

No. 10-290

IN THE
Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

141 LIMITED PARTNERSHIP AND
INFRASTRUCTURES FOR INFORMATION INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FEDERAL CIRCUIT

**BRIEF *AMICI CURIAE* OF 37 LAW,
BUSINESS, AND ECONOMICS PROFESSORS
IN SUPPORT OF PETITIONER**

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QUESTION PRESENTED

Whether the court of appeals in *i4i LP v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010), erred in holding that Microsoft's invalidity defense must be proved by clear and convincing evidence.

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**STATEMENT OF INTEREST
OF THE *AMICI CURIAE***

Amici are professors at law, economics, and business schools who specialize in intellectual property law throughout the United States. Amici have no personal stake in the outcome of this case,¹ but have an interest in seeing that the patent laws develop in a way that promotes rather than retards innovation. A complete list of amici is included in Appendix A.

ARGUMENT

The United States Patent and Trademark Office (PTO) is tasked with the job of reading patent applications and determining which ones qualify for patent protection. It is a herculean task, made more so by the enormous informational and budgetary constraints facing the PTO. Nonetheless, under current Federal Circuit precedent, courts must give great deference to the PTO's decisions regarding patent validity, overturning them only if the defendant can prove invalidity by clear and convincing evidence. That is a mistake. Deference to previous decisions is appropriate when those previous decisions have a high likelihood of being accurate. But the initial process of patent review today is, unavoidably, often an inaccurate signal, one that doesn't take account of all relevant information. Deference doesn't make sense in that circumstance.

1. No party has authored or paid for any portion of this brief. Only amici or their counsel made any monetary contribution toward its filing. Counsel for petitioner and respondents have filed blanket waivers consenting to the filing of all amicus briefs.

Before the creation of the Federal Circuit in 1982, the regional circuits recognized the limitations of evaluation by the PTO in one important situation: where the PTO had not had an opportunity to review the evidence in question at all. But for nearly thirty years, the Federal Circuit has required proof of invalidity by clear and convincing evidence even when, as in this case, the evidence in question was never before the PTO.

The PTO is an administrative agency, but unlike most agencies subject to the Administrative Procedure Act, it makes the decision to grant or deny patents *ex parte*, providing other parties interested in the outcome of the patent examination neither notice of the proceeding nor an opportunity to be heard. In that unusual circumstance, administrative law does not require deference.

Judicial deference to the PTO is appropriate if, but only if, the agency record demonstrates that the patent examiner actually considered the prior art and found it not to be invalidating. Of necessity, that requires that the art actually have been before the patent examiner. But the vast majority of the art listed on the face of the patent is not substantively discussed or considered on the record by an examiner. Only art that is actually discussed by the examiner in writing during prosecution should be entitled to significant deference. In other circumstances, accused infringers should be permitted to demonstrate the invalidity of a patent by a preponderance of the evidence, the same quantum of proof used today in both copyright and trademark law.

Bringing the presumption of validity in line with the realities of patent practice will not weaken the patent

system or threaten innovation, as some have suggested. By encouraging applicants and examiners to address the most important art during prosecution, an evidence-based presumption of validity will strengthen valid patents while allowing the courts to weed out weak patents.

I. The PTO Is Subject to Significant Constraints

Patents are presumed valid. 35 U.S.C. § 282.² That is a reasonable rule, given that the PTO, an expert agency, has reviewed the invention and found it patentable. But the strength of the presumption should logically depend on the depth and quality of the review the PTO actually gave to an application.

In fact, the PTO review process is far from perfect. One problem is resources. In 2009, for example, the PTO received more than 450,000 new applications, http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm, and today it has a backlog of more than a million pending applications.

To evaluate an application, an examiner not only has to read the (frequently voluminous) documentation submitted by the applicant, but also must use computerized databases and other available sources to search for invalidating prior art. The examiner may have to interact with the applicant's lawyers on multiple occasions and must document any decisions ultimately made.³ Strikingly, examiners are

2. This Court has never considered the proper quantum of proof required under 35 U.S.C. § 282 since the passage of the Patent Act of 1952.

3. An examiner's duties are set out in 37 C.F.R. § 1.104.

asked to do all of this in an average of between sixteen and seventeen hours per patent; and those hours are spread over what is generally a three- to five-year period. See John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 314; Kristen Osenga, *Entrance Ramps, Tolls, and Express Lanes—Proposals for Decreasing Traffic Congestion in the Patent Office*, 33 FLA. ST. U. L. REV. 119, 130 (2005).

