

No. 10-290

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IN THE  
**Supreme Court of the United States**

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MICROSOFT CORPORATION,

*Petitioner,*

v.

14I LIMITED PARTNERSHIP AND  
INFRASTRUCTURES FOR INFORMATION INC.,

*Respondents.*

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**On Writ Of Certiorari  
To The United States Court Of Appeals  
For The Federal Circuit**

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**REPLY BRIEF FOR PETITIONER**

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**RULE 29.6 STATEMENT**

The corporate disclosure statement included in the petition for a writ of certiorari remains accurate.

## TABLE OF CONTENTS

	<b>Page</b>
REPLY BRIEF FOR PETITIONER .....	1
I. SECTION 282 DOES NOT IMPOSE A CLEAR- AND-CONVINCING-EVIDENCE STANDARD.....	2
A. THE PREPONDERANCE STANDARD BEST ACCOUNTS FOR THE CAREFUL BALANCE STRUCK BY THE PATENT LAWS.....	3
B. THE STATUTORY PRESUMPTION OF VALIDITY DOES NOT SUPPORT A HEIGHTENED STANDARD OF PROOF.....	4
C. THIS COURT’S PRE-1952 CASES DID NOT REQUIRE A HEIGHTENED STANDARD OF PROOF IN ALL CASES.....	6
II. APPLICATION OF AN ACROSS-THE-BOARD HEIGHTENED STANDARD IS INCONSISTENT WITH ADMINISTRATIVE-LAW PRINCIPLES .....	11
III. I41’S POLICY ARGUMENTS DO NOT JUSTIFY THE CLEAR-AND-CONVINCING-EVIDENCE STANDARD .....	16
A. RELIANCE INTERESTS DO NOT JUSTIFY A HEIGHTENED STANDARD OF PROOF .....	16
B. THE POSSIBILITY OF REEXAMINATION IN SOME CASES DOES NOT SUPPORT A HEIGHTENED STANDARD OF PROOF.....	18
C. A DUAL-STANDARD REGIME WOULD NOT CREATE MANAGEABILITY PROBLEMS .....	20
IV. THE FEDERAL CIRCUIT’S HEIGHTENED STANDARD CANNOT BE SALVAGED THROUGH CURATIVE INSTRUCTIONS.....	22
CONCLUSION .....	23

## TABLE OF AUTHORITIES

	<b>Page(s)</b>
<b>CASES</b>	
<i>A R Inc. v. Electro-Voice, Inc.</i> , 311 F.2d 508 (7th Cir. 1962).....	10
<i>Adamson v. Gilliland</i> , 242 U.S. 350 (1917).....	6
<i>Am. Hoist &amp; Derrick Co. v. Sowa &amp; Sons, Inc.</i> , 725 F.2d 1350 (Fed. Cir. 1984).....	1, 11
<i>In re Apotex, Inc.</i> , 49 F. App'x 902 (Fed. Cir. 2002).....	17
<i>Ashcroft v. R.R. Co.</i> , 97 U.S. 189 (1877).....	5
<i>Auer v. Robbins</i> , 519 U.S. 452 (1997).....	12
<i>The Barbed Wire Patent</i> , 143 U.S. 275 (1892).....	6
<i>BarTex Research, LLC v. FedEx Corp.</i> , 611 F. Supp. 2d 647 (E.D. Tex. 2009).....	19, 20
<i>Bayer v. Rice</i> , 75 F.2d 238 (D.C. Cir. 1934).....	8
<i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010).....	8
<i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989).....	3, 4
<i>Bueno v. City of Donna</i> , 714 F.2d 484 (5th Cir. 1983).....	23

<i>Cal. Research Corp. v. Ladd</i> , 356 F.2d 813 (D.C. Cir. 1966) .....	11
<i>Callaway Golf Co. v. Acushnet Co.</i> , 576 F.3d 1331 (Fed. Cir. 2009) .....	20
<i>Cantrell v. Wallick</i> , 117 U.S. 689 (1886) .....	6
<i>In re Caveney</i> , 761 F.2d 671 (Fed. Cir. 1985) .....	13
<i>Chi. Rawhide Mfg. Co. v. Crane Packing Co.</i> , 523 F.2d 452 (7th Cir. 1975) .....	21
<i>Citizens to Preserve Overton Park v. Volpe</i> , 401 U.S. 402 (1971) .....	11
<i>Coffin v. Ogden</i> , 85 U.S. (18 Wall.) 120 (1874) .....	6
<i>Dickinson v. Zurko</i> , 527 U.S. 150 (1999) .....	18
<i>eBay Inc. v. MercExchange, L.L.C.</i> , 547 U.S. 388 (2006) .....	5
<i>In re Etter</i> , 756 F.2d 852 (Fed. Cir. 1985) .....	12
<i>Futorian Mfg. Corp. v. Dual Mfg. &amp; Eng'g, Inc.</i> , 528 F.2d 941 (1st Cir. 1976) .....	9, 21
<i>In re Glaug</i> , 283 F.3d 1335 (Fed. Cir. 2002) .....	13
<i>Graver Tank &amp; Mfg. Co. v. Linde Air Prods. Co.</i> , 336 U.S. 271 (1949) .....	8

<i>Grogan v. Garner</i> , 498 U.S. 279 (1991).....	2
<i>Herman &amp; MacLean v. Huddleston</i> , 459 U.S. 375 (1983).....	2, 4
<i>Hyatt v. Kappos</i> , 625 F.3d 1320 (Fed. Cir. 2010) .....	12
<i>KSR Int'l Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007).....	1, 8, 15
<i>Landgraf v. USI Film Prods.</i> , 511 U.S. 244 (1994).....	17
<i>Lehnbeuter v. Holthaus</i> , 105 U.S. 94 (1882).....	5
<i>Lorenz v. F.W. Woolworth Co.</i> , 305 F.2d 102 (2d Cir. 1962) .....	10
<i>Mfg. Research Corp. v. Graybar Elec. Co.</i> , 79 F.2d 1355 (11th Cir. 1982).....	10
<i>Morgan v. Daniels</i> , 153 U.S. 120 (1894).....	7
<i>In re Oetiker</i> , 977 F.2d 1443 (Fed. Cir. 1992) .....	13
<i>Pope Mfg. Co. v. Gormully</i> , 144 U.S. 224 (1892).....	3
<i>Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.</i> , 324 U.S. 806 (1945).....	3
<i>Pressteel Co. v. Halo Lighting Prods., Inc.</i> , 314 F.2d 695 (9th Cir. 1963).....	10

