

No. 10-290

In the Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

14I LIMITED PARTNERSHIP AND
INFRASTRUCTURE FOR INFORMATION INC.,

Respondents.

**On Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit**

**BRIEF OF BUSINESS SOFTWARE ALLIANCE
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONER**

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**BRIEF OF BUSINESS SOFTWARE ALLIANCE
AS *AMICUS CURIAE*
IN SUPPORT OF PETITIONERS**

INTEREST OF THE *AMICUS CURIAE*

The Business Software Alliance (BSA) is an association of the world's leading software and hardware technology companies. On behalf of its members, BSA promotes policies that foster innovation, growth, and a competitive marketplace for commercial software and related technologies. BSA members develop hundreds of new products every year, contributing to a significant sector of the U.S. economy. And by virtue of their inventions, BSA members hold tens of thousands of patents. Because they are both innovators as well as substantial patent holders, BSA members have a particularly acute interest in properly calibrated standards for patent invalidity claims.¹

SUMMARY OF ARGUMENT

A patent conveys a monopoly right that may have enormous value as well as substantial practical importance. The grant of such a right therefore must be controlled closely to ensure that patents are issued only when the governing statutory prerequisites are satisfied. The United States patent system contains two separate, crucial safeguards to weed out unjustified patents.

¹ Pursuant to Rule 37.6, *amicus* affirms that no counsel for a party authored this brief in whole or in part and that no person other than *amicus* and its counsel made a monetary contribution to its preparation or submission. The parties' letters consenting to the filing of this brief have been filed with the Clerk's office.

The Patent and Trademark Office (PTO) first reviews patent applications and assesses whether they satisfy the standards for patentability. But the PTO is not perfect. Sometimes it does not consider all relevant prior art, perhaps because the art is obscure or the patent examiner—in the short amount of time devoted to each individual examination—fails to uncover it. Because these proceedings typically are not adversarial, there is little ability for interested third parties to oppose a patent application. And the PTO, which presumes a patent should be granted, tilts in favor of issuing the patent.

Post-grant litigation thus serves as a crucial check on the PTO. Through an invalidity claim, a party may challenge the grant of a patent, asserting a wide variety of arguments, including obviousness, lack of novelty, prior use, and several other grounds that render a claimed invention non-patentable. The ability of a party to assert invalidity during litigation provides a critical second review of patent quality.

The Federal Circuit’s rule requiring a party challenging an issued patent to prove invalidity by “clear and convincing” evidence undermines the effectiveness of litigation as a safeguard of patent quality. In circumstances where the PTO did not consider the prior art that is the basis of the invalidity claim, there is no reason to defer to determinations made by the agency—there simply is no administrative assessment that could be the basis for deference. And the fact that a patent conveys a property right does not itself warrant the heightened evidentiary standard. This Court has made clear that money interests alone cannot justify a heightened burden of proof.

The effect of applying the Federal Circuit's rule to invalidity claims not considered by the PTO is to benefit patent holders that manage to obtain unjustified patents. Such a patent holder receives a substantial, entirely illegitimate property right, which works to the disadvantage of competitors and the public at large. The wrongfully-issued patent obstructs future innovation and burdens competitors, imposing significant costs that ultimately fall on consumers.

No interests counsel in favor of preserving patents that are erroneously issued. A preponderance of the evidence standard accordingly should apply when the invalidity claim is based on materials not considered by the PTO.

ARGUMENT

THE PREPONDERANCE OF THE EVIDENCE STANDARD APPLIES TO A CLAIM OF INVALIDITY BASED ON PRIOR ART NOT CONSIDERED BY THE PATENT OFFICE.

The U.S. patent system recognizes the importance of distinguishing between inventions that satisfy the standards for patentability and claimed inventions that do not. Granting a patent for the latter rewards innovation and encourages future progress; granting a patent for the former blocks future innovation, injures competitors and imposes significant costs on consumers and the general public. The patent law therefore provides that a patent's validity is tested in two different ways. First, when the Patent and Trademark Office reviews a patent application, it should consider all factors of patentability. See, e.g., 35 U.S.C. §§ 101-103, 112. If "it appears that

applicant is entitled to a patent under the law,” the PTO then must issue a patent pending the receipt of the requisite fee. *Id.* § 151. Once the PTO grants a patent, it—along with each of its claims—“shall be presumed valid.” *Id.* § 282.