Given these realities, it is hardly a surprise that bad patents routinely slip through.⁴ To accurately evaluate the merits of every patent application would cost billions of dollars. Add to that the administrative costs of both interacting with the relevant lawyers and documenting the entire process, and the required budget would make patent application fees prohibitively expensive. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495 (2001). And so examiners make judgment calls, deciding not to inquire into certain areas of validity (such as inventorship or best mode) at all and engaging in a form of triage as to others.

Information is a second significant impediment to PTO review. Because there is no obligation for a patent applicant to search for relevant prior art before filing an application, and many applicants submit no prior art at all, the burden of finding the most relevant information falls

4. See, e.g., *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007) (holding an issued patent invalid for obviousness as a matter of law). Indeed, nearly half of issued patents litigated to judgment are ultimately held invalid. See John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185 (1998).

quite heavily on the patent examiner. Overwhelmingly, time-constrained examiners search only the ranks of other issued U.S. patents for that prior art. They rarely pay attention to foreign patents, or to non-patent prior art in the form of scientific journal articles or products in the marketplace, even though those may well be the most relevant sources of art. Christopher A. Cotropia et al., *Do Applicant Patent Citations Matter? Implications for the Presumption of Validity*, Stanford Public Law and Legal Theory Working Paper, available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1656568.

Another limitation on the extent and quality of PTO examination is that it is *ex parte*. Competitors have little opportunity to participate even voluntarily in a rival's patent prosecution process. Patent applications are evaluated early in the life of a claimed technology. That means that nobody yet knows how the technology will be received by experts in the field or whether consumers will view it as an advance over existing alternatives. Worse, patent examiners cannot solicit outside opinions from competitors or consumers because patent evaluation is at least in part a confidential conversation between applicant and examiner, designed to keep an applicant's work secret in the early stages in case the patent application is ultimately denied.⁵ And no one can know what a patent

5. Until 2001, patent applications were kept secret unless and until the patent issued. Today, most (but not all) pending patent applications are published eighteen months after filing. But applications are maintained as confidential for eighteen months or longer, and the patent statute discourages third-party intervention in the prosecution process. The statute goes so far as to prevent third parties who do become aware of a patent from filing a protest or any form of opposition to the patent during the patent prosecution process. 35 U.S.C. § 122(c).

covers until it issues, so even companies that were aware of an application might not realize they were at risk of an infringement suit.

The adversary process tends to produce good evaluative information. The court system works in large part because opposing parties argue for different outcomes, reducing the task of judge and jury to choosing a side rather than having to identify arguments and weaknesses themselves. Patent examination, by contrast, does not benefit from this sort of competitive dynamic. Instead, only applicants and their attorneys communicate with the examiner. And no examiner, no matter how good, will ever know as much or be as motivated as a true market rival. *See* Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 *Stan. L. Rev.* 45 (2007) (discussing PTO constraints in detail).

We do not raise these imperfections in order to denigrate the PTO. That agency does a good job given the conditions it faces. But it necessarily does an imperfect job. Examiners may not pay sufficient attention to information in front of them, simply because they don't have the time to do so.⁶ And in many cases, including this one, important information will never be presented to the PTO for consideration at all.

6. Indeed, it is worth noting that when the PTO itself considers the validity of the patents it has already issued, in both reissue and reexamination proceedings, it ignores the presumption of validity and reconsiders the patent without any deference to the first determination. *See* 35 U.S.C. §§ 251 (reissue applications treated the same as original applications for patent), 305 (ex parte reexamination), 314(a) (inter partes reexamination) (2000).

II. The Quantum of Proof for Invalidity Should Reflect the Reality of the Patent Prosecution Process

A. The Administrative Procedure Act Does Not Compel Deference to Patent Grants

In *Dickinson v. Zurko*, 527 U.S. 150 (1999), this Court held that, because the PTO was an administrative agency subject to the Administrative Procedure Act, its determinations could be overturned only if arbitrary, capricious, contrary to law, or unsupported by substantial evidence. 5 U.S.C. § 706. But it held that to be true in the context of a patent applicant's appeal of the *rejection* of a patent application. If patent claims are wrongly rejected, the only person aggrieved by the PTO's action – the patent applicant – is a party to the proceeding, has an opportunity to present evidence to the examiner, and has the right to appeal the decision within the agency to the Board of Patent Appeals and Interferences (BPAI) and from there to the Court of Appeals for the Federal Circuit. There is no corresponding right of a competitor, customer, or other member of the public who thinks a patent should not be issued to participate either in the initial decision to grant a patent or to appeal that decision within the agency or to a court.⁷ Indeed, the applicant never even need make a showing that its invention is patentable; the initial burden is on the examiner to show why an application should be rejected. *In re Oetiker*, 977 F.2d 1443, 1445 (Fed.Cir. 1992) (“[T]he examiner bears the initial burden, on review

7. While there is a limited form of *inter partes* reexamination of patents, it covers only certain types of issues. Notably, it does not permit consideration of the kind of prior art at issue in this case. 35 U.S.C. §§ 301, 311.

of the prior art or on any other ground, of presenting a prima facie case of unpatentability.”).