<i>Radio Corp. of Am. v. Radio Eng'g Labs., Inc., 293 U.S. 1 (1934)</i> .....	7
<i>Rains v. Niaqua, Inc., 406 F.2d 275 (2d Cir. 1969)</i> .....	10
<i>Royal Patent Corp. v. Monarch Tool &amp; Mfg. Co., 203 F.2d 299 (6th Cir. 1953)</i> .....	10
<i>Santosky v. Kramer, 455 U.S. 745 (1982)</i> .....	3
<i>Smith v. Hall, 301 U.S. 216 (1937)</i> .....	6, 7
<i>Stoody Co. v. Mills Alloys, Inc., 67 F.2d 807 (9th Cir. 1933)</i> .....	7
<i>Syntex (U.S.A.) Inc. v. USPTO, 882 F.2d 1570 (Fed. Cir. 1989)</i> .....	12
<i>Triplett v. Lowell, 297 U.S. 638 (1936)</i> .....	4
<i>Turner v. Ellinger, 42 App. D.C. 562 (D.C. Cir. 1914)</i> .....	6
<i>United States v. Chemical Found., Inc., 272 U.S. 1 (1926)</i> .....	11
<i>United States v. Mead Corp., 533 U.S. 218 (2001)</i> .....	14
<i>Universal Inc. v. Kay Mfg. Corp., 301 F.2d 140 (4th Cir. 1962)</i> .....	8
<i>Viskase Corp. v. Am. Nat'l Can Co., 261 F.3d 1316 (Fed. Cir. 2001)</i> .....	19



<i>Wilson &amp; Willard Mfg. Co. v. Bole</i> , 227 F. 607 (9th Cir. 1915).....	7
<i>Yee v. City of Escondido</i> , 503 U.S. 519 (1992).....	20
<i>z4 Techs., Inc. v. Microsoft Corp.</i> , 507 F.3d 1340 (Fed. Cir. 2007) .....	23
<b>STATUTES</b>	
15 U.S.C. § 1057 .....	5
35 U.S.C. § 120 .....	15
35 U.S.C. § 282 .....	<i>passim</i>
35 U.S.C. § 301 .....	19
35 U.S.C. § 311 .....	19
Pub. L. No. 96-517, 94 Stat. 3015 (1980).....	18
<b>REGULATIONS</b>	
37 C.F.R. § 1.99 .....	14
37 C.F.R. § 1.114 .....	15
<b>RULE</b>	
S. Ct. R. 15.2.....	20
<b>OTHER AUTHORITIES</b>	
John R. Allison & Mark A. Lemley, <i>Empirical Evidence on the Validity of Litigated Patents</i> , 26 AIPLA Q.J. 185 (1998).....	21
Ryan Davis, <i>Patent Reform Would Expand Peer-To-Patent: Kappos</i> , Law360, Mar. 25, 2011 .....	15

Roger S. Hoar, <i>Patent Tactics and Law</i> (3d ed. 1950) .....	9
H.R. Rep. No. 82-1923 (1952).....	4
Mark A. Lemley, <i>Rational Ignorance at the Patent Office</i> , 95 Nw. U. L. Rev. 1495 (2001) .....	15
Mark A. Lemley & Kimberly A. Moore, <i>Ending Abuse of Patent Continuations</i> , 84 B.U. L. Rev. 63 (2004).....	15
Mark A. Lemley & Bhaven Sampat, <i>Is the Patent Office a Rubber Stamp?</i> , 58 Emory L.J. 181 (2008).....	16
William C. Mathes, <i>Jury Instructions and Forms for Federal Civil Cases</i> , 28 F.R.D. 401 (1961) .....	21
Harry A. Toulmin, Jr., <i>Handbook of Patents</i> (1949).....	9
U.S. Patent Office, <i>Court Decisions as Guides to Patent Office Policy and Performance: A Current Viewpoint from Within the Patent Office</i> , Patent Study No. 25 of the Subcomm. on Patents, Trademarks, & Copyrights (1960) .....	10
USPTO, <i>Manual of Patent Examining Procedure</i> .....	19
USPTO, <i>Performance and Accountability Report—Fiscal Year 2010</i> .....	14
USPTO, <i>Trademark Manual of Examination Procedure</i> .....	5

USPTO, <i>U.S. Patent Statistics: Calendar</i> <i>Years 1963-2010</i> .....	14
<i>Walker on Patents</i> (Deller ed., Supp. 1951).....	9

## REPLY BRIEF FOR PETITIONER

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i4i, joined by the government, urges application of a wooden rule requiring clear and convincing proof of all assertions of patent invalidity. But just four years ago, this Court observed in *KSR International Co. v. Teleflex Inc.* that the asserted rationale for this heightened standard is absent at least when PTO never considered relevant prior-art evidence bearing on the invalidity defense. 550 U.S. 398, 426 (2007). Indeed, because 35 U.S.C. § 282 does not specify any particular standard for proving invalidity, the default preponderance standard—not a heightened standard—is presumptively applicable. The challenge for i4i and its *amici*, therefore, is finding some persuasive reason for imposing the clear-and-convincing-evidence standard in any—much less all—invalidity cases.