But that is not the end of the story. Sometimes the PTO improperly issues a patent, perhaps because the PTO is unaware of relevant prior art, because the patent is invalid for a reason not considered by the PTO, because the PTO errs, or for other reasons. Cognizant of this risk, the Patent Act creates an additional safeguard: a granted patent may be proven invalid in post-grant litigation. Indeed, *any* “condition for patentability” may form the basis of an invalidity claim. 35 U.S.C. § 282(2). A patent, therefore, may be challenged on a number of different grounds, including (but not limited to):

- Non-patentable subject matter (*id.* § 101);
- Lack of novelty (*i.e.*, anticipation) (*id.* § 102(a), (b), & (e));
- Prior use, publication, or sale by the inventor more than one year before filing of the patent application (*id.* § 102(b));
- Abandonment (*id.* § 102(c));
- Obviousness (*id.* § 103);
- Inadequate written description (*id.* § 112);
- Lack of enablement (*ibid.*);
- Failure to identify best mode (*ibid.*)
- Claim indefiniteness (*ibid.*).

Additionally, a patent may be deemed invalid if it is improperly reissued. *Id.* § 282(2) (incorporating *id.*

§ 251). Litigation thus serves as a critical check on the PTO's assessment of patentability.

The statute specifies that when the validity of a patent granted by the PTO is challenged, “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” 35 U.S.C. § 282. Thus, although the statute places the *burden of proof* on the party challenging a patent, it is silent as to the standard of proof necessary to satisfy this burden and thus prove invalidity.

The Federal Circuit holds that *all* patent invalidity claims must be proven by “clear and convincing” evidence. To the extent that this rule is correct because of deference to agency “expertise” (*Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984)), that deference should attach only when the PTO actually exercises its expertise by considering the relevant prior art. The Federal Circuit’s holding to the contrary lies in substantial tension with this Court’s statements, and it is contrary to settled principles of administrative law. Neither can the rule be justified on some alternative ground relating to the property interest underlying a granted patent. Absent any express indication from Congress to the contrary, this Court has held that civil suits adjudicating property rights must apply a “preponderance of the evidence” standard.

The Federal Circuit’s approach is not only legally unsupportable, but it also is wholly inconsistent with the policies underlying the Patent Act. When the PTO never considered relevant prior art that would invalidate the patent, application of the “clear and convincing” standard has the effect of creating a substantial, unjustified windfall for the patent holder, a

windfall that hinders innovation, injures others in the marketplace, and harms the public.

A. The Federal Circuit’s Clear And Convincing Evidence Rule Deters Innovation.

The reality of the patent examination process is that it does not, and cannot, guarantee consideration of all relevant prior art. As a result, many unjustified patents are issued by the PTO. Left undisturbed, the social costs of these patents are enormous. Patent invalidity claims raised in litigation are therefore a critical means of policing patent quality. The Federal Circuit’s standard of proof, which tilts the scales toward the patent holder even when the PTO did not consider relevant art, is both unjustified and dangerous.

1. The PTO is often unaware of relevant prior art.

Relevant prior art is often obscure and—through no fault of either the PTO or the patent applicant—may go undiscovered during patent prosecution. As one textbook example, an unpublished doctoral thesis available only in the library of Freiburg University was subsequently found to invalidate a granted patent. *In re Hall*, 781 F.2d 897, 899-900 (Fed. Cir. 1986) (“[W]e reject appellant’s legal argument that a single cataloged thesis in one university library does not constitute sufficient accessibility to those interested in the art exercising reasonable diligence.”). The PTO simply cannot and does not guarantee that it will consider all relevant prior art during patent prosecution.

This is particularly true in industries (such as the technology sector) where scholarly publications

and databases of prior art are incomplete. “Unlike inventions in more established engineering fields, most software inventions are not described in published journals.” Julie E. Cohen & Mark A. Lemley, *Patent Scope & Innovation in the Software Industry*, 89 CAL. L. REV. 1, 13 (2001). See also *id.* at 42 (“Commentators, industry insiders, and the PTO itself have recognized * * * the lack of a comprehensive record of innovation in the software industry.”). Thus, as the Federal Trade Commission has observed, “the PTO often may lack adequate access to prior art” in “new areas of technology.” Fed. Trade Comm’n, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY, Ch. 5, at 7 (Oct. 2003) (“FTC REPORT”), available at <http://tinyurl.com/6wk4p>.