As Benjamin and Rai explain, these procedural asymmetries mean that the deferential judicial standards of review apply to appeals from PTO denials of patent applications, but do not bind district courts conducting their own factfinding in a patent infringement suit:

[A]dministrative law doctrine allows--and, indeed, may require--differentiation between grants and denials. . . . denial by the patent examiner is reviewed by the BPAI, and this Board reverses a very significant percentage of examiner determinations. Moreover, unlike appeals of patent denials, which do not typically involve new prior art, challenges to patent grants generally involve new prior art (or other factual information) on which the PTO has not articulated a position. Under standard administrative law doctrine (and as a matter of logic), no deference can be owed to factfinding that the PTO has not done.

Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 293 (2007).

Morgan v. Daniels, 153 U.S. 120, 124 (1894), in which this Court found deference appropriate, involved an interference proceeding between two parties, each claiming that they invented the patented technology first. Interference proceedings *are* formal adjudication; both the parties are present and have the power to conduct

discovery, and a panel of administrative law judges takes oral and written evidence and renders a decision. *Morgan* relied on those facts in deferring to the resulting agency decision:

But this is something more than a mere appeal. It is an application to the court to set aside the action of one of the executive departments of the government.... A new proceeding is instituted in the courts ... to set aside the conclusions reached by the administrative department It is ... not to be sustained by a mere preponderance of evidence.... It is a controversy between two individuals over a question of fact which has once been settled by a special tribunal, entrusted with full power in the premises.

Id. at 124 (emphasis in original).

No court has ever held that the “arbitrary and capricious” standard binds district courts evaluating the validity of issued patents. Indeed, this Court suggested in *Zurko* that even the standard for rejected patent applications might well be different if a disappointed patent applicant chose to challenge the denial of its application by filing a new action in the district court. *Zurko*, 527 U.S. at 164. There is no reason that courts in infringement proceedings should be precluded from giving full consideration to evidence never before the PTO, submitted by parties who were not permitted even to appear before the PTO, merely because the PTO granted a patent in an informal adjudication proceeding.

Finally, it is worth noting that many of the important determinations patent examiners make in deciding to issue a patent are decisions about questions of law, not fact.⁸ Clear and convincing evidence is an evidentiary presumption that has no bearing on questions of law. An examiner's decision to grant a patent is entitled only to *Skidmore* deference on questions of law. *Skidmore v. Swift & Co.*, 323 U.S. 134, 139-40 (1944). Given the constraints discussed in the previous part, that deference should not be substantial.

B. Clear and Convincing Evidence is Not the Proper Rule in All Cases

Before the Federal Circuit was created in 1982, the regional circuits understood that the quantum of proof required for invalidity should depend on the examination the PTO had actually performed. Where the PTO did not actually pass on an issue, the regional circuits either reduced the presumption or found it to have been overcome by the evidence. *See, e.g., Mfg. Res. Corp. v. Graybar Elec. Co.*, 679 F.2d 1355 (11th Cir. 1982) (adopting the rule that only “considered art” was subject to the clear and convincing evidence standard); *NDM Corp. v. Hayes Prods., Inc.*, 641 F.2d 1274 (9th Cir. 1981) (same); *Lee Blacksmith, Inc. v. Lindsay Bros., Inc.*, 605 F.2d 341 (7th Cir. 1979) (same); *Baumstimler v. Rankin*, 677 F.2d 1061, 1066 (5th Cir. 1982) (“the bases for the presumption of validity . . . no longer exist” when the PTO has not

8. This is true, for example, of patentable subject matter, *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), *aff'd*, ___ U.S. ___, 130 S.Ct. 3218 (2010); claim construction, *Markman v. Westview Instruments*, 517 U.S. 370 (1996), and obviousness, *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007).

considered a particular validity issue); *cf. Solder Removal Co. v. Int'l Trade Comm'n*, 582 F.2d 628, 633 (C.C.P.A. 1978) (“though the burden of persuasion continues throughout the litigation on him who asserts invalidity, the burden of persuasion may be more easily carried by evidence consisting of more pertinent prior art than that considered by the examiner.”).