While i4i is nominally defending the Federal Circuit’s judgment below, its primary argument before this Court—that Section 282 codified a heightened standard of proof based on pre-1952 caselaw—has been rejected by the Federal Circuit itself, which recognized that the earlier cases were “far from consistent—even contradictory.” *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984) (“*AmHoist*”).

i4i fares no better in claiming that a heightened standard is required by administrative law. i4i cannot identify any context in which standards of proof are used to implement agency deference, and this Court has repeatedly cautioned against creating unique rules for patent law. In any event, i4i’s argument rests on a distorted view of PTO’s examination and reexamination procedures, which are not designed to—and cannot—consider the full range of

issues and evidence bearing on patentability, much less for each of the 200,000-plus patents issued each year. And even if PTO's decision to issue a patent might sometimes warrant deference, the government concedes—as *KSR* underscores—that “the administrative-expertise rationale” “does not apply” when PTO never considered relevant prior-art evidence. U.S. Br. 32.

The only justification the government can offer for the clear-and-convincing-evidence standard is that there must be a bright-line rule, even in cases where the purported justification for a heightened standard is (as the government charitably puts it) “less obvious.” U.S. Br. 30. The government's concerns with a dual-standard approach ignore that lower courts applied that approach for decades without any difficulty. But if a single standard is necessary, the absence of any justification for a heightened standard in this or indeed any case suggests that the preponderance standard—the default standard in all civil litigation—should apply.

#### **I. SECTION 282 DOES NOT IMPOSE A CLEAR-AND-CONVINCING-EVIDENCE STANDARD.**

This Court held in *Grogan v. Garner*, 498 U.S. 279 (1991), and *Herman & MacLean v. Huddleston*, 459 U.S. 375 (1983), that the default standard of proof in civil litigation is the preponderance standard. <sup>i4i</sup> acknowledges *Grogan* only in passing and ignores *Huddleston* altogether. Yet those cases are critically important: They establish that <sup>i4i</sup> can prevail only if it can demonstrate that Congress specified a heightened standard for proving patent invalidity, or that patent invalidity implicates a narrow category of “particularly important individual interests or rights.” *Huddleston*, 459 U.S. at 389-90. But

there is no basis for interpreting Section 282 to impose a clear-and-convincing-evidence standard, and patent-validity issues cannot be shoehorned into an exception reserved for interests “far more precious than any property right.” *Santosky v. Kramer*, 455 U.S. 745, 758-59 (1982).

**A. THE PREPONDERANCE STANDARD BEST ACCOUNTS FOR THE CAREFUL BALANCE STRUCK BY THE PATENT LAWS.**

According to *i4i*, a clear-and-convincing-evidence standard is warranted to protect patents from invalidation because “[p]atents encourage innovation via a ‘carefully crafted bargain’” of disclosure in exchange for exclusivity. *i4i* Br. 34. Yet *i4i* disregards that “[t]he attractiveness of such a bargain, and its effectiveness in inducing creative effort and disclosure of the results of that effort, depend almost entirely on a backdrop of free competition in the exploitation of unpatented designs and innovations.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 151 (1989).

*i4i* thus considers only half of the balance struck by the Patent Act, utterly ignoring the public’s “paramount interest in seeing that patent monopolies” are “kept within their legitimate scope.” *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 816 (1945). This Court has long recognized that “[i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly.” *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892); see also U.S. Br. 10, 26-29, *MedImmune, Inc. v. Genentech, Inc.*, No. 05-608 (“strong federal policy” in “riding the economy” of invalid patents). When, as

here, the interests on both sides of the balance are weighty, a preponderance standard is required. Imposition of a heightened standard of proof misallocates the risk of error as between the parties, *see Huddleston*, 459 U.S. at 390—and thus fatally undermines the “attractiveness of [the patent] bargain,” *Bonito Boats*, 489 U.S. at 151; *see* BSA Br. 23-28.<sup>1</sup>

**B. THE STATUTORY PRESUMPTION OF  
VALIDITY DOES NOT SUPPORT A  
HEIGHTENED STANDARD OF PROOF.**

The relevant portion of Section 282, which i4i curiously declines even to quote, provides that “[a] patent shall be presumed valid,” and “[t]he burden of establishing invalidity” shall “rest on the party asserting such invalidity.” i4i claims that, by enacting a presumption of validity, Congress codified a heightened standard of proof. But its sole authority for this assertion is a snippet of legislative history indicating that Section 282 “declares the existing presumption of validity,” H.R. Rep. No. 82-1923, at 29 (1952), which no more refers to a heightened standard of proof than Section 282 itself.

i4i’s attempt to redefine “presumption” to mandate a clear-and-convincing-evidence standard not only conflicts with the usual understanding of presumptions (*Microsoft Br. 21-23*) but would create the sort of unique-to-patent-law rule that this Court has

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<sup>1</sup> i4i argues that unbalancing the risk of error is warranted because non-mutual collateral estoppel renders an invalidity finding “irreversible.” i4i Br. 36. The same is true whenever a court resolves claims to property. In any event, non-mutual collateral estoppel was not the law in 1952, *see Triplett v. Lowell*, 297 U.S. 638, 642 (1936), and therefore cannot inform the proper interpretation of Section 282.

repeatedly rejected. *See, e.g., eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 393-94 (2006). i4i’s view is also inconsistent with this Court’s repeated characterization of the presumption of patent validity as providing “a *prima facie* presumption” that invalidity issues must be resolved in favor of the patentee where they are “not controverted,” *Ashcroft v. R.R. Co.*, 97 U.S. 189, 197 (1877)—*i.e.*, the presumption shifts only the burden of production. *See, e.g., Lehnbeuter v. Holthaus*, 105 U.S. 94, 96 (1882).<sup>2</sup>

This is, moreover, the only reading of the first sentence of Section 282 that does not render duplicative the statutory allocation of the “burden of establishing invalidity.” i4i insists that “[t]he two sentences of [Section] 282 must be read together, not separately,” noting that Congress elsewhere has “use[d] a similar structure to create a presumption pertaining to the burden of persuasion.” i4i Br. 25. But allocating the burden of persuasion does not impose a heightened *standard* of proof. That is why, in the examples i4i cites, Congress *expressly* adopted a particular standard of proof. *Ibid.* Congress did so elsewhere in the Patent Act. *See* Google Br. 9. Not so here.

