

No. 10-290

IN THE
Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

14I LIMITED PARTNERSHIP, *et al.*,

Respondents.

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

**BRIEF OF EAGLE HARBOR HOLDINGS,
LLC AS *AMICUS CURIAE* SUPPORTING
AFFIRMANCE**

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INTEREST OF *AMICUS CURIAE*¹

Eagle Harbor Holdings, LLC (“Eagle Harbor”) is a small technology company that holds numerous patents of which its principals are the named inventors. Since closing debt financing with a private equity fund in November 2010, Eagle Harbor has grown to 15 employees. Eagle Harbor invents and develops technology related to the automotive electronics and environmental waste reclamation markets. Eagle Harbor commercializes its intellectual property by offering prospective customers manufactured goods or licenses for the technology it has invented. If necessary, Eagle Harbor enforces its patents in litigation.

Eagle Harbor has an interest in this proceeding because the Court’s decision will have a significant impact on the value of its intellectual property. In particular, lowering the standard of proof required to invalidate a patent from the long-established standard of clear and convincing evidence to a mere preponderance of the evidence would greatly devalue Eagle Harbor’s patents by making them less stable and durable and more susceptible to challenge in litigation.

1. Petitioner and respondents have filed letters with the Clerk of the Court consenting to the filing of all *amicus curiae* briefs. Pursuant to Supreme Court Rule 37.6, Eagle Harbor Holdings, LLC states that no counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus curiae* or its counsel made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

As a small technology company, Eagle Harbor faces several daunting hurdles to commercializing its intellectual property. Not least among them is a business culture in which the giants of technology and industry – including Microsoft and some of its amici – sometimes make rational business choices to infringe patents willfully because the likelihood of getting caught and forced to pay is small. Indeed, that is what the jury and district court found occurred with the patent-in-suit.

In this David-and-Goliath battle, the deck is already stacked against startup companies like Eagle Harbor. Simply to survive, such a company must find funding for the several-year process of getting patents issued and then attempt either to attract a customer (if the invention is not yet in use) or to convince an infringer to pay royalties and enter into a license agreement (if it is). In the second scenario, large manufacturers typically balk and effectively say “so sue us.” The small company must then come up either with hourly attorneys fees (which can top \$20 million to \$30 million for a major patent lawsuit) or, if the company is fortunate enough to secure a contingent fee agreement with a plaintiffs’ patent litigation firm, the \$5 million-plus in necessary costs.² Litigating through appeal to the Federal Circuit takes additional years. Few small inventors are able to endure this process because it simply takes too much time and money. In the meantime, they must support their families and pay their bills.

2. This is the figure Eagle Harbor has been quoted in the past few months as it has gone through the process of hiring its own litigation counsel.

It is easy to see why, in Eagle Harbor's world, having stable, durable, and reasonably certain patent rights is paramount. Without them, Eagle Harbor truly has little. Lowering the standard of proof of patent invalidity from clear and convincing to a preponderance of the evidence would eviscerate the value of Eagle Harbor's patent portfolio (and therefore of Eagle Harbor) in ways discussed below. The consequence, should this Court so hold, would be to dramatically stifle an important agent of innovation – the small inventor – which fuels the United States economy domestically and would diminish its competitiveness internationally at a time of unprecedented challenge. For reasons discussed in *i4i Limited Partnership's* respondents' brief, the Court should not do so. To the extent the Court also considers the real-world consequences of its holding, Eagle Harbor provides the viewpoint of the small inventor, which illustrates why it is critical to retain the 28-year-old rule that a patent challenger must establish invalidity by clear and convincing evidence.

ARGUMENT

I. HOW EAGLE HARBOR, AS A SMALL TECHNOLOGY COMPANY, DOES BUSINESS.

A. Eagle Harbor's Business Model and Its Patented Technology.

Dan and Joe Preston are a father-and-son team of engineers who are Eagle Harbor's principals and inventors. In 1997, before establishing Eagle Harbor, they established a company which ultimately became Airbiquity, Inc. ("Airbiquity"). Knowing that the process of creating inventions and patenting and commercializing them takes years, they started applying for patents almost immediately. Over a period of years the patents began to issue. These particular patents focused on improving the General Motors OnStar™ system. OnStar™ was an early technology being installed in cars that provided information to a call center when a car was in a crash and the driver was unable to use his or her cell phone to call for help. The earlier generations of OnStar™ had a serious flaw – they could only communicate with cell phones over a single (analog) network.

Dan and Joe Preston invented software that allowed OnStar™ to communicate immediately with every cell phone network in the world (including, at that time, CDMA, TDMA, GSM, and iDEN) – an invention that not only saved lives but also cost less than previous generations of the technology. Airbiquity was fortunate because General Motors became a customer without the need for litigation, and it began installing Airbiquity's new-generation OnStar™ system in millions of cars.

BMW and Ford followed suit, also becoming Airbiquity customers.

The Prestons left Airbiquity in 2001 and established Medius, Inc. Medius, Inc. provided proprietary “middleware” to the auto industry in the infotainment and telematics space.³ Middleware is software that allows multiple software processes running on multiple machines to interact. For example, Medius, Inc.’s patented communications technology enables mobile devices (cell phones, MP3 players, and media devices) to connect together seamlessly with the vehicle, and allows its audio system to reconfigure itself to take on new and different functions by controlling the mobile device.

In 2010, the Prestons formed Eagle Harbor, which acquired the patents held by Medius, Inc. Eagle Harbor is in the process of commercializing this and other technology in diverse industry areas through subsidiaries. MediusTech, LLC, one subsidiary, is focused on infotainment and Bluetooth technology. VehicleTalk, LLC, the second subsidiary, is a telematics company focused on next-generation wireless communication

3. “Infotainment” is information and entertainment media in the vehicle. Examples include Bluetooth-connected cell phones and media players that connect to a car. “Telematics” is telemetry from the vehicle used outside the vehicle, such as engine data, location data, collision-notification (like OnStar™), and e-commerce (i.e., enabling drivers to purchase things from their cars). Dan Preston has just received patents on software that connects car radios to cell phones, which allows a driver (for example) to pay for a tank of gas within his or her car or to touch a screen in the car to open a garage door (the benefit of which is obviating the need to buy a separate device for the task).

technologies that enable Internet use in the vehicle, vehicle-to-vehicle communications to avoid collisions, and Vehicle Infrastructure Integration that links vehicles to their physical surroundings to improve overall road safety. A third subsidiary, SenTech System, LLC, focuses on new sensor technologies for collision warning.

Elixsys, LLC, Eagle Harbor's newest subsidiary, is a green technology company focused on remediating toxic waste (including rare earth metals) from coal fly ash and recovering strategic metals from electronic waste. In the United States coal is responsible for 44.9% of all energy generated, resulting in more than 134 million tons of coal combustion waste annually of which nearly half is coal fly ash. *See* U.S. Energy Information Administration, Independent Statistics & Analysis, Electric Power Monthly (Mar. 2011 ed.) ("U.S. Energy Info. Admin., Independent Stats. & Anal.") (data for Dec. 2010), *available at* http://www.eia.doe.gov/cneaf/electricity/epm/epm_sum.html (percentage of energy generated); *see also* American Coal Ash Assn. Corrected 2009 Coal Combustion Product Production Use & Survey, *available at* <http://acaa.affiniscap.com/associations/8003/files/Corrected2009Production%20and%20Use%20Survey020811.xls> (amount of waste). The Environmental Protection Agency is considering adding coal fly ash to its list of regulated substances. *See* U.S. Energy Info. Admin., Independent Stats. & Anal.; *see also* U.S. Environmental Protection Agency, Wastes – Non-Hazardous Waste – Industrial Waste, Coal Combustion Residuals (proposed rule), *available at* <http://www.epa.gov/waste/nonhaz/industrial/special/fossil/ccr-rule/index.htm>. Elixsys, LLC has patents and patents pending that cover methods for the safe removal of up to 97% of the toxic metals from coal

fly ash as well as strategic metals from electronic waste and feedstock (which includes the EPA-listed toxin KO61), and converts the products to fertilizer that can be sold. *See* Elixsys, LLC website, *available at* <http://www.elixsys.net>.

B. Small Technology Companies Like Eagle Harbor Create Innovation and Jobs Yet Constantly Struggle for Survival.

The United States government has recognized how important small businesses are in creating technology and generating jobs. In Washington state (where Airbiquity and Eagle Harbor are located), the federal government, through the Small Business Administration, has invested nearly \$500,000,000 in more than 1,000 high-tech companies through the Small Business Innovative Research program. Today these technology-based industries contribute 380,000 jobs to Washington's economy. *See* The State Column, "Senator Maria Cantwell Backs Bill to Invest in Small Business Innovation" (Mar. 11, 2011) ("The State Column"), *available at* http://www.thestatecolumn.com/state_politics/washington/sen-maria-cantwell-backs-bill-to-invest-in-small-business-innovation/. And while small businesses employ about half of the private-sector workforce, "new job generation is being led by the startup sector." Business News Daily, "Small Business Startups Create the Most New Jobs" (Aug. 31, 2010), *available at* <http://www.businessnewsdaily.com/small-business-startup-companies-helping-new-job-growth-0494/> (startups generate 20 percent of gross job creation).

The founding and success of Airbiquity created approximately 100 of these jobs (with private equity

funding). Medius, Inc. and Eagle Harbor have struggled because of the vicissitudes of raising operating capital and the recession. However, in November 2010 Eagle Harbor was able to close debt financing with a private equity fund, and it currently employs 15 people. This capital infusion was based upon and is secured by Eagle Harbor's patent portfolio, and has stabilized and moved Eagle Harbor toward meeting its business goals. Without the financing, the likelihood of Eagle Harbor's succeeding would have been greatly diminished. It is common for start-up companies to be under-capitalized at various points, which poses serious obstacles to their survival, including the inability to meet their normal business expenses (including even paying their rent and employees' salaries). Eagle Harbor has not been immune from these business cycles, which Washington Senator Maria Cantwell aptly described as the "valley of death" that too often exists between a good idea and a great product." *See* The State Column.

Today, Eagle Harbor is at the threshold of commercializing its intellectual property, and projects creating as many as 250 jobs over the next 24 months. To do so, however, it must continue to raise additional, large amounts of operating capital (i.e., many millions of dollars) based on the strength and stability of its patents – which is where maintaining the standard of proof by clear and convincing evidence for the defense of patent invalidity comes in.

II. WEAKENING PATENT RIGHTS WILL STIFLE INNOVATION BY UNDERMINING INCENTIVES TO PATENT NEW INVENTIONS AND CAUSING OPERATING CAPITAL TO DRY UP.

A. Background: Applicable Law.

At the birth of our nation the Founding Fathers recognized the importance of patent rights. Article 1, section 8, clause 8 of the Constitution provides that “[t]he Congress shall have Power ... To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries[.]” To be protected, an invention must be truly innovative and not merely an obvious improvement on existing knowledge. *See, e.g., Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966) (“Innovation, advancement, and things which add to the sum of useful knowledge are inherent requisites in [the] patent system ...”).

In 35 U.S.C. §282 Congress provided that issued patents are presumed valid. Congress established the Federal Circuit in 1982 to strengthen the U.S. patent system. *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996) (quoting H.R. Rep. No. 97-312, at 20 (1981)). That court has consistently held this presumption compels one challenging a patent’s validity in court to prove invalidity by clear and convincing evidence, including as to prior art both considered and (apparently) not considered by the Patent and Trademark Office (“PTO”). *See, e.g., Connell v. Sears, Roebuck & Co.*, 722 F.2d 1542, 1549 (1983); *Lindemann Maschinenfabrik GMBH v. Am. Hoist & Derrick Co.*, 730 F.2d 1452, 1459 (Fed. Cir. 1984) (§282’s

presumption cannot be judicially weakened). As for prior art the PTO apparently did not consider, Federal Circuit law provides that the clear-and-convincing standard can be met “more easily.” *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984).

Congress has produced two important ways patents can be challenged *without* the challenger having to meet the clear-and-convincing standard of proof. During the application process a challenger can contest issuance of the patent in “public use” proceedings. 37 C.F.R. §1.292. After a patent issues, a challenger can initiate *ex parte* and *inter partes* re-examination – the former of which Microsoft has availed itself now twice while this litigation has been pending. *See* 35 U.S.C. §§302, 311. These administrative procedures employ a preponderance standard and are (of course) conducted by experts at the PTO.

B. Imposing the Preponderance Standard for Proving Patent Invalidity at Trial Will Remove Financial Incentives to Create and Invest in Innovation.

Instructing the jury on the burden of proof is “surely the most important part of the judge’s charge relative to the facts[.]” *Larson v. Jo Ann Cab Corp.*, 209 F.2d 929, 935 (2nd Cir. 1954). Proof by a preponderance of the evidence is sometimes described like this: Imagine a perfectly evenly-balanced scales, then imagine a feather being added to one side of the scales. The scales tip ever so slightly to the side with the feather. This is what a “preponderance” of the evidence means. *See* 2 McCormick on Evidence §339 (6th ed.), n.13, *citing Livanovitch v. Livanovitch*, 131 A. 799, 800 (Vt. 1926) (“When the equilibrium of

proof is destroyed, and the beam inclines toward him who has the burden, however slightly, he has satisfied the requirement of the law, and is entitled to the verdict. ‘A bare preponderance is sufficient, though the scales drop but a feather’s weight.’”).

If this Court holds this standard applies to claims of patent invalidity, either to apparently-unconsidered prior art (or, as Microsoft urges in its merits brief, to *all* aspects of invalidity defenses in litigation), Eagle Harbor’s efforts since 2001 will likely be for naught. Having survived financially to this point, Dan and Joe Preston and Eagle Harbor (including its predecessor Medius, Inc.) have a decade of reasonable, investment-backed expectations that their patents are stable and durable, because it takes clear and convincing evidence to invalidate them. Eagle Harbor’s investors – who have invested millions of dollars – have the same reasonable expectations. As mentioned above, Airbiquity was able to attract a major customer – General Motors – without litigation, and BMW and Ford also became customers. Would this happen today if the prospective customer (a huge corporation with the deepest of pockets) knew that if it infringed Airbiquity’s patents and Airbiquity sued, a difference in the quantum of evidence amounting to a feather’s-weight could invalidate the patent? In Dan and Joe Preston’s experience at Airbiquity and Eagle Harbor, the answer is no.

If the Court lowers the standard, inventors like the Prestons will lose much of their incentive to invent. *See* Paul R. Michel, Former Chief Judge, U.S. Court of Appeals for the Federal Circuit, Address Prepared for the Global Intellectual Property Center of the U.S.

Chamber of Commerce (July 21, 2010), *available at* http://www.theglobalipcenter.com/sites/default/files/documents/CJ_Michel_Remarks_7.21.2010.pdf (“[N]o one can be expected to invest without confidence in a return.”). The flow of innovation in the United States will slow, and some will be redirected to jurisdictions that are increasing rather than decreasing the protection of intellectual property, like China. *See* China Sunbow & Associates, “China’s Revised Its Patent Law Aiming to Improve Patentability Thresholds, Strengthening Patent Protection” (Dec. 22, 2009), *available at* <http://hg.org/article.asp?id=7824>.

The strength of the presumption of validity of issued patents affects the fundamental balance of power between those who innovate and those who use (and sometimes wrongfully appropriate) innovation. The Prestons and Eagle Harbor have current experience with this issue. Eagle Harbor believes that today and for several years, major auto and electronics components manufacturers have been selling products which willfully infringe its patents. Eagle Harbor would prefer to go down the road Airbiquity took and license its intellectual property without having to sue for patent infringement. But even with a strong presumption of validity and patents robust enough to attract outside investments in the millions of dollars, Eagle Harbor is on the verge of having to file its first patent infringement lawsuit and incur the huge financial and human costs of litigation that would be better spent on innovation that will lead to more useful inventions. Weakening patent rights by lowering the standard of proof of patent invalidity to a preponderance will ensure even more infringement and litigation, as the already unlikely consequence of having to pay damages for infringement

becomes far more unlikely still. Victims of such a ruling will include the inventing community, those that fund it, job-creating technology companies like Airbiquity and Eagle Harbor, and the public that benefits from innovation in the form of better products at lower cost.

C. Contrary to the Claims of Some of Microsoft's Amici, the Marketplace Does Not Reward Poor-Quality Patents and the Current Patent Application Process Is Robust.

Some of Microsoft's amici decry poor patent quality and assert it is therefore unfair to require clear and convincing evidence to overcome the presumption of validity. To the extent this is a problem, however, the answer cannot be to punish innovators who make real contributions to society by disclosing and patenting their inventions. Amici further complain that the clear-and-convincing standard gives inventors an incentive to omit relevant prior art from patent applications in violation of their duty under PTO Rules, §1.56, to "disclose information material to patentability." 37 C.F.R. §1.56 (Manual of Patent Examining Procedure, 8th ed. App. R ("MPEP")).

Eagle Harbor's experience belies these claims. First, only the strongest and most commercially-useful patents are likely to support infringement claims. Investment dollars that are the lifeblood of startup technology companies do not flow until after potential investors thoroughly vet the strength of patents by hiring patent lawyers to perform rigorous investigations. (Eagle Harbor's patents have been independently vetted yet again by the law firm that just undertook its representation

on a contingency basis – itself a multi-million-dollar investment.) Weak patents go nowhere.

Second, the patent application process is rigorous, not lax. In addition to the duty to disclose material information to the PTO – a duty that if breached can result in the invalidity of the subject patent and all related patents – patent examiners independently research extensive databases for prior art. *Kingsdown Medical Consultants, Ltd. v. Hollister Inc.*, 863 F.2d 867, 877 (Fed. Cir. 1988) (subject patent invalid); *Agfa Corp. v. Creo Products, Inc.*, 451 F.3d 1366, 1379 (Fed. Cir. 2006) (related patents invalid); see MPEP, §§902.01-902.03 (prior art databases).

The ultimate result of the patent applicant's relevant prior art disclosures and the examiner's independent research is a robust back-and-forth that will result in the examiner denying the patent or claim if he or she is not completely convinced that the technology in light of the prior art is unique; there is no "close enough." For example, patent 7,778,739, of which Dan Preston is a co-inventor, was in office action for three years (at a cost of \$750,000) before it issued. "Office action" occurs when the examiner is not convinced from the application in light of all prior art that the patent should issue. In an office action, the examiner raises his or her concerns with the applicant, who may then either abandon the claim, modify the claim, or continue to try to persuade the examiner that the invention is truly unique in light of the prior art. This process typically entails extensive telephone and written exchanges between the examiner and applicant. The '739 patent went through four such office actions before it issued. See 37 C.F.R. §1.104 (regarding office actions).

Lowering the standard for proving patent invalidity to a preponderance of the evidence for apparently-unconsidered prior art would cause inventors like the Prestons to submit not only relevant prior art but also significant amounts of marginal prior art to protect a higher standard at trial. This additional prior art would cause delay in the application process and risk breaching the applicant's duty of candor and good faith in dealing with the PTO.

CONCLUSION

For the foregoing reasons, the Federal Circuit's judgment should be affirmed.

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