hyundai's renewed objection to the "clear and convincing" jury instructions. *Id.* at 6a-33a. Instead, the judge denied the motion on the grounds that Hyundai "failed to present clear and convincing evidence that a reasonable juror could not have upheld the validity of the asserted claims." *Id.* 16a.

On appeal, Hyundai argued, *inter alia*, that the district court's invalidity instructions conflicted with *i4i Ltd.* In response, Respondent asserted that, under well established Federal Circuit case law, Hyundai's appellate burden with respect to invalidity was "doubly high: it must show that no reasonable jury could have

failed to conclude that [its] case had been established by clear and convincing evidence." Resp.'s Fed. Cir. Br. at 31 (quoting *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 320 F.3d 1339, 1353 (Fed. Cir. 2003)). Respondent added:

> The jury was properly instructed. In its unanimous ruling in *i4i*, the Supreme Court held that the standard to prove invalidity under 35 U.S.C. Section 282 is clear and convincing evidence, and that this standard can only be changed by Congress. *i4i, supra*, 131 S. Ct. at 2242, 2252. The Supreme Court made no distinction between issues of law and fact, and neither does Section 282.

Id. at 63.

The Federal Circuit issued a one-line *per curiam* summary affirmance. Pet. App. 1a-2a. It included no discussion of whether *i4i Ltd.* had any relevance to the Federal Circuit's customary treatment of the "clear and convincing" standard of proof. Hyundai's petition for rehearing *en banc* re-asserted its claim that it had been severely prejudiced by the district court's invalidity instructions. The appeals court without explanation denied both panel rehearing and rehearing en banc. *Id.* at 34a-35a.

SUMMARY OF ARGUMENT

The Federal Circuit's summary affirmance is not a complete surprise; it has repeatedly upheld jury verdicts in patent law cases in which the jury instructions regarding the "clear and convincing"

standard were substantially similar to those given by the district judge in this case. But as Hyundai has pointed out, Federal Circuit case law in this area directly conflicts with decisions from the Seventh and Ninth Circuits. Moreover, the continued validity of that Federal Circuit case law was thrown into substantial doubt by *i4i Ltd.*, in which Justice Breyer's concurring opinion (an opinion with which no member of the Court took issue) counseled trial courts not to provide the sort of jury instructions at issue here.

In failing to accept Hyundai's invitation to at least discuss the relevance of *i4i Ltd.* to its existing case law regarding invalidity jury instructions, the Federal Circuit sent a clear signal that it sees no reason to alter that approach. Moreover, the Petition provides an excellent vehicle for addressing the issue. In particular, Hyundai has preserved its objections to the jury instructions at all stages of the litigation, and those instructions gave rise to precisely the evil warned against by Justice Breyer, that the "clear and convincing" standard may "roam[ ] outside its fact-related reservation." *i4i Ltd.*, 131 S. Ct. at 2253 (Breyer, J., concurring). Accordingly, review is warranted; there is no reason for the Court to delay resolution of the sharp inter-circuit conflict based on an expectation that the Federal Circuit might later reconsider its position in light of *i4i Ltd.*

Review is also warranted in light of significant changes in the nature of patent litigation in recent years. Such litigation has been increasingly dominated by "patent trolls" who buy up large numbers of patents with no intention of practicing the inventions described therein. Particularly when, as here, the patents at

issue describe methods of conducting business that are commonly employed by large numbers of businesses, assertion of rights under those patents has the potential to disrupt smooth functioning of America's free-market economy. Under those circumstances, it is particularly important that the validity of such patents be judged under the proper legal standards. Review is warranted to determine whether those standards are properly applied when a jury is asked to determine the invalidity issue under a "clear and convincing" standard without any guidance to help differentiate legal questions from factual questions.

REASONS FOR GRANTING THE PETITION

This case presents issues of exceptional importance to the business community. It is increasingly common for businesses to receive demands to pay royalties under patents that describe methods of conducting business that are commonly employed by many members of the business community. Yet even if they believe that the claimed method is obvious and thus that the patent is invalid, businesses are likely to accede to the royalty demand rather than placing the invalidity issue into the hands of lay jurors. They recognize that under Federal Circuit case law, district courts are encouraged to adhere to jury instructions that have the effect of making jurors the final arbiters of patent validity. Review is warranted to determine whether that case law can be reconciled with longstanding legal principles of Anglo-American law governing the application of burdens of proof to questions of fact and questions of law.