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<sup>2</sup> Section 282’s presumption of validity thus parallels the Lanham Act, which provides that trademark registration is “prima facie evidence” of validity. 15 U.S.C. § 1057(b). i4i mischaracterizes trademark law as a “registration regime” (i4i Br. 30), but registration is possible only after a substantive examination by PTO. *See* Trademark Manual of Examination Procedure § 1200 *et seq.*



**C. THIS COURT’S PRE-1952 CASES DID NOT REQUIRE A HEIGHTENED STANDARD OF PROOF IN ALL CASES.**

i4i’s attempt to engraft a heightened standard of proof onto the text of Section 282 additionally falters because i4i cannot establish that this Court had mandated an across-the-board heightened standard. The cases cited by i4i—none of which addressed the on-sale bar—involved either oral testimony of prior invention or use, or relitigation of a priority determination made in an *inter partes* PTO proceeding.

The government claims that *Cantrell v. Wallick*, 117 U.S. 689 (1886), although “involv[ing] oral testimony,” “stated the heightened burden without qualification.” U.S. Br. 13. This reading of *Cantrell* is foreclosed by *The Barbed Wire Patent*, which recognized that *Cantrell*—like *Coffin v. Ogden*, 85 U.S. (18 Wall.) 120 (1874)—applied a “doctrine” specific to “testimony” of prior invention. 143 U.S. 275, 285 (1892). i4i similarly errs in invoking *Adamson v. Gilliland*, 242 U.S. 350 (1917), and *Smith v. Hall*, 301 U.S. 216 (1937). The “dray ticket” mentioned in *Adamson* was “open to grave suspicion,” and thus the case turned on “conflicting testimony” and “credibility of witnesses.” 242 U.S. at 353. And while i4i attempts (at 19) to distinguish *Smith*’s discussion of corroboration from its invocation of a heightened standard, corroboration was the *method* for overcoming the heightened standard applicable to oral testimony of prior invention. *See, e.g., Turner v. Ellinger*, 42 App. D.C. 562, 564 (D.C. Cir. 1914). That *Smith* did not establish a broader rule is demonstrated by its invocation of several decisions applying a heightened standard only because of the dubious nature of

certain oral testimony, including *Barbed Wire Patent*. 301 U.S. at 222.

i4i, like the government, relies most heavily on *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, 293 U.S. 1 (1934) (“*RCA*”), which supposedly “indicat[ed]” (i4i Br. 13) or “underst[ood]” (U.S. Br. 11) that a heightened standard is appropriate even when PTO never considered the relevant prior-art evidence. *RCA* did not decide that issue, however, because “the evidence [was] even verbally the same” as “any theretofore produced in opposition to the patent,” 293 U.S. at 8; the Court had previously resolved the same priority issue, *id.* at 9-10; and the case arose in a specific context—a challenge previously resolved in *inter partes* priority proceedings—that the Court had long recognized gave rise to a heightened standard of proof, *see Morgan v. Daniels*, 153 U.S. 120, 125 (1894). The Court’s repeated emphasis on “prior invention” or “invention by another” (293 U.S. at 7-8) precludes any inference that *RCA* mandated a heightened standard extending to other invalidity issues.

It would be particularly strange to read *RCA* as implicitly requiring an across-the-board heightened standard since two of the cases it cited approvingly held otherwise. In *Wilson & Willard Manufacturing Co. v. Bole*, the court noted that a heightened standard “presupposes an adjudication by the Patent Office of every fact essential to the validity of the patent.” 227 F. 607, 609 (9th Cir. 1915). Thus, “where it appears that there has been no such adjudication by the Patent Office,” “the reason upon which the rule is founded ceases, and the rule ceases with it.” *Id.* at 610; *accord Stoddy Co. v. Mills Alloys, Inc.*, 67 F.2d 807, 810-11 (9th Cir. 1933).

Those decisions are consistent with the Court’s unanimous conclusion in *KSR* that the “rationale underlying the presumption—that the PTO, in its expertise, has approved the claim—seems much diminished” where PTO never considered the relevant prior-art evidence. 550 U.S. at 426. i4i and the government, by contrast, would have this Court interpret its earlier decisions as adopting a heightened standard even where the Court later recognized it would be unjustified. *Cf. Bilski v. Kappos*, 130 S. Ct. 3218, 3226-27 (2010) (relying on “later authority” to clarify pre-1952 caselaw).

They would likewise require this Court to assume it did not mention a heightened standard in the dozens of validity cases decided between 1938 and 1952 (and thereafter) because, in *all* of those cases, “identification of a specific standard of proof was unnecessary” (U.S. Br. 14), rather than because the Court was not applying a heightened standard. That is as incorrect as it is implausible. The government dismisses *Graver Tank & Manufacturing Co. v. Linde Air Products Co.*, for instance, as addressing validity only “as a matter of law.” 336 U.S. 271, 275 (1949). But *Graver Tank* upheld invalidation of certain claims based on disputed and “obscure” *factual* issues without even advertng to any heightened standard. *Id.* at 279.

The lower courts also did not read *RCA* as i4i now urges. The D.C. Circuit, for instance, treated *RCA* simply as “reaffirm[ing]” the heightened standard for challenges to *inter partes* priority determinations, *Bayer v. Rice*, 75 F.2d 238, 240 (D.C. Cir. 1934), as did the Fourth Circuit, *see Universal Inc. v. Kay Mfg. Corp.*, 301 F.2d 140, 148 (4th Cir. 1962).