The Federal Circuit, however, replaced the flexible, context-specific presumption of validity with a rigid clear and convincing evidence standard that applied without regard to whether circumstances justified such a strong presumption. *See American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984) (introducing prior art not before the patent office “neither shift[s] nor lighten[s the burden of proving invalidity] or chang[es] the standard of proof”); *Connell v. Sears, Roebuck & Co.*, 772 F.2d 1542 (Fed. Cir. 1983); *Ultra-Tex Surfaces, Inc. v. Hill Bros. Chem. Co.*, 204 F.3d 1360, 1367 (Fed. Cir. 2000); *Kahn v. Gen. Motors Corp.*, 135 F.3d 1472, 1480 (Fed. Cir. 1998) (“The presentation of evidence that was not before the examiner does not change the presumption of validity . . .”).

That rigid clear-and-convincing-evidence standard of proof is not mandated by the statute, which merely says that issued patents “shall be presumed valid” and is silent on the quantum of proof required to overcome that presumption. 35 U.S.C. § 282. Clear-and-convincing evidence is not the rule that courts apply to decisions by the PTO in trademark cases; registered trademarks are presumed valid but a defendant need only show invalidity by a preponderance of the evidence. *See, e.g., Zobmondo Ent., LLC v. Falls Media LLC*, 602 F.3d 1108, 1113-14

(9th Cir. 2010).⁹ Nor is it the rule the PTO itself applies when reconsidering the grant of a patent in a reissue, *ex parte* reexamination, or *inter partes* reexamination proceeding. 35 U.S.C. §§ 251, 305, 314; the PTO in those cases applies the preponderance of the evidence standard. *In re Caveney*, 761 F.2d 671 (Fed. Cir. 1985). And the rigid clear-and-convincing-evidence standard makes little sense in light of the constraints described in Part I. As academic critics have repeatedly observed,¹⁰ and as this Court noted in dicta in *KSR*, a patent examiner cannot have made a reasoned judgment that a patent should issue despite a piece of prior art if the examiner has never even seen that art. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007) (holding patent obvious as a matter of law; this Court “th[ought] it appropriate to note that the rationale underlying the presumption – that the PTO, in its expertise, has approved the claim – seems much

9. Copyright law also contains a statutory presumption of validity, 17 U.S.C. § 410(c), but no court has held that that statutory presumption means that copyrights must be proven invalid by clear and convincing evidence.

10. See, e.g., Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 319 (2007); B.D. Daniel, *Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 AIPLA Q.J. 369, 412 (2008); Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 Sw. U. L. Rev. 323, 338 (2008); Mark A. Lemley et al., *What To Do About Bad Patents*, Regulation, Winter 2005-06, at 10; Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 Stan. L. Rev. 45 (2007); David O. Taylor, *Clear But Unconvincing: The Federal Circuit's Invalidity Standard*, Fordham Intell. Prop., Media & Ent. L.J. (forthcoming 2011), available at <http://ssrn.com/abstract=1651597>.

diminished here” because the relevant prior art was not before the examiner).

C. Deference May Be Appropriate, But Only to Decisions Actually Made on the Record

The severe constraints under which the PTO operates have led some amici to suggest that accused infringers in all cases should have to demonstrate invalidity only by a preponderance of the evidence. *See, e.g.*, Brief Amicus Curiae of Google Inc. A preponderance of the evidence standard more closely approximates the realities of normal patent prosecution than does the clear-and-convincing-evidence standard. But like the Federal Circuit’s inflexible clear-and-convincing-evidence standard, a pure preponderance of the evidence standard is too rigid. Sometimes there is evidence that the PTO *has* thoroughly considered an issue and resolved it in favor of the patent owner. In those circumstances, there is no reason courts should ignore that determination.

For example, in *Morgan*, the PTO had conducted a full administrative trial (called an “interference” proceeding) on the question of which of two parties were first to invent the patented technology. The outcome of that trial will not bind a third party later sued for infringement as a matter of *res judicata*, but if that third party seeks to prove the patentee was not the true first inventor, it properly faces a heavy burden to show that the administrative trial on that issue reached the wrong outcome. Similarly, if the PTO concludes in an adversarial *inter partes* reexamination proceeding that an invention is patentable over a particular piece of prior art, a third party that attempts to invalidate the patent using that same prior art should

have to show more than a preponderance of the evidence supporting its position.¹¹ In both cases, the attention the PTO gives to the issue is much greater than in an ordinary examination, and in both cases, the adversarial nature of the proceeding ensures that the issues actually presented will be fully vetted before the agency.

Some deference to PTO decisions may also be appropriate in the absence of an adversarial proceeding, but only if there is real evidence in the record that an issue was actually considered and resolved by the PTO. There can be no such evidence in a case like the one at bar, when the prior art in question was not before the PTO at all, either in the initial examination or in reexamination. But even where an applicant submits prior art to the PTO, it is important to distinguish between the mere fact of submitting prior art to the PTO and a considered evaluation of that art by the patent examiner on the record. Empirical evidence demonstrates that patent examiners, subject to significant time constraints, rarely rely on or even discuss applicant-submitted art during prosecution. Only 2% of applicant-submitted prior art is even mentioned by the examiner in a substantive office action. *Cotropia et al., supra*. It appears that examiners ignore much of the art they receive, checking a box on a form to indicate that they received it but not citing or discussing it in their substantive evaluation of the patent. *Id.*

11. In the case of inter partes reexamination, and perhaps in the case of an interference proceeding, the party that actually participated in the administrative hearing will be barred from raising the same defense in court at all. 35 U.S.C. § 315(c).

The mere listing of art on the face of the patent – the fate of any art submitted by the applicant – should not suffice to trigger the clear-and-convincing-evidence standard. Courts should defer only to actual PTO decisions about the relevance of prior art made on the record. Thus, a higher burden than preponderance of the evidence should apply only to prior art or arguments actually discussed in writing by a patent examiner in an office action.¹²

III. A Realistic Standard of Proof Will Not Weaken the Patent System or Threaten Innovation

Some have suggested that any deviation from the rigid clear-and-convincing-evidence standard will weaken the patent system and harm incentives for innovation. Not so.

A properly calibrated presumption of validity will strengthen, not weaken, the patent system. The goal of the patent system is to promote innovation. But the issuance of numerous weak patents can undermine rather than promote innovation, imposing costs and uncertainty on true innovators who must defend suits on patents that never should have issued. As it stands today, even with the presumption of validity nearly half of all patents litigated to judgment are held invalid. Allison & Lemley, *supra*. Clothing all patents in a strong presumption of validity makes the bad ones hard to invalidate, particularly on

12. It may be appropriate to extend that burden to invalidity claims based on art submitted to the PTO that is not itself separately considered by the patent examiner because it is functionally identical to art that was so considered. Doing so would avoid accused infringers avoiding the spirit of the rule proposed in text by submitting different versions of the same art in court.

summary judgment. As a result, the higher standard of proof increases the total cost and uncertainty of patent litigation, and it prompts defendants to pay to settle even lawsuits they know they could win.

Indeed, a rule that gives patents a strong presumption of validity only over art actually considered by the examiner will improve the patent prosecution process. The current unitary clear-and-convincing-evidence standard rewards patentees who fail to search for or engage with the prior art, since they benefit from a strong presumption even over art they never had to discuss or explain to the patent examiner. A rule that focused only on whether the art had been submitted to the PTO would encourage applicants to “bury” the examiner in as many references as possible, but wouldn’t assist the examiner in actually evaluating those references. The rule we propose, by contrast, would encourage applicants to identify and discuss with examiners the most important pieces of prior art, making a record on why the patent was allowed over those pieces of prior art.¹³ It would accordingly produce

13. Patent applicants sometimes shy away from calling out the most important references or discussing their significance for fear that they will be held to have intentionally misrepresented the state of the art to the PTO and hence face liability for inequitable conduct. But we do not think that is or should be a significant worry. The Federal Circuit is in the process of revising the rules for inequitable conduct, and most commentators expect the court to make it more difficult for defendants to show inequitable conduct. *Therasense, Inc. v. Becton, Dickinson & Co.*, 374 Fed. Appx. 35 (Fed. Cir. 2010). And an inequitable conduct claim should be particularly hard to support when the claimed misconduct is not withholding information from the PTO, but characterizing a prior art reference that the examiner has in front of him. This Court could allay that concern in the course of setting out the proper standard for deference.

better, more focused examinations and give deference where it is due. And existing patentees who have not done so in the past have the opportunity to return to the PTO to have it consider important new art, using either a reissue or a reexamination proceeding. 35 U.S.C. §§251, 302.

A strong patent system is important to our economy. But a strong patent system is one that issues valid patents and weeds out unworthy applications. A presumption of validity that is calibrated to the realities of the prosecution process will both expose weak patents for what they are and encourage applicants with valid claims to improve the prosecution process. Everyone – except the owners of bad patents – will benefit from such a change.

IV. Conclusion

We urge this Court to hold that the clear-and-convincing-evidence standard does not apply to prior art or arguments not actually considered by the PTO on the written record.

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