I. REVIEW IS WARRANTED TO RESOLVE THE CONFLICT REGARDING THE FACT/LAW DISTINCTION, BETWEEN THE FEDERAL CIRCUIT AND OTHER APPEALS COURTS, AS WELL AS WITH THIS COURT

Review is warranted because Federal Circuit case law governing application of the fact/law distinction directly conflicts with decisions from the Ninth and Seventh Circuits; the latter's decision was issued *en banc* and is particularly well-reasoned. The importance of the issues raised by the inter-circuit conflict was highlighted by the Court's recent *i4i* decision; Justice Breyer's concurring opinion called into serious question the Federal Circuit's approach. The Federal Circuit's conscious choice in this case not to address the implications of *i4i Ltd.*, and instead to adhere to its existing case law, eliminates any rationale for delaying resolution of the conflict. Its summary affirmance of the district court judgment and its denial of rehearing *en banc* indicate that the Federal Circuit is not seriously contemplating a re-examination of its case law in light of *i4i Ltd.*, and thus the existing conflict is unlikely to disappear on its own.

A. The "Clear and Convincing" Standard Does Not Apply to the Ultimate Legal Determination of Whether a Patent Is Obvious and Thus Invalid

As Justice Breyer explained in *i4i Ltd.*, "in this area of the law [*i.e.*, patent law] as in others the evidentiary standard of proof applies to questions of

fact and not to questions of law." 131 S. Ct. at 2253 (Breyer, J., concurring). Thus, when the Court held in *i4i Ltd.* that the "clear and convincing" standard of proof applied to a patent challenger's efforts to demonstrate patent invalidity, it was determining the evidentiary standard to be applied in resolving disputed factual issues. But because "[t]he function of a standard of proof . . . is to instruct the factfinder concerning the degree of confidence our society thinks he should have in the correctness of *factual conclusions* for a particular type of adjudication," *Addington v. Texas*, 441 U.S. 418, 423 (1979) (emphasis added and citation omitted), the "clear and convincing" standard is not relevant when a district court is asked to apply its factual findings for the purpose of reaching legal conclusions with respect to a patent dispute.

Whether a patent is invalid is indisputably a question of law. *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966) (citing *Great A. & P. Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147, 155 (1950)). While the factfinder may need to resolve disputed factual issues in the course of resolving a patent validity dispute, the application of its factual determinations to the patent validity issue is a legal issue to be determined ultimately by the trial judge. *Id.* That is true not only of the ultimate legal issue of validity but also of subsidiary legal issues, such as obviousness. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007). As the Court explained in *KSR*:

> The ultimate judgment of obviousness is a legal determination. *Graham*, 383 U.S., at 17. Where, as here, the content of the prior art, the scope of the patent claim, and the level of

> ordinary skill in the art are not in material dispute, and the obviousness of the claim is apparent in light of these factors, summary judgment is appropriate.

Id.

Indeed, at some level the Federal Circuit has recognized the fact/law distinction and the need to apply the "clear and convincing" standard differently in its review of patent law verdicts depending on whether it is reviewing factual determinations or legal conclusions. For example, the Federal Circuit stated in a 2004 decision:

> When reviewing a jury's verdict on obviousness, however, we review "the conclusions on obviousness, a question of law, without deference, and the underlying findings of fact, whether explicit or *implicit within the verdict*, for substantial evidence."

Koito Mfg Co. v. Turn-Key-Tech, LLC, 381 F.3d 1142 (Fed. Cir. 2004) (quoting *LPN Eng'g Plastics, Inc. v. Miller Waste Mills, Inc.*, 275 F.3d 1347, 1353 (Fed. Cir. 2001)) (emphasis added).

Nonetheless, despite giving lip service to the distinction between questions of fact and questions of law in the context of patent validity determinations, the Federal Circuit in practice has adopted rules governing the fact/law distinction that have the effect of making jurors the final arbiters of patent validity.