Indeed, over 200 decisions of the courts of appeals—both before and after 1952—recognized that the presumption of validity was weakened or destroyed where relevant prior art was not before PTO, and thus could not possibly support a heightened standard of proof. See *Microsoft Br.* 33-36.<sup>3</sup> This was hornbook law—and was reported as such by the leading patent treatise just a year before Section 282 was enacted: “The issuance of a patent creates no presumption of validity sufficient to overcome a pertinent prior art reference which has not been considered in the patent office.” 3 *Walker on Patents* § 701, at 178 (Deller ed., Supp. 1951); see also Harry A. Toulmin, Jr., *Handbook of Patents* § 274, at 189-90 (1949) (“no presumption of validity over prior art which the examiner did not note”); Roger S. Hoar, *Patent Tactics and Law* 276 (3d ed. 1950) (“greatly weakened”). i4i suggests no reason why Congress’s understanding of *RCA* would have differed from that of lower courts and commentators.

i4i attempts to dismiss lower-court holdings that the presumption is “weakened,” claiming they mean only that “the clear-and-convincing[-evidence] standard is more easily satisfied with unconsidered prior art.” i4i Br. 23-24. i4i’s theory is inconsistent with its statutory argument, which assumes that the presumption itself imposes the heightened standard; when the presumption is “weakened,” so is any presumption-based standard of proof. See *Futorian Mfg. Corp. v. Dual Mfg. & Eng’g, Inc.*, 528 F.2d 941, 943

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<sup>3</sup> See [http://www.suekayton.com/mbarclay/IPDuckDocs/Regional\\_Courts\\_of\\_Appeals\\_Cases.pdf](http://www.suekayton.com/mbarclay/IPDuckDocs/Regional_Courts_of_Appeals_Cases.pdf) (listing cases), cited in <http://ipduck.blogspot.com/2011/04/some-thoughts-about-upcoming-or-al.html> (¶4).

(1st Cir. 1976); *Mfg. Research Corp. v. Graybar Elec. Co.*, 679 F.2d 1355, 1365 (11th Cir. 1982). PTO acknowledged as much in a 1960 study “prepared by the Patent Office,” which concluded that, “[w]hen the presumption is so weakened,” the standard of proof is “reduced” to a “preponderance.” U.S. Patent Office, *Court Decisions as Guides to Patent Office Policy and Performance: A Current Viewpoint from Within the Patent Office* iii, 5-6, Patent Study No. 25 of the Subcomm. on Patents, Trademarks, & Copyrights (1960). In any event, i4i’s theory cannot account for the many cases holding that the presumption is eliminated, and therefore i4i is forced (at 24) to dismiss those cases as contrary to *RCA*—an odd strategy since i4i claims the issue is what Congress would have *understood* the law to be in 1952.<sup>4</sup>

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<sup>4</sup> These cases foreclose i4i’s argument that Congress acquiesced in an across-the-board heightened standard. i4i claims Congress endorsed that standard “[a]bsent unconsidered prior art” (i4i Br. 52-53), but this argument does not support the judgment below and ignores the Second and Sixth Circuits’ rejection of the clear-and-convincing-evidence standard. See *Microsoft Br.* 34-35. The Second Circuit had adopted the preponderance standard by 1965, when Congress reenacted the relevant language of Section 282. *Lorenz v. F.W. Woolworth Co.*, 305 F.2d 102, 105-06 (2d Cir. 1962), *cited with approval in Rains v. Niaqua, Inc.*, 406 F.2d 275, 278 (2d Cir. 1969). Moreover, multiple circuits agreed before 1965 that the presumption was destroyed by unconsidered prior art. See, e.g., *Pressteel Co. v. Halo Lighting Prods., Inc.*, 314 F.2d 695, 696-97 (9th Cir. 1963) (“dissipated”); *A R Inc. v. Electro-Voice, Inc.*, 311 F.2d 508, 512-13 (7th Cir. 1962) (“no presumption”); *Royal Patent Corp. v. Monarch Tool & Mfg. Co.*, 203 F.2d 299, 300 (6th Cir. 1953) (“does not exist”).

## II. APPLICATION OF AN ACROSS-THE-BOARD HEIGHTENED STANDARD IS INCONSISTENT WITH ADMINISTRATIVE-LAW PRINCIPLES.

i4i and the government concede that the Administrative Procedure Act's standards are inapplicable here. They nonetheless insist that every patent always warrants deference in the form of a clear-and-convincing-evidence standard. Their arguments cannot bear that weight.

A. i4i claims the heightened standard is required by the "presumption of administrative correctness." i4i Br. 39. This is perplexing given PTO's own acknowledgement that "the administrative-expertise rationale" "does not apply" when it never made a reasoned decision concerning the relevant prior-art evidence. U.S. Br. 32.

The presumption of administrative correctness means only that "government agenc[ies]" are "presumed to have properly done [their] job[s]." *Am-Hoist*, 725 F.2d at 1359. This is, at most, an assumption that an agency followed the appropriate procedures for reaching its decision, see *United States v. Chemical Found., Inc.*, 272 U.S. 1, 14-15 (1926), and thus it is irrelevant "where an issue has not been the subject of a Patent Office finding," *Cal. Research Corp. v. Ladd*, 356 F.2d 813, 819 (D.C. Cir. 1966). Yet even where the presumption is applicable, it does not "shield [the agency's] action from a thorough, probing, in-depth review." *Citizens to Preserve Overton Park v. Volpe*, 401 U.S. 402, 415 (1971).

B. The government is similarly misguided in arguing that this Court should impose a clear-and-convincing-evidence standard to provide PTO's findings with "the deference to which [they would] otherwise [be] entitled." U.S. Br. 21.

It is unclear what the government means by “otherwise”-applicable deference: There is no procedure for direct review of factual findings made by PTO in issuing a patent, *see Syntex (U.S.A.) Inc. v. USPTO*, 882 F.2d 1570, 1576 (Fed. Cir. 1989); PTO itself does not defer when factual issues are raised in reexamination proceedings, *see In re Etter*, 756 F.2d 852, 856 (Fed. Cir. 1985) (en banc); and even when PTO denies a patent application (a very different matter given the applicant’s participation in the decision-making process, *see* Microsoft Br. 46 n.3; Professors Br. 7-8) courts review new evidence of patentability *de novo*, *see Hyatt v. Kappos*, 625 F.3d 1320, 1322-23 (Fed. Cir. 2010) (en banc). Moreover, the government cites *no* case between private parties where this Court has deferred to an agency’s *ex parte* adjudication of *factual* issues—particularly not where the agency never addressed the relevant evidence. Rather, the government’s cases (at 21-22) involve agency resolution of *legal* issues. *See, e.g., Auer v. Robbins*, 519 U.S. 452, 461 (1997).

