

No. 10-290

IN THE
Supreme Court of the United States

MICROSOFT CORPORATION

Petitioner,

v.

i4i LIMITED PARTNERSHIP and
INFRASTRUCTURES FOR INFORMATION INC.,

Respondents.

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

**BRIEF OF *AMICUS CURIAE* IP ADVOCATE
IN SUPPORT OF AFFIRMANCE**

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Amicus curiae IP Advocate respectfully submits this brief pursuant to Supreme Court Rule 37.3 in support of affirmance of the judgment below in favor of Respondents i4i Limited Partnership and Infrastructures for Information Inc.¹ Respondents have correctly urged the Court to apply its longstanding precedents and hold that (i) the Court of Appeals for the Federal Circuit properly required Microsoft to prove its patent invalidity defense by clear-and-convincing evidence; and (ii) the trial courts should use appropriate jury instructions to enable a more complete and precise evaluation of evidence pertinent to invalidity.

INTEREST OF *AMICUS CURIAE*

IP Advocate is a non-profit philanthropic organization dedicated to assisting academic researchers in comprehending and traversing the complex flow and interplay of policy, laws, and procedures throughout the process of creation, development, technology transfer, and commercialization of intellectual property in order to achieve optimum benefits for society. The founder of IP Advocate, Dr. Renee Kaswan, spent eighteen years as a research professor at the University of Georgia, where she invented and patented the chronic dry eye drugs sold under the trademarks Optimmune[®] and Restasis.[®] The University awarded Dr. Kaswan its Creative Research

1. No counsel for any party authored this brief in whole or in part, and no party or its counsel made any monetary contribution intended to fund the preparation or submission of this brief. No person other than the present *amicus curiae* or its Counsel of Record herein made any monetary contribution to the preparation or submission of this brief. All parties have consented to the filing of this brief, and their consent letters are on file with the Clerk's Office.

Medal in 1992, and recognized her as its “Inventor of the Year” in 1998. Dr. Kaswan’s inventions have generated over \$2 billion in sales. The University of Virginia Patent Foundation has ranked Restasis® as being among the “University Inventions that Changed the World.”

SUMMARY OF ARGUMENT

The strength of the U.S. patent system is critical to the vitality of the U.S. economy. Since at least as early as *The Barbed Wire Patent*, 143 U.S. 275 (1892) and *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, 293 U.S. 1 (1934), challengers to the validity of U.S. patents in court litigations have properly borne a high evidentiary burden of proving invalidity. This evidentiary standard ensures that valid U.S. patents continue to provide strong protection for and the incentive to create, disclose, and commercialize inventions and discoveries.

The “clear-and-convincing” evidence standard is appropriate in court cases like this because it promotes the certainty needed to encourage the commercialization of inventions that are best protected by patents. The standard strikes the proper balance between the PTO’s expertise and extensive patent examination procedures on the one hand and the role of the courts in addressing patent validity on the other. The standard stabilizes patent rights by fostering predictability in the creation and enforcement of those rights, and in so doing promotes a workable patent system.

Lowering the burden of proof to a “preponderance of the evidence” standard would undermine the presumption of correctness of the PTO’s examination and decision-

making processes, reducing it to the level of essentially no presumption as is accorded to registration systems in other countries, thereby causing undue uncertainty in the validity of U.S. patent rights.

On the other hand, a dual evidentiary standard would elevate one factor – whether the examiner of the application for the patent in the PTO had previously “considered” the prior art—above all others. It would divert attention from substantive aspects of patent validity determinations by the courts and would likewise create uncertainty in the judicial process. It would increase the complexity of patent litigation as parties dispute exactly which prior art was truly “considered” by the PTO, and force categorization of the prior art as considered/not considered before the jury evaluates validity. Such collateral disputes serve no constructive purpose, but instead would be counterproductive by disrupting efficient, meaningful judicial inquiry into the validity determination. Such a dual evidentiary standard for proving invalidity would confuse jurors and create incentives for patent applicants to overwhelm the PTO by larding the record in the agency with large numbers of prior art references in anticipation of future litigation. All of these concerns would have the effect of reducing the reliability of the current system and consequently inject uncertainty into patent-related business decisions.

A balanced patent system should provide a reasonable, comprehensive means of ensuring that only valid patents are issued and that challenges to the validity of patents are encouraged where appropriate. Just as supporting and strengthening the PTO in the performance of its proper administrative role is critical for promoting the granting

of high quality patents, providing judicial fact-finders with the opportunity to consider all relevant evidence of invalidity is likewise critical for ensuring that what is in the public domain stays there. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (“The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’”).

Changing the present standard of proof is not called for. An examiner’s “consideration” of a particular item of prior art is relevant to the weight which that evidence should be given, but should not, as a threshold matter, dictate the evidentiary standard that must be met for proving invalidity. Validity challenges encompass a wide range of facts and circumstances. Relying on a lower standard of proof to address any such variations forces a court to make a stark and binary choice. A better, more nuanced approach preserves the current burden of proof, but requires trial courts to use tailored jury instructions to ensure that juries properly assess all the evidence presented in validity challenges, including evidence, if any, of the examiner’s consideration of the prior art at issue. This approach maintains the strength of patent rights by allowing meritorious challenges to be heard while empowering trial courts to tailor the determination of specific patent validity issues in light of the facts presented in each case.

ARGUMENT

The “clear-and-convincing” evidence standard for proving patent invalidity should be maintained in conjunction with the existing proviso that the burden of proof *under that standard* is more easily carried when the evidence relied on was not considered by the PTO.

I. THE “CLEAR-AND-CONVINCING EVIDENCE” STANDARD IS ESSENTIAL TO PATENT-BASED INVESTMENT AND INNOVATION IN THE UNITED STATES

The current, high evidentiary standard for challenging patent validity in court cases promotes the stability of patent rights. Such stability in turn encourages the public disclosure and patenting of inventions that benefit the public, thereby fulfilling Congress’ “Power . . . to promote the Progress of . . . the useful Arts.” U.S. Const. Art. I, sec. 8, cl. 8. Abandoning or even lowering that standard would undermine valid patent-rights and thus discourage innovation—in derogation of “the policy of stimulating innovation that underlies the entire patent system.” *Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 221 (1980).

A. Patents Provide an Important Incentive to Investment in Job-Creating New Ventures; the Court Should Exercise Care to Avoid Disrupting Commercial Expectations

1. Patents are About Investment, Not Litigation

A fundamental role of patents in this nation's economy is to foster investment—helping to bring together inventors, investors, and assembling the material resources needed to incentivize legitimate profit motives. “The introduction of Patent-Laws . . . with the adoption of our constitution . . . secured to the inventor, for a limited time, the exclusive use of his invention; and thereby added the fuel of interest to the fire of genius in the discovery and production of new and useful things.” *See*, Abraham Lincoln: “*Second Lecture on Discoveries, Inventions and Improvements*” (Jacksonville, Illinois, Feb. 11, 1859) at Complete Works of Lincoln 5:113 (3d. ed. 1905).

Innovation, i.e., turning an invention into a commercial product or process, entails proof-of-concept testing, identifying the best chemical compound within a genus, engineering, debugging, prototype-to-product engineering, ruggedizing and reliability engineering, testing for safety and effectiveness, building production facilities, creating distribution and sales channels, and marketing to develop demand. As such, innovation is an expensive undertaking. Patents incentivize companies to invest the risk capital needed to commercialize inventions that have high R&D and follow-up innovation costs by reducing business risks and tipping investment decisions from the traditional-and-safe to the innovative-and-risky.

Without that incentive, inventions do not become useful and innovative products or processes. Inventions whose commercialization entails technological or financial risk, or that have no predecessor markets to serve as a frame of reference so that new ones must be created, require investors willing to accept a higher than usual level of risk, in return for the prospect of sustained, higher than useful profit levels that the patent system provides. Without the promise of above-market levels of profitability, investors needed to bring inventions out of the laboratory or garage workshop and into the hands of consumers cannot be found.

2. Patent-Based Investment is an Important Factor in Economic Growth; Patent Litigation is a Relatively Minor Factor

It is also useful to appreciate how large the numbers are, and the relative magnitude of patent-mediated investment flows compared to the price of patent litigation including damages, costs, and commercial disruption. Investments in innovation come from a variety of sources:

- Federal government investment in technology—approximately \$150 billion per year
- Venture capital—approximately \$25 billion per year
- Angel investors and other private equity—several tens of billions per year
- State economic development offices
- Intra-company technology investment

Even where a given investment is not primarily driven by patents, in most such cases, one or more earlier or later stages of the idea-to-innovation pipeline is patent-based—at the basic science research stage, or when these technology investments are spun out into the private sector. If any stage of this pipeline is disrupted, the idea won't become a commercial reality and, consequently, it does not become a product or process that benefits anyone and consequently will fail.

The multiplier of technology investment translated into economic activity is also very large—data in a report by HIS Global Insight imply that one dollar of venture capital investment multiplies into \$100 of business investment within a few years. See, IHS Global Insight Report, *Venture Insight, The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy*, http://www.nvca.org/index.php?option=com_content&view=article&id=255&Itemid=103. The report notes that \$3 trillion, or 21% of total economic activity, flows from technology businesses that were originally funded by venture capital, and the portion attributable to other sources of capital doubtless pushes the number even higher. These new businesses create jobs at six times the rate of older companies, and have been responsible for essentially all net job growth in the United States since the 1970's. See, John Haltiwanger, Ron Jarmin, Javier Miranda, *Who Creates Jobs? Small vs. Large vs. Young*, U.S. Census Bureau and National Bureau of Economic Research, July 2009.

It is safe to estimate that the total annual value of economic activity flowing from investments backed by patents is at least an order of magnitude greater than the amount of money spent on patent litigation.

3. Patent-Based Investment Flows Are Likely to be *Very* Sensitive to Any Change in the Law of Evidence Affecting Patent Validity Issues

Early-stage investment flows are the narrowest point, the bottleneck as it were, in the innovation pipeline. In technology transfer circles, the transition from an idea to an early-stage company worth investing in has been referred to as “the valley of death.” Finding investors willing to cross that valley is the most difficult part of innovation. *See*, Gerry S. Ford, Thomas M. Koutsky, and Lawrence J. Spiwak, *A Valley of Death in the Innovation Sequence: An Economic Investigation*, Sept. 2007, prepared for the U.S. Commerce Department, Technology Administration.

The reason for the “valley of death” is that the average investor normally has literally *thousands* of possible investment choices. Consequently, investors are constantly looking for investment opportunities that will likely generate better- than-market-average returns on lower-than-market-average risk. To attract investment capital, an early-stage investment must offer a demonstrable advantage over competing investments. Often, that advantage is manifested by the value of relevant patents in protecting against unlicensed competitors after the financially risky commercialization of an invention has been achieved. After all, in getting “the next big thing” to market, who wants to sponsor the cost of engineering, marketing, changing minds about the way something should be, done, etc. if competitors can freely enter the market and reap profits where they have not sown once the innovator has created market demand?

Because of the intense competition for risk capital, all investment decisions are made at the margin—investors make large commitments based on small differences. Very small changes in perceived risk and investment economics can have disproportionately larger effects on investment flows. Further, venture capitalists and other early-stage investors team up—one lead investor studies the company and does the analysis, and then several other investors “all hold hands and jump together.” But investors at early stage will not make the leap unless there’s a credible chance that there will be more investors at later stages, and later stage investors will not invest unless they see a good likelihood that other investors will buy into the company’s initial public offering of stock to the buying public. So, a small change in the law that alters investment economics only *slightly* will have a large multiplier effect on the availability of early-stage investment capital.

Thus, patent-based investments are *extremely* sensitive to changes in adjective patent law. The significant changes to the substantive standards of non-obviousness and enforceability made by this Court in *KSR* and *eBay* have already had observable effects among venture capitalists’ willingness to invest. Such changes, even relatively smaller ones, have much larger effects on investment flows, an effect which grows through the multiplier effects discussed above.

There is a growing perception that patents *qua* business assets tend to be less highly regarded nowadays compared to a decade ago, based on the decisions in *Festo*, *eBay* and *KSR*. Further encouragement of that perception would disserve the patent community and the patent system upon which it relies.

B. The Current Patent “Validity” Crisis is an Artifact of the Transition to the Internet Age, and Should Not Be a Driver of a Permanent Change in the Law of Evidence Affecting Patent Validity Issues

Many patents that are being litigated nowadays (including the patent here in-suit) were granted on applications filed and examined in the PTO in the pre-Google 1990s, before the Internet became pervasive, and are now being evaluated under a post-Google light. We are going through a period of transition such that patent litigation today involves reevaluating patents that were examined in a lower-information environment. Many of the criticisms of the patent system arise, not out of its own particular flaws, but because of the mismatch between the information that was available to the examiner in the PTO and the information now readily available via post-Google prior-art search methodologies.

The perception of a higher rate of patent invalidation does not require a reworking of the law. Rather, only time is needed for the change in search capabilities to work its way into the patent examination process.

II. NEITHER A “PREPONDERANCE OF-THE EVIDENCE” STANDARD NOR A DUAL EVIDENTIARY STANDARD IS WORKABLE AND BOTH OF THEM WOULD THWART INNOVATION

A. Lowering the Standard For Evaluating Evidence of Patent Invalidation Would Not Solve the Problem of Extortionate Patent Suits

Large computer corporations are among the few companies in the United States that do not rely extensively on the patent system, because they have other barriers available to them to thwart competition from entering their businesses. Rather, for this relatively small number of companies, the patent system represents a net cost. While the pain that large companies must endure from having to defend patent infringement suits may be genuine, it should not be the basis for reducing the standard of proof of invalidity across the board such that it adversely affects enterprises that do not enjoy large entry barriers and which consequently must rely in the inherent validity of their own patent assets.

Mr. Robert Barr of Cisco Systems has been quoted in a report issued in 2003 by the Federal Trade Commission to the effect that his company started a patent program only for defensive purposes as “bargaining chips” and for many years held no patents, relying instead on so-called “open source” technology. *See, FTC Report, To Promote Innovations: The Proper Balance of Competition and Patent Law and Policy*, Oct. 2003. Instead, such companies rely on network externalities to erect barriers to competitive entry. For example, to compete with

Microsoft, a company would have to provide an operating system that is entirely compatible with Windows so that the overwhelming majority of all application software can run on the competing operating system. Recreating a new operating system that is truly a reliable replacement, able to run all application programs, could cost billions of dollars, and thus Microsoft can maintain its monopoly without relying on the patent system. Other big computer technology companies have similar network externalities to protect their markets.

Large computer companies, therefore, tend to regard the patent system as a cost factor, because modern computers and similar devices typically combine multiple technologies and inventions. Such companies understandably primarily want freedom to operate without having to pay for patent licenses or defend litigations involving numerous third-party patents.

Microsoft and its *amici* note a particular concern in their briefs, namely, lawsuits by non-practicing entities (“NPEs”) asserting patents of dubious validity. But this problem cannot be solved in a realistic way by lowering the standard for evaluating the evidence of patent invalidity at trial. As a practical matter, a lower standard of proof is unlikely to deter extortionate patent suits, and is unlikely to significantly affect outcomes in trials in plaintiff-friendly fora where the substantiality of the evidence needed to support a jury verdict of obviousness under a clear-and-convincing standard as opposed to a preponderant evidence standard is unlikely to make a difference. Similarly, a change in the standard of proof likewise makes little difference at the summary judgment stage, where the burden of proving invalidity is even

higher than “clear-and-convincing,” because the proof of invalidity must leave “no genuine issue of material fact.” *Celotex Corp. v. Catrett*, 477 U.S. 317, 325-26 (1986). A real solution would be for trial courts to adopt procedures for early evaluation of patent infringement/validity in cases wherein the defendant asserts that the suit is frivolous. For example, district courts could be encouraged to hold early claim construction hearings combined with summary judgment motions seeking dismissal, after a short initial period of fact discovery. This would afford target companies an opportunity to seek early dismissal without having to choose between paying nuisance fees to plaintiffs and spending months or years and significant sums in all-out pretrial discovery.

B. The Current Standard of “Clear-and-Convincing” Evidence of Patent Invalidity Should be Maintained Uniformly in All Court Cases

Defenses based on prior public use and on-sale bars under 35 U.S.C. § 102(b) are often based largely on circumstantial evidence which, by its nature, is usually less reliable and hence requires corroboration. *The Barbed Wire Patent*, 143 U.S. 275 (1892). Hence, these defenses should likewise be evaluated under the more rigorous “clear-and-convincing evidence standard”.

1. A High Standard of Proof of Patent Invalidity is Appropriate in Evaluating Evidence Attacking an Important Property Right

The statutory presumption of patent validity under 35 U.S.C. § 282 only has to do with *assigning the burden of*

persuasion, whereby it falls upon the party challenging a patent to persuade a court that the patent is invalid by presenting evidence in support of that defense. The patentee does not have the burden at the outset of going forward with the presentation of evidence to persuade the court that the patent is not valid. Simply put, the presumption does not dictate which evidentiary standard the court must use—clear-and-convincing vs. preponderance—in evaluating the proffered evidence of invalidity. However, Microsoft and its *amici* contend that litigation in an Article III court involving the issue of whether a patent is valid or not is tantamount to a judicial review of the PTO’s decision to grant the patent in the first place. Such a view is incorrect. A patent is more than the manifestation of a decision by an administrative agency. The patent has the attributes of a fundamental, constitutionally provided property right memorialized in a document issued by the government, and which can be bought, sold, licensed and asserted with widespread effects on the interests of others. As such, patents are also an important factor in America’s economy, whose validity assessments under a “clear-and-convincing” evidentiary standard is not only appropriate but also essential. While actions to quiet title in real property are decided on a preponderance of the evidence, the validity of a property right embodied in a U.S. patent issued as a result of a non-contested “adjudication” by an administration agency is properly informed by a higher evidentiary standard, analogous to an action under Fed.R.Civ.P. 60(b) to modify a judgment for reasons based on a significant error requiring a highly elevated level of proof compared to the evidentiary standard applied in arriving at the judgment itself.

2. The Present High Standard of Proof Reflects the Comparative Risks Involved in Patent Litigation

In court litigation, the patent challenger runs the risk of losing on the issue of patent validity, resulting in financial exposure and possibly an injunction. But once the judgment has been paid and if the challenger chooses to remain in the business by designing around the claims of the patent(s)-in-suit or taking a license, the matter is resolved and the parties move on.

However, if the patentee loses on the validity issue, then it is forever foreclosed from pursuing others who are operating within the scope of the patent claims. *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971). Thus, patent litigation, like a plate of ham-and-eggs, presents a risk of an adverse judgment whose consequences are less severe to the infringer (i.e., a one day sacrifice for the chicken) than it would be to the patentee (i.e., a lifetime commitment from the pig). Because of this risk differential, it is appropriate to afford a higher degree of protection to the patentee by maintaining the current evidentiary standard.

3. The Proceedings in the PTO That Resulted in the Granting of the '449 Patent Did Not Implicate Any of the Predicate Facts Involved in *This Appeal*

To inject into *this appeal* the administrative law question regarding the deference to be accorded to the PTO's basis for deciding to grant *any* patent would call for an abstract advisory opinion which would necessitate the

enunciation of an evidentiary rule which is unnecessary to decide this case for lack of operative facts. In deciding *this appeal* the Court should exercise judicial restraint by recognizing that the proceedings in the PTO resulting in the granting of the patent-in-suit did not entail any of the factual predicates necessary to decide the case or controversy involved in *this appeal*. Judicial deference to administrative agency decision-making is a complex and fact-driven exercise that should be left for another day when predicate facts present themselves in a case in which such facts themselves give rise to a case of actual controversy. For now, the Court can affirm the judgment below on the basis that the clear-and-convincing evidence standard applies independently of what was said and done in the PTO which is irrelevant here in any event.

4. A Uniformly-Applied “Clear-and-Convincing Evidence” Standard Regardless of Whether Proffered Evidence of Invalidity Was or Was Not Considered by the PTO During Administrative Pre-Grant Examination or Post-Grant Reexamination Proceedings Would Avoid a Hodge-Podge of Confusing Determinations in Patent Validity Trials

An accused infringer that seeks to challenge the validity of a patent at issue can do so under the “preponderance of the evidence” standard of proof by requesting reexamination of the patent in the PTO. Reexaminations work—they often result in at least a narrowing of the patent claims. However, the PTO often does not consider prior-art evidence—earlier patents and other publications—because that the agency’s own

limited administrative capabilities prevent it from doing so, whether in the examination of patent applications or in patent reexaminations. Moreover, in patent reexaminations the PTO is statutorily precluded from considering other types of evidence—prior sale or public use, or 35 U.S.C. § 112 issues of description, best mode requirements, etc. Adopting a dual evidentiary standard that distinguishes evidence considered by the PTO from that which was not considered by the agency would likely result in gaming the system with submissions of cumulative prior art and other evidence not relevant to the examination/reexamination process so that the patentee can avail itself of the higher standard of proof of patent invalidity later on in litigation. Aside from overwhelming the PTO which is already notoriously overworked and under-funded, a dual evidentiary standard would create a hodge-podge of standards for a jury to consider.

III. CONCLUSION

For the foregoing reasons, and those presented by i4i's other *amici*, this Court is respectfully urged to reaffirm the rule embodied in long-standing precedents that “clear-and-convincing” evidence is the proper standard for carrying the statutorily assigned burden of proving patent invalidity.

Respectfully submitted,

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