B. The Federal Circuit Conflicts Sharply with Other Circuits Regarding the Proper Application of the Fact/Law Distinction to Jury Verdicts

As this case well illustrates, both trial judges and appellate courts face a daunting task when seeking to interpret a jury verdict of "not obvious" and "not invalid," when the verdict does not explain what factual determinations underlay the jury's legal conclusions. The difficulty is compounded when, as here, the jury has not been instructed that the "clear and convincing" standard applies only to the jury's factual determinations.

The Federal Circuit has resolved that issue in a manner that conflicts sharply with two federal appeals court decisions issued just prior to creation of the Federal Circuit. The Federal Circuit holds that where: (1) "the ultimate issue of obviousness" is presented to the jury for resolution; (2) the jury is given no instructions regarding factual determinations that it will need to make in order to arrive at a "not obvious" verdict; and (3) the jury determines that the patent was not obvious without making any specific factual findings, the court presumes that the jury "implicitly" resolved all factual issues in favor of the patentee. *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1360 (Fed. Cir. 2012). It then reviews all such "implicit factual findings for substantial evidence" and, if necessary, "examine[s] the legal conclusion of obviousness de novo" in light of those implicit factual findings. *Id.* However, if the presumed factual findings are sufficient to support the verdict, no such

de novo review of legal issues occurs—and the jury then becomes the final arbiter of validity.

The Federal Circuit adheres to this "implicit factual findings" rule even when, as here, the jury has been directed to apply the "clear and convincing" standard without being cautioned that the heightened pleadings standard applies only to factual issues, not to issues of law. Indeed, the "implicit factual findings" rule and the unrestricted use of the "clear and convincing" standard are two sides of the same coin; the Federal Circuit employs both as part of its application of the fact/law distinction to patent invalidity claims. The latter rule prompts jurors to make legal determinations in a manner biased in favor of validity, while the former rule uses those legal determinations to presume factual determinations unfavorable to the challenger—even when an appellate court has no way of knowing whether the jury actually made those factual determinations.

The Federal Circuit has followed its "implicit factual findings" rule—which flows from its unique view of the fact/law distinction— throughout most of its history. *See, e.g., Kinetic Concepts, Inc. v. Blue Sky Medical Group, Inc.*, 554 F.3d 1010, 1021 (Fed. Cir. 2009); *Koito Mfg. Co.*, 381 F.3d at 1149; *Boehringer*, 320 F.3d at 1353; *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1235-36 (Fed. Cir. 1989); *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 895 (Fed. Cir. 1984) ("[T]he appropriate question [is]: can the jury's *presumed* findings support [the] conclusion of nonobviousness encompassed in the jury's verdict of validity.") (emphasis added). Indeed, by combining the "clear and convincing" standard with a "presumption"

that the jury made every factual finding necessary to support a "not obvious" verdict, the Federal Circuit applies a "doubly" stringent standard when reviewing challenges to such verdicts. *Boehringer*, 320 F.3d at 1353 (stating that "because obviousness, like any other ground of invalidity, must be established by clear and convincing evidence, [the patent challenger's] burden on appeal is doubly high: it must show that no reasonable jury could have failed to conclude that [the challenger's] case has been established by clear and convincing evidence."). *Boehringer* could not have been more explicit that the Federal Circuit treats the "clear and convincing" standard and the "implicit factual finding" rule as closely intertwined aspects of its application of the fact/law distinction.

The district court in this case ruled in accordance with that case law. Its instructions, submitted to the jury over Hyundai's objections, stated without elaboration that Hyundai "bears the burden of proving invalidity by the clear and convincing standard." Pet. App. 42. The court did not ask the jury to decide any specific factual issues. Instead, the jury form asked, with respect to each of the claims included in the '739 patent, whether the claim was invalid based on either anticipation or obviousness. The jury answered "no" to each of those questions. *Id.* at 45a-46a. In ruling on Hyundai's motion for judgment as a matter of law and for a new trial, the district court did not address Hyundai's argument that the '739 patent was obvious as a matter of law. Instead, it denied the motion based on its conclusion that Hyundai "failed to present clear and convincing evidence that a reasonable juror could not have upheld the validity of the asserted claims." *Id.* 16a.

In responding to Hyundai's appeal, Respondent urged the Federal Circuit to affirm on precisely those grounds: that the jury could be presumed to have decided all factual issues in its favor and that Hyundai had failed to demonstrate that no reasonable juror could have upheld the '739 patent in light of those findings. Resp. Fed. Cir. Br. at 31. Respondent also argued that *i4i Ltd.* did not alter this relaxed standard of review; indeed, it cited *i4i Ltd.* as being supportive of the district court's application of the "clear and convincing" standard. *Id.* at 63. The Federal Circuit's summary affirmance was consistent with those arguments and its prior case law.

The Seventh Circuit has adopted a sharply conflicting approach to the fact/law distinction and to the review of jury findings in patent cases. *Roberts v. Sears, Roebuck & Co.*, 723 F.2d 1324 (7th Cir. 1983) (*en banc*). In *Roberts*, the Seventh Circuit was reviewing a judgment that a patent for a socket wrench was both valid and infringed. The jury had not been asked to make factual determinations regarding the invalidity/obviousness defense; instead it responded "Yes," that it found that "the subject matter of the [challenged] patent considered as a whole was not obvious to one of ordinary skill in the art in the years 1963-1964." *Id.* at 1328. The district judge made no findings of his own but simply entered an order adopting the jury's legal conclusion. *Id.* The Seventh Circuit reversed and remanded for a new trial, finding that "the 'special verdict' procedure and attendant instructions utilized by the trial court mandates the conclusion that the jury was impermissibly allowed to be the final arbiter of patent validity." *Id.* at 1338.

Explicitly rejecting the patentee's claim that the court should "presume" that the jury decided all factual issues in his favor, the Seventh Circuit stated:

> [T]he trial court could not presume, nor may we, that the facts were found in favor of [the patentee] merely because the jury ultimately made the legal determination that his patent would not have been obvious. The trial court had no sufficient factual basis, presumed or otherwise, for ruling that the patent was "good and valid law."

Id. at 1342. The appeals court held that "the placement of a 'general verdict' label on a procedure that merely asked the jury to pass upon the ultimate legal question, guided only by general instructions, would in effect dispense with the specific factual determinations called for in *Graham* as a predicate for the court's determination of the legal question of obviousness." *Id.* at 1343. The Seventh Circuit stated that district courts conducting jury trials on patent issues have two options: (1) utilize a special verdict form that asks the jury to resolve specific factual issues, not the ultimate legal issue of patent validity; or (2) utilize a general verdict form that instructs the jury that it should return one verdict if the facts are found one way and a different verdict if the facts are found otherwise. *Id.* at 1339-41.[2] The court indicated

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[2] Elaborating on the second option, the court said, "In other words, the jury must be instructed that if it finds facts A, B, C, and D, it must render a certain verdict. Anything less than strict adherence to this procedure by a trial court constitutes an abdication of its duty to retain ultimate control over the issue of

that the first option was the "preferable method." *Id.* at 1340. In other words, the Seventh Circuit explicitly rejected the Federal Circuit's "implicit factual findings" approach. The Federal Circuit's endorsement of jury instructions that make no effort to place "proper legal bounds" on use of the "clear and convincing" standard serves to accentuate the conflict between its approach and that of the Seventh Circuit.

The Federal Circuit's approach also conflicts with the Ninth Circuit's. *Sarkisian v. Winn-Proof Corp.*, 688 F.2d 647 (9th Cir. 1982). As *Sarkisian* noted, this Court held in *Graham* that a determination regarding whether a patent is "obvious" (and thus invalid) requires examination of three factual issues: (1) the nature of the prior art; (2) the differences between the prior art and the patented device; and (3) the level of ordinary skill in the pertinent art. 688 F.2d at 650 (citing *Graham*, 383 U.S. at 17). The appeals court stated that "[t]hese factual determinations are made by the factfinder, preferably by detailed special interrogatories in jury trials," while "the court must determine obviousness as a matter of law." *Id.* The Court held that a trial judge "may submit the question of obviousness to the jury for its guidance, . . . but retains the duty to decide the question *independent of the jury's conclusion*." *Id.* (emphasis added).

The Ninth Circuit's approach to the fact-law distinction, which attaches no independent significance to a jury's legal conclusion of "not obvious," cannot be squared with the Federal Circuit's approach. Indeed,

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obviousness." *Id.* at 1341.

on several occasions the Federal Circuit has criticized *Sarkisian* and has refused to follow it. *See, e.g., Richardson*, 868 F.2d at 1234 (criticizing *Sarkisian* as endorsing a "discredited procedure of advisory verdicts" and explaining that under Federal Circuit law, "[i]t is established that the jury may decide the questions of anticipation and obviousness"); *Perkin-Elmer Corp.*, 732 F.2d at 895. The Federal Circuit "presumes" that a jury that has rendered a "not obvious" verdict has decided all factual issues in favor of the patentee, *id.*; the Ninth Circuit makes no such presumption. The Federal Circuit requires a challenger seeking to overturn a "not obvious" verdict to demonstrate that no reasonable juror applying the "clear and convincing" standard could have upheld the patent's validity; the Ninth Circuit rejects that standard.

Hyundai's petition is a particularly good vehicle for resolving both the narrow conflict with *i4i Ltd.* and the broader conflict between the Federal Circuit and the Seventh and Ninth Circuits. Because the two issues are so closely intertwined, it is very likely that a decision from this Court resolving the conflict with *i4i*, through its inevitable discussion of the meaning of the fact/law distinction in the context of jury instructions, would also necessarily resolve the broader circuit conflict over the proper application of that distinction to the *post hoc* review of "not invalid" jury verdicts.

C. *i4i Ltd.* Highlights the Need for Early Resolution of the Circuit Split, and This Case Provides an Excellent Vehicle for Doing So

Justice Breyer's concurring opinion in *i4i Ltd.* well illustrates all the drawbacks of the approach used by the Federal Circuit when it reviews jury verdicts in patent cases. Justice Breyer warned that when juries are told that the "clear and convincing" standard applies to efforts by patent challengers to demonstrate invalidity, and then are also asked to render a verdict on the legal issue of invalidity, there is a risk that jurors might mistakenly conclude that they should apply a heightened standard to legal issues as well. *i4i Ltd.*, 131 S. Ct. at 2253. To ensure that application of the "clear and convincing" standard stays "within its proper legal bounds" when juries are considering patent invalidity issues, Justice Breyer recommended that trial courts "us[e] instructions based on case-specific circumstances that help the jury make the distinction [between the factual and legal aspects of an invalidity claim] or us[e] interrogatories and special verdicts to make clear which specific factual findings underlie the jury's conclusions." *Id.* Those two suggestions are, of course, almost precisely the two options endorsed by the Seventh Circuit in *Roberts*. But instead of carefully examining Hyundai's appeal in light of Justice Breyer's concurring opinion in *i4i Ltd.*, the Federal Circuit chose to stand pat and summarily affirmed the trial court.

The Federal Circuit's summary affirmance is particularly troubling because the appeals court's longstanding practice conflicts with this Court's

decision in *KSR*, which addressed the statutory provision governing obviousness. *See* 35 U.S.C. § 103(a) (prohibiting issuance of a patent when "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."). Emphasizing the importance of appellate review of a trial court's obviousness determination, the Court instructed trial courts, "To facilitate review, this analysis [of factual issues relevant to the obviousness determination] should be made *explicit*." *KSR*, 550 U.S. at 418 (emphasis added). Yet, under the Federal Circuit's approach to the fact/law distinction—whereby a jury considering patent invalidity is instructed to apply the "clear and convincing" standard without limitation, and a jury's general verdict of "not invalid" is presumed to have decided all factual issues in favor of the patentee despite the court's failure to identify for the jury what factual issues are in dispute—meaningful appellate review of the sort contemplated by *KSR* is not possible.

This case provides a particularly good vehicle for resolving the inter-circuit conflict. Hyundai raised the "clear and convincing" issue at all stages of the litigation. It objected to the judge's instructions because they did not take *i4i Ltd.* into account; it filed a motion for judgment as a matter of law and for a new trial, raising the same objection; and its appeal to the Federal Circuit sought reversal based, *inter alia*, on the objectionable jury instructions.

Moreover, the evidence suggests that the jury

likely rendered its "not obvious" verdict based largely on its application of the facts to its determination of "obviousness," rather than on its resolution of disputed facts. Indeed, the record suggests that any factual disputes in this case were, at most, minor. The details of Hyundai's prior art evidence—principally, "electronic proposal preparation systems" in use by Ford, Buick, and Cabnetware—were largely undisputed. The principal dispute was legal in nature: did that prior art render the '739 patent obvious as a matter of law? Under those circumstances, the instruction directing the jury to apply the "clear and convincing" standard to Hyundai's obviousness claim had precisely the effect Justice Breyer warned against in *i4i Ltd.*: it caused the "clear and convincing" standard to "roam[ ] outside its fact-related reservation." 131 S. Ct. at 2253.

In sum, there is no reason for further delay in resolving the sharp, longstanding inter-circuit conflict, a conflict that the Court first sought to resolve in 1995. *See* Pet. at 25-26 (discussing the history of *American Airlines, Inc. v. Lockwood*, 515 U.S. 1121 (1995)).[3]

II. REVIEW IS WARRANTED TO ADDRESS THE PROLIFERATION OF PATENT TROLLS AND THE ADVERSE EFFECTS THEY ARE HAVING ON THE AMERICAN ECONOMY

Review is also warranted to address a growing threat to the American economy: the increasingly

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[3] Alternatively, as suggested by Petitioner, the Court should grant the petition and remand the case to the Federal Circuit for consideration in light of *i4i Ltd.*

frequent assertion of weak patents claiming methods of conducting business that are commonly employed by large numbers of businesses. Such suits are often filed by "patent trolls," entities that buy up large numbers of patents with no intention of practicing the inventions described therein and whose business model consists of sending out royalty demands to large numbers of businesses. Their efforts have been assisted by their discovery of a friendly forum in the US. District Court for the Eastern District of Texas, where this case originated.

The anti-competitive effects of patent troll activity have recently caught the attention of the Federal Trade Commission (which refers to patent trolls as PAEs, "patent assertion entities"). Just last week, the FTC announced that it seeks public comments on its proposal "to gather information from approximately 25 companies that are in the business of buying and asserting patents, known as Patent Assertion Entities ('PAEs'). The FTC intends to use this information to examine how PAEs do business and develop a better understanding of how they impact innovation and competition." Federal Trade Commission, "FTC Seeks to Examine Patent Assertion Entities and Their Impact on Innovation, Competition." (Sept. 27, 2013). On June 4, 2013, President Obama issued three executive orders "to protect innovators from frivolous litigation by patent trolls." Edward Wyatt,"Obama Orders Regulators to Root Out 'Patent Trolls,'" *New York Times* (June 4, 2013). Among other things, the executive orders direct the Patent and Trademark Office "to tighten scrutiny of overly broad patent claims." *Id.*

The Court has long recognized that granting or validating patents for inventions that were obvious to those with ordinary skill in the art "obviously withdraws what already is known into the field of the [patentee's] monopoly and diminishes the resources available to skillful men." *KSR*, 550 U.S. at 416 (quoting *Great A. & P. Tea Co.*, 340 U.S. at 152-53). Indeed, Art. I, § 8, cl. 8 of the Constitution imposes strict limits on the power of Congress to grant patents:

> Congress may not authorize the issuance of patents whose effects are to remove existent knowledge from the public domain, or to restrict free access to the materials already available. Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in a patent system which by constitutional command must "promote the Progress of . . . useful Arts." This is the standard expressed in the Constitution and it may not be ignored.

Graham, 383 U.S. at 6.

The Federal Circuit's misunderstanding of the fact/law dichotomy, as articulated by this Court, assists patent trolls in asserting weak patent claims by creating unwarranted judicial barriers for alleged infringers seeking to challenge the patent's validity. Indeed, the Federal Circuit summarily affirmed the judgment against Hyundai on the basis of its longstanding rules, yet (as explained in the Petition at 12) during oral argument the panel expressed the view that the '739 patent would eventually be deemed invalid on obviousness grounds. Rules governing jury

instructions in patent trials have little to recommend them when they result in substantial monetary judgments being affirmed against alleged infringers despite the belief of reviewing judges that the patent is obvious (and thus invalid) as a matter of law.

If the decisions below are allowed to stand, companies will conclude that the task of demonstrating invalidity is too burdensome and that paying tribute to "patent trolls" is the most sensible and cost-effective course of action. Review is warranted in light of substantial evidence that patent trolls have been able to exploit the Federal Circuit rules at issue here to demand royalty payments on weak patents and thereby cause major disruption to the American economy.

CONCLUSION

The Washington Legal Foundation respectfully requests that the Court grant the Petition.

Respectfully submitted,

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