In any event, PTO’s decision to issue a patent would not “otherwise” be entitled to deference. U.S. Br. 21. The government strives mightily to portray the patent-examination process as akin to other administrative proceedings. *Id.* at 20-25. It is not.

1. Although the government insists (at 20) that “issuance of a patent represents the agency’s decision that the invention satisfies the statutory prerequisites for patentability,” PTO’s procedures limit consideration of many “statutory prerequisites” bearing on patentability, including on-sale bar, best mode, and written description. *See* Microsoft Br. 46-47; Google Br. 17-21. And even for the limited range of issues actually considered by examiners, issuance of a patent is less a “decision that the invention satis-

fies the statutory prerequisites” than an acknowledgment that the examiner failed to prove otherwise.

The examiner bears the “initial burden” of presenting a *prima facie* case of unpatentability. U.S. Br. 24. The government insists that this burden is satisfied “in the vast majority of examination[s],” *ibid.*, but, even if true, that is irrelevant. The examiner must note objections to patentability, and the applicant need address only those specific issues—not present an affirmative case on *other* patentability issues. *See In re Oetiker*, 977 F.2d 1443, 1449 (Fed. Cir. 1992) (Plager, J., concurring).

The government misleadingly claims that, once the examiner lodges an objection, the “burden shifts to the applicant to demonstrate” patentability. U.S. Br. 24. The burden of *production* shifts as to the disputed issue, *see In re Glaug*, 283 F.3d 1335, 1338 (Fed. Cir. 2002), but the burden of *persuasion* always remains on the examiner, *see In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985) (“preponderance of the evidence is the standard that must be met by the PTO in making rejections”).

2. The government acknowledges that “[a] fully adversarial proceeding” would “likely provide a greater degree of certainty that the PTO has before it all relevant evidence of invalidity.” U.S. Br. 24. This understatement deeply undermines PTO’s claim to deference: The issue is not whether Congress reasonably concluded that “potentially increased accuracy” was “outweighed by other interests,” *ibid.*, but instead whether there is any basis for deferring to factual findings made (and especially those *not* made) in an *ex parte* examination process. There is not. *See Microsoft Br.* 48-49.



The government asserts that, “despite the *ex parte* nature” of patent examination, “there are several mechanisms by which third parties may provide the PTO with relevant prior art.” U.S. Br. 23. The government identifies only one pre-issuance “mechanis[m]”—post-publication submission of certain prior-art references—and PTO rules preclude meaningful use of even those submissions. Only “patents or publications” may be submitted, 37 C.F.R. § 1.99(a), which excludes “important non-documentary sources of information” (Google Br. 18)—such as the prior sale at issue here. Submissions “shall not include any explanation,” 37 C.F.R. § 1.99(d), so interested third parties have no opportunity to explain *why* the prior art is invalidating. And submissions must be filed no later than “two months” after “publication of the application,” *id.* § 1.99(e)—hardly sufficient in view of the 338,452 applications published last year. *See* USPTO, *Performance and Accountability Report—Fiscal Year 2010*, at 125 tbl. 1, available at <http://www.uspto.gov/about/stratplan/ar/2010/USPTOFY2010PAR.pdf>. It is not only expensive but often impossible to discover potentially relevant prior art in that time. *See* BSA Br. 6-9 (prior art “often obscure”).

3. The government asserts that the examination process is “rigorous and effective” because “[e]xaminers are required to undertake” a “thorough investigation.” U.S. Br. 22. The challenge of completing a “rigorous and effective” examination of the 219,614 utility patents granted last year would be daunting in any circumstances. *See* USPTO, *U.S. Patent Statistics: Calendar Years 1963-2010*, available at [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.pdf](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf); *cf. United States v. Mead Corp.*, 533 U.S. 218, 233 (2001) (“Any suggestion that rulings intended to

have the force of law are being churned out at a rate of 10,000 a year” is “self-refuting.”). But it is not even *possible* when PTO concededly does not have the relevant evidence before it.

As PTO’s Director has acknowledged, it is “difficult” for “examiners to get access to harder-to-find pieces of prior art.” Ryan Davis, *Patent Reform Would Expand Peer-To-Patent: Kappos*, Law360, Mar. 25, 2011, <http://www.law360.com/m/ip/articles/234696>. This is particularly true with respect to “academic papers, industry articles, and publications written in foreign languages” (Apple Br. 7), as well as “prior art activities in the marketplace,” including prior sales or public use, because this “information is often in the hands of third parties.” Cisco Br. 10; *see also* Professors Br. 4-5. *KSR* highlighted the importance of such information, *see* 550 U.S. at 418; Google Br. 18-19, but PTO largely overlooks it.

4. Finally, the government ignores the numerous practical challenges facing examiners, including the “strong structural and psychological pressures on examiners to issue patents rather than reject applications.” Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1496 n.3 (2001). Through continuation practice, applicants may keep the examination process open regardless of rejections. 35 U.S.C. § 120; 37 C.F.R. § 1.114. Thus, an examiner “faced with a determined applicant” has “every incentive to give in and allow the patent.” Mark A. Lemley & Kimberly A. Moore, *Ending Abuse of Patent Continuations*, 84 B.U. L. Rev. 63, 75 (2004). While *i4i* claims (at 57) that PTO “ultimately rejects more [applications] than it approves,” the actual grant rate is at least 70%. Mark A. Lemley & Bhaven Sampat, *Is the Patent Office a Rubber*

*Stamp?*, 58 Emory L.J. 181, 182 (2008); *see also* Hercules Br. 7-9 (noting estimates as high as 98%).

In short, PTO's fact-finding processes do not invariably command deference to their results—nor should they be expected to do so given the impossible demands made on PTO.

### **III. I4I'S POLICY ARGUMENTS DO NOT JUSTIFY THE CLEAR-AND-CONVINCING-EVIDENCE STANDARD.**

Unable to muster any sound legal argument in support of the clear-and-convincing-evidence standard, i4i and its *amici* resort to various policy rationales. None is persuasive.

#### **A. RELIANCE INTERESTS DO NOT JUSTIFY A HEIGHTENED STANDARD OF PROOF.**

i4i claims that patentees have developed “settled expectations” based on the Federal Circuit’s heightened standard. i4i Br. 53. This is a remarkable assertion since the Federal Circuit itself broke from decades of settled precedent in announcing its across-the-board heightened standard. Any claim of reliance is further undermined by this Court’s recognition in *KSR* that the Federal Circuit’s rule has no justification at least where PTO never considered relevant prior-art evidence.

i4i’s reliance argument also falters on its inability to identify any credible “expectations.” Because PTO does not apply a heightened standard of proof in reexamination proceedings, i4i is forced to concede that patentees have no “expect[ation] [that] patents will never be invalidated absent clear and convincing evidence.” i4i Br. 55. Instead, i4i claims, the reliance interest turns on *who* will decide the invalidity issues: “The settled expectation” is that “the clear-

and-convincing standard would protect patents” from invalidation by “lay juries,” rather than in reexaminations “conducted by experts.” *Ibid.*<sup>5</sup>

This argument begs credulity. i4i, a Canadian company, was eager to have a lay jury in Tyler, Texas resolve its infringement claims, and has no complaint about the damages awarded by that jury. Yet the issues raised by i4i’s highly technical infringement and damages theories were far more complicated than the straightforward credibility issue presented by Microsoft’s on-sale-bar defense.

Patent defendants often prefer that all issues (not just invalidity) be resolved in bench trials. They do not have that option, however, because patent *plaintiffs* overwhelmingly prefer juries—and for good reason. See CTIA Br. 11-15; Google Br. 12-13; Hercules Br. 10-17. That reality belies any assertion that patentees have developed reliance interests in *avoiding* jury resolution of validity issues.

In any event, patent applicants could not develop settled expectations based on a procedural rule applicable only in litigation. “Changes in procedural rules” are presumptively retroactive precisely because of the “diminished reliance interests in matters of procedure,” *Landgraf v. USI Film Prods.*, 511 U.S. 244, 275 (1994).

Even if patentees had developed settled expectations based on the Federal Circuit’s heightened standard, moreover, that would not insulate the standard

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<sup>5</sup> i4i’s theory concedes that the reliance concerns expressed by several pharmaceutical companies generally are misplaced: There is no jury-trial right in cases between branded and generic drug manufacturers under the Hatch-Waxman Act. See *In re Apotex, Inc.*, 49 F. App’x 902, 903 (Fed. Cir. 2002).

from correction by this Court. Each of the cases cited by *i4i* (at 53-54) involved settled expectations based on *this Court's* precedents. But this Court, not Congress, is charged with reviewing the Federal Circuit's decisions, and it has not declined that responsibility simply because the Federal Circuit has consistently applied the rule under review. *E.g.*, *Dickinson v. Zurko*, 527 U.S. 150, 162 (1999) (“This Court, however, has not previously settled the matter.”). Just as this Court overturned the teaching-suggestion-motivation test and the automatic-injunction rule despite any settled expectations that had arisen based on Federal Circuit precedent (*Microsoft Br. 40*), so too it should correct the Federal Circuit's mistaken application of a heightened standard for proving invalidity.

**B. THE POSSIBILITY OF REEXAMINATION  
IN SOME CASES DOES NOT SUPPORT  
A HEIGHTENED STANDARD OF PROOF.**

*i4i* maintains that Congress adopted reexamination to channel invalidity issues to PTO under a preponderance standard, thereby protecting patents from invalidation by lay juries while addressing concerns that the heightened standard would sustain invalid patents. *i4i Br. 40*. This argument rests on a fictionalized view of the relevant timing. Reexamination was adopted in 1980, *see* Pub. L. No. 96-517, 94 Stat. 3015—before the Federal Circuit was even created, and at a time when the courts of appeals consistently *declined* to apply an across-the-board heightened standard, *see Microsoft Br. 37-39; supra* at 9 n.3. Congress could not have intended reexamination to complement—let alone justify—application of an across-the-board heightened standard that had yet to be invented.

In any event, reexamination would be a poor substitute for litigation because PTO may consider only “patents or printed publications.” 35 U.S.C. §§ 301, 311. PTO is thus statutorily barred from addressing numerous issues of crucial importance to patentability, including the on-sale-bar issue raised in this case. *See* MPEP § 2258. The limited scope of reexamination largely tracks deficiencies in the examination process: Just as the examiner faces various presumptions that the patent application satisfies the best-mode, enablement, and written description requirements (Google Br. 17-18), for example, PTO declines to address those issues during reexamination unless the claims are amended. *See* MPEP § 2258. Indeed, one of i4i’s own *amici* concedes that the preponderance standard might be warranted where, as here, PTO could not consider the relevant issue during reexamination. Genentech Br. 26-28.

Even where reexamination is available, it is hardly the panacea that i4i suggests. District courts are “not required to stay judicial resolution” pending reexamination, *Viskase Corp. v. Am. Nat’l Can Co.*, 261 F.3d 1316, 1328 (Fed. Cir. 2001); patent infringement plaintiffs invariably oppose such stays; and, as one district court particularly popular among patent plaintiffs blithely observed, there is “no policy” to “routinely grant such motions,” *BarTex Research, LLC v. FedEx Corp.*, 611 F. Supp. 2d 647, 652 (E.D. Tex. 2009). Absent a stay, the defendant is almost sure to lose the race to final judgment. i4i claims (at 36) that reexamination is “designed” to move faster than litigation, but the reality is quite different: PTO averages two years to complete *ex parte* reexamination and three years for *inter partes* reexamination (Internet Retailers Br. 21; Google

Br. 28)—and much longer if the patentee appeals any adverse decision. *See BarTex*, 611 F. Supp. 2d at 651. Even if a defendant beats the odds and secures from PTO a reexamination rejection of the patent before trial, the Federal Circuit nevertheless requires district courts to apply the clear-and-convincing-evidence standard as long as appeals are still pending. *See Callaway Golf Co. v. Acushnet Co.*, 576 F.3d 1331, 1337 n.4, 1342 (Fed. Cir. 2009).

### **C. A DUAL-STANDARD REGIME WOULD NOT CREATE MANAGEABILITY PROBLEMS.**

i4i suggests that a dual-standard regime, under which the standard of proof would depend on whether PTO made a reasoned decision concerning the relevant prior-art evidence, would prove unworkable in practice. i4i's policy concerns are both irrelevant and unjustified. If manageability concerns require a bright-line rule, the solution is to apply a preponderance standard in all cases; the supposed need for a bright-line rule cannot itself justify a heightened standard.<sup>6</sup>

In any event, the workability of a dual-standard approach is amply demonstrated because the lower courts applied that approach for decades before the Federal Circuit was created. *See Microsoft Br. 33-36.*

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<sup>6</sup> Contrary to i4i's belated assertion of waiver, the argument that the standard of proof is *always* a preponderance is fairly included in the question presented and was necessarily passed upon below. *See* Pet. i, 18 n.3; Pet. App. 23a. Microsoft is entitled to advance any argument in support of its objection to the district court's clear-and-convincing-evidence instruction. Pet. App. 195a; *see Yee v. City of Escondido*, 503 U.S. 519, 534 (1992). And i4i waived any forfeiture objection by failing to raise it in opposing certiorari. *See* S. Ct. R. 15.2.

Although i4i claims (at 45) that “[t]he prospects for jury confusion are enormous,” courts were able to explain the different standards to juries without any apparent difficulty. *See, e.g., Futorian*, 528 F.2d at 943; *see also* William C. Mathes, *Jury Instructions and Forms for Federal Civil Cases*, 28 F.R.D. 401, 516-18 (1961) (proposed instructions).

Indeed, juries in almost every patent case, including this one, are already instructed on two different standards: a preponderance standard for finding infringement, and a clear-and-convincing-evidence standard for finding willful infringement—even though both issues generally involve the same evidence. There is no reason to believe juries would be any less capable of dealing with different standards as applied to invalidity defenses.

In the overwhelming majority of cases, moreover, no line-drawing question will arise. Even under the current standard, “in the majority of prior-art related cases, no cited art [*i.e.*, prior art cited in the patent application] is relied upon at all.” John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 233 (1998).

i4i hypothesizes that, under a dual-standard regime, “[i]nventors would . . . deluge examiners with extensive lists of cumulative or marginally relevant references.” i4i Br. 45. This wrongly assumes the heightened standard could be triggered by the “mere fact of submitting prior art to the PTO,” rather than—as ordinary principles of administrative deference would require—a “considered evaluation of that art by the patent examiner on the record.” Professors Br. 14; *cf. Chi. Rawhide Mfg. Co. v. Crane Packing Co.*, 523 F.2d 452, 458 (7th Cir. 1975) (Stevens, J.) (“failure to cite pertinent prior art implies that it



was overlooked by the Examiner”). The latter approach would appropriately “encourage applicants to identify and discuss with examiners the most important pieces of prior art.” Professors Br. 16. An across-the-board heightened standard, by contrast, incentivizes applicants not to search for relevant prior art because they will benefit from the heightened standard as long as the potentially invalidating art is discovered only after PTO grants the patent. *See* Teva Br. 5-14.

**IV. THE FEDERAL CIRCUIT’S HEIGHTENED STANDARD CANNOT BE SALVAGED THROUGH CURATIVE INSTRUCTIONS.**

Finally, i4i—but not the government—claims the clear-and-convincing-evidence standard is proper because, in appropriate cases, the jury can be instructed that the standard is “more easily satisfied with references the PTO did not consider.” i4i Br. 46; *see also* IBM Br. 37. This is a strange argument: By lowering the “pure” clear-and-convincing-evidence standard in some cases, this approach would create precisely the sort of dual standard that i4i claims is unmanageable, which perhaps explains the government’s failure to endorse it.

Moreover, by acknowledging the need for a more-easily-satisfied instruction when relevant prior-art evidence was not before PTO, i4i effectively concedes the absence of any justification for a heightened standard in these circumstances. Because the clear-and-convincing-evidence standard is unwarranted, “carefully tailored limiting instructions” (IBM Br. 10) are hardly a satisfactory “solution” to the acknowledged problem. *Id.* at 25.

Instead, a more-easily-satisfied instruction would cause widespread confusion about the precise stan-

dard jurors are required to apply. In *z4 Technologies, Inc. v. Microsoft Corp.*, the Federal Circuit rejected such an instruction because it “might lead the jury to believe that the burden of proof is less than clear and convincing when prior art was not considered by the PTO.” 507 F.3d 1340, 1354-55 (Fed. Cir. 2007). As *z4* recognized, i4i’s proposed instruction would create a lesser—and previously unrecognized—form of the clear-and-convincing-evidence standard, evidently applicable only in patent cases.

Yet Microsoft would be entitled to a new trial even under i4i’s approach. Microsoft repeatedly objected to the district court’s imposition of a clear-and-convincing-evidence standard even as to prior art PTO never considered. See Microsoft Br. 6-8. If i4i were correct that a more-easily-satisfied instruction is required in such circumstances, then the district court erred by providing an unqualified clear-and-convincing-evidence instruction over Microsoft’s objection. See *Bueno v. City of Donna*, 714 F.2d 484, 490 (5th Cir. 1983).

### CONCLUSION

The default standard of proof in civil cases, and thus the presumptive standard for proving patent invalidity, is the preponderance standard. Section 282 does not contain any provision to the contrary. i4i’s theory that the statute implicitly codified an across-the-board heightened standard is inconsistent with the statutory language and contrary to this Court’s opinion in *KSR*. Because Section 282 cannot reasonably be read as requiring a clear-and-convincing-evidence standard in any case, let alone in all cases, the district court erred in imposing that standard on the jury.

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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