The broad category of materials that may be applicable is another reason why it is impossible to ensure that all relevant art is considered during prosecution. The Federal Circuit has held that a paper orally presented in an open forum may constitute a “printed publication” for purposes of prior art, even when a mere six copies were distributed. *Massachusetts Inst. of Tech. v. AB Fortia*, 774 F.2d 1104, 1109 (Fed. Cir. 1985). Likewise, a 14-slide lecture, orally presented, and then displayed on poster boards for less than three days at an association meeting was deemed prior art—even though the lecture was never disseminated nor indexed in a library. *In re Klopfenstein*, 380 F.3d 1345, 1350-1351 (Fed. Cir. 2004). Even internet postings may function as prior art. Joanna Toke, *Can an Internet Reference Be a “Print Publication”?*, 2009 B.C. INTELL. PROP. & TECH. F. 12101, at 34-35 (2009). See also Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 SW. U. L. REV. 323, 345 (2008) (documents like “papers handed out

at a conference, handwritten notes, and advertisements may all comprise the prior art”). In addition, products and services that pre-date the alleged invention may constitute prior art.

The difficulty of locating relevant prior art is compounded by the structure of patent prosecution. “The ex parte nature of the prosecution process creates an information asymmetry that necessarily compromises examiners’ ability to effectively distinguish high- and low-quality patents.” Devlin, *supra*, at 333. The PTO is handicapped during patent prosecution because much relevant evidence has yet to be uncovered:

Patent applications are evaluated early in the life of a claimed technology, and thus at the time of patent review there is typically no publicly available information about matters such as how well the technology has been received by experts in the field or whether consumers have deemed the technology to represent in some way an advance over existing alternatives. Worse, patent examiners cannot solicit these sorts of credible outsider opinions, not only because for many technologies it is unclear at the early stages who the relevant experts and customers might be, but also because patent evaluation is at least in part a confidential conversation between applicant and examiner, designed to keep an applicant’s work secret in case the patent application is ultimately denied.

Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law’s Presumption of Validity*, 60 STAN. L. REV. 45 (2007).

And these problems are magnified exponentially in industries (such as technology industries) where a new product or service may incorporate hundreds if not thousands of separate patents. FTC REPORT, *Executive Summary*, at 6 (“In some industries, such as computer hardware and software, firms can require access to dozens, hundreds, or even thousands of patents to produce just one commercial product.”).

The enormous practical burden the PTO faces, with hundreds of thousands of patent applications filed every year, also exacerbates these problems. See FTC REPORT, *Executive Summary*, at 9 (“The PTO’s resources also appear inadequate to allow efficient and accurate screening of questionable patent applications.”); Lichtman & Lemley, *supra*, at 46; Devlin, *supra*, at 334-335. The short period of time a patent examiner is able to spend on each patent—approximately 18 hours—simply precludes a comprehensive search for all possible relevant art. See Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1500 & n.19 (2001). And resource limitations preclude more robust patent examinations. *Ibid.*

The ultimate result is that it is inevitable that the PTO will grant patents that should have been denied.

2. *It is dangerous to insulate poor patents from review.*

Wrongfully-issued patents impose substantial costs on competitors and, as a result, on the public. An effective judicial avenue for assertion of invalidity claims is therefore extremely important, because “litigation is essentially the public’s one line of defense against improvidently granted patents and the po-

tential harms to competition and innovation that they may cause.” FTC REPORT, Ch. 5, at 32.

The FTC found that grants of unjustified patents have several negative effects on an industry. Unwarranted patents may improperly deter competitors from entering a market and innovating. As the Commission explained, “[o]ne firm’s questionable patent may lead its competitors to forego R&D in the areas that the patent improperly covers.” FTC REPORT, *Executive Summary*, at 5. For example, “firms in the biotech industry reported that they avoid infringing questionable patents and therefore will refrain from entering or continuing with a particular field of research that such patents appear to cover.” *Ibid.* If a competitor does enter the market, it may be forced to agree to unnecessary licenses, raising the costs of entry. *Id.*, Ch. 5, at 2-3. A party that enters the market also “risks expensive and time-consuming litigation with the patent holder.” *Id.*, *Executive Summary*, at 6. All of these factors create uncertainty, which itself is quite costly. *Id.*, Ch. 5, at 3-4.

These realities also motivate non-practicing entities to file questionable patent applications in an effort to profit from the costs imposed on innovators and market participants:

A patent holder whose patent covers a technology that was already obvious to those skilled in the art has a strong incentive to sit quietly after the patent is issued, knowing full well that other parties will stumble onto that same obvious technology in time. When that happens, the patent holder can step forward, threaten litigation, and in the end extract royalties from infringers who neither

knew of nor benefited from the patent holder's work. Sadly, a large and growing number of "patent trolls" today play this exact strategy, using patents on obvious inventions quite literally to tax legitimate business activity.

Lichtman & Lemley, *supra*, at 48. See also Devlin, *supra*, at 349 ("The cost of patent litigation is notoriously high, the repercussions of a negative judgment to a company that has been marketing a major product are devastating, and, of course, the presumption of patent validity means that the innocent producer faces an uphill battle in defending itself. The net result is that patents of dubious validity may be successfully employed to extract licensing fees far out of proportion with the technology contributed by the patent.").

Ultimately, wrongfully-issued patents create enormous costs for competitors and the public; "an improper patent is typically an unwarranted burden on consumers and on other innovation." See Joseph Farrell & Robert P. Merges, *Incentives To Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review May Help*, 19 BERKELEY TECH. L.J. 943, 946 (2004). Judge Alsup has explained similarly: "Because of the burnish of this presumption, patentees can use a weak, arguably invalid patent, to force an accused infringer through years of litigation. This is more than just a nuisance. Legal defense costs run, at the low end, about three million dollars per case, and range well over ten million dollars in some actions." William Alsup, *Memo to Congress: A District Judge's Proposal for Patent Reform: Revisiting Clear and Convincing Standard and Calibrating Dif-*

ference to the Strength of the Examination, 24 BERKELEY TECH. L.J. 1647, 1648 (2009).

In light of these costs, Judge Alsup concluded that the Federal Circuit’s evidentiary rule functions as “a huge advantage for the patent holder—and it is often an unfair advantage, given the ease with which applicants and their agents can sneak undeserving claims through the PTO.” Alsup, *supra*, at 1648.

The patent landscape has changed markedly in recent years due to the growth of non-practicing entities, a dramatic increase in patent filings, and the development of complex goods and services, especially in the technology industries, that can be characterized as infringing a myriad of poor quality patents. It is therefore increasingly important to provide a level playing field in litigation in order to ensure the elimination of invalid patents. As the FTC explained, these interests counsel heavily in favor of ensuring that litigation remains an effective tool to ensure patent quality. FTC REPORT, *Executive Summary*, at 8-9. In its view, a “‘clear and convincing evidence’ burden can undermine the ability of the court system to weed out questionable patents.” *Id.* at 10.

B. Precedent And General Principles Of Administrative Review Require Application Of The Preponderance Standard To Invalidity Claims Based On Prior Art Not Considered By The Patent Office.

Not only does the Federal Circuit’s rule undermine the policies underlying the Patent Act, but it also cannot be squared with principles of judicial deference and administrative law. The appropriate standard here is straightforward: determinations actually made by the PTO are entitled to deference,

and therefore the heightened “clear and convincing” evidence standard should apply to claims of invalidity based on prior art considered by the agency. But when the PTO has not considered the prior art at issue, deference is inappropriate and a patent invalidity claim must be assessed under the preponderance of the evidence standard.

Section 282 states that a party attacking a patent must bear the burden of persuasion to establish invalidity. 35 U.S.C. § 282. But the statute and the legislative history are silent regarding the standard of proof that must be met to satisfy this burden. See B.D. Daniel, *Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 AIPLA Q.J. 369, 394 (2008) (“The statute is silent about the *standard* of proof. The legislative history is silent about not only the *standard* of proof but also the substantive meaning of the presumption of validity.”).

Certainly the mere fact that the statute places the burden of persuasion on the party challenging the patent’s validity is not sufficient grounds for applying a heightened burden of proof. In many contexts a preponderance of the evidence standard satisfies a party’s burden of persuasion. See, e.g., *Steadman v. SEC*, 450 U.S. 91, 95-96 (1981). It therefore is not possible to infer the appropriate evidentiary standard from the statutory text.

The absence of a statutory specification of the standard of proof is not surprising—that is “the kind of question which has traditionally been left to the judiciary to resolve.” *Woodby v. INS*, 385 U.S. 276, 284 (1966). See also *Herman & MacLean v. Huddleston*, 459 U.S. 375, 389 (1983) (“Where Congress has not prescribed the appropriate standard of proof and

the Constitution does not dictate a particular standard, we must prescribe one.”). The Federal Circuit itself has recognized that its holding is a judicial gloss not grounded in the text of the Patent Act. See *Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1358-1359 (Fed. Cir. 1984).

“The function of a standard of proof is to instruct the factfinder concerning the degree of confidence our society thinks he should have in the correctness of factual conclusions for a particular type of adjudication.” *Addington v. Texas*, 441 U.S. 418, 423 (1979). That is to say, burdens of proof “like preponderance of the evidence, or clear and convincing evidence,” control “how certain a fact finder must be to decide an issue in the first instance.” See 1 Steven A. Childress & Martha S. Davis, *FEDERAL STANDARD OF REVIEW* § 3.06 (3d 2008).

Three basic standards have evolved:

- **Preponderance:** “At one end of the spectrum is the typical civil case involving a monetary dispute between private parties. Since society has a minimal concern with the outcome of such private suits, plaintiff’s burden of proof is a mere preponderance of the evidence. The litigants thus share the risk of error in roughly equal fashion.” *Addington*, 441 U.S. at 423.
- **Clear and convincing:** “The intermediate standard, which usually employs some combination of the words ‘clear,’ ‘cogent,’ ‘unequivocal,’ and ‘convincing,’ is less commonly used, but nonetheless is no stranger to the civil law.” *Id.* at 424 (quotation omitted).

- **Beyond reasonable doubt:** “In a criminal case * * * the interests of the defendant are of such magnitude that historically and without any explicit constitutional requirement they have been protected by standards of proof designed to exclude as nearly as possible the likelihood of an erroneous judgment. In the administration of criminal justice, our society imposes almost the entire risk of error upon itself.” *Id.* at 423-424.

The preponderance of the evidence standard is the norm for issues in civil litigation. The intermediate standard of proof, however phrased, is applied in two general circumstances.

First, the intermediate standard may be a means of deferring to a decision made by a prior adjudicator. See 1 FEDERAL STANDARD OF REVIEW § 1.01 (“[A] standard of review prescribes the degree of deference given by the reviewing court to the actions or decisions under review.”). In the context of habeas proceedings, for example, federal courts must defer to factual determinations by state courts unless the petitioner rebuts the “presumption” of correctness by “clear and convincing evidence.” *Schiro v. Landrigan*, 550 U.S. 465, 473-474 (2007) (quoting 28 U.S.C. § 2254(e)(1)).

Second, the intermediate standard is used to place a thumb on the scales, when civil litigation would result in a deprivation of a fundamental right or interest to an individual. That is, the Court has “required proof by clear and convincing evidence where particularly important individual interests or rights are at stake.” *Herman & MacLean*, 459 U.S. at 389. Civil commitment proceedings, for example, de-

prive an individual of liberty and thus require “clear and convincing” proof. *Addington*, 441 U.S. at 424. This Court has been unequivocal in holding that property interests alone are insufficient to trigger such a heightened evidentiary standard.

Neither ground justifies application of a “clear and convincing” standard to invalidity claims resting on evidence not considered by the PTO.

1. *There is no basis for substantial deference when the PTO did not consider the prior art at issue.*

When the PTO did not consider the prior art that is the basis of the claim of invalidity in court, the “clear and convincing” evidence standard is not justified. In these circumstances, there was no exercise of the agency’s expertise to which a court can or should defer.

a. The Federal Circuit’s “clear and convincing” evidence standard is grounded in that court’s view that it is proper to defer to the PTO’s “expertise.” *Am. Hoist & Derrick Co.*, 725 F.2d at 1359-1360.²

To the extent that a jury, in the course of a patent invalidity claim, is retracing the PTO’s work, it may be sensible to defer to the PTO’s factual findings as expressed in the grant of a patent; “a reviewing body characteristically examines prior findings in such a way as to give the original factfinder’s conclu-

² And the Federal Circuit has reiterated this rule in numerous cases. See, e.g., *PowerOasis, Inc. v. T-Mobile USA, Inc.*, 522 F.3d 1299, 1304-1305 (Fed. Cir. 2008); *Z4 Techs., Inc. v. Micro-soft Corp.*, 507 F.3d 1340, 1354-1355 (Fed. Cir. 2007); *Applied Materials, Inc. v. Advanced Semiconductor Materials Am., Inc.*, 98 F.3d 1563, 1569 (Fed. Cir. 1996).

sions of fact some degree of deference.” *Concrete Pipe & Prods. of Cal., Inc. v. Constr. Laborers Pension Trust*, 508 U.S. 602, 623 (1993).

But there is absolutely no basis to erect a heightened evidentiary standard when the PTO did not consider the relevant prior art. In those circumstances, the PTO had no occasion to apply its expertise to the critical question of whether particular prior art demonstrates that a patent should not be granted. As one commentator explained, “[t]he identification of material evidence not considered by the PTO undermines the confidence in, and deference given to, the PTO’s findings that the presumption of administrative correctness would otherwise provide. Thus, the discovery of material evidence that was not considered by the PTO removes the basis for the clear and convincing evidence standard.” Charles E. Phipps, *The Presumption of Administrative Correctness: The Proper Basis for the Clear and Convincing Evidence Standard*, 10 FED. CIRCUIT B.J. 143, 160 (2000).

This Court was thus correct to note in *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398, 426 (2007), “that the rationale underlying the presumption [of patent validity]—that the PTO, in its expertise, has approved the claim—seems much diminished” when the PTO did not actually consider the relevant prior art.³

³ Indeed, the PTO itself appears to recognize that it is the agency’s exercise of expertise with respect to specific issues put before it that justifies deference. The Manual of Patent Examining Procedure states:

An application should not be allowed, unless and until issues pertinent to patentability have been raised and resolved in

The natural conclusion that flows from *KSR* is that the means of deferring to a PTO decision—utilization of the “clear and convincing” evidence standard—should not apply when the invalidity claim turns on prior art not considered by the PTO during patent prosecution. See Phipps, *supra*, at 160 (“Where the presumption of administrative correctness no longer attaches, the evidentiary burden is reduced from clear and convincing evidence to preponderance.”).

Prior to the creation of the Federal Circuit, several courts of appeals arrived at precisely this result. See, e.g., *Baumstimler v. Rankin*, 677 F.2d 1061, 1066 (5th Cir. 1982) (“Where the validity of a patent is challenged for failure to consider prior art, the bases for the presumption of validity, the acknowledged experience and expertise of the Patent Office personnel and the recognition that patent approval is a species of administrative determination supported by evidence no longer exist and thus the challenger of the validity of the patent need no longer bear the heavy burden of establishing invalidity either ‘beyond a reasonable doubt’ or ‘by clear and convincing evidence.’” (citation omitted)); *Chicago Rawhide Mfg. Co. v. Crane Packing Co.*, 523 F.2d 452, 458 & n.14 (7th Cir. 1975) (“The basis for the requirement that invalidity be established by clear and convincing evidence is largely, if not wholly, dissipated when

the course of examination and prosecution, since otherwise the resultant patent would not justify the statutory presumption of validity (35 U.S.C. 282), nor would it “strictly adhere” to the requirements laid down by Congress in the 1952 Act as interpreted by the Supreme Court.

Manual of Patent Examining Procedure § 706.I, at 700-20 (2010).

pertinent prior art is shown not to have been considered by the Patent Office.”); *Dunlop Co. v. Kelsey-Hayes Co.*, 484 F.2d 407, 413 (6th Cir. 1973) (“[W]here applicable prior art has not been considered by the Patent Office this presumption is greatly weakened.”).

Judge Alsup, too, has advocated for this standard. Alsup, *supra*, at 1655. He suggests that courts should “modulate the degree of deference to be accorded to PTO actions in accordance with the extent to which the examiner was afforded a reasonable opportunity to consider the specific question of invalidity, and the extent to which the examiner in fact reasonably addressed it.” *Ibid.* That logical rule should be endorsed by this Court.⁴

b. The Federal Circuit’s justification for its countervailing view is nothing short of mystifying. In *American Hoist & Derrick Co.*—the case in which the court held that the “clear and convincing” evidence standard applies to all invalidity issues—the court explained the basis for deferring to the agency through the heightened standard of review when the prior art before the court was considered by the PTO:

⁴ Because the proof standard is a judicial gloss, this two-fold structure is a permissible construction of the Patent Act. See Alsup, *supra*, at 1655. If, however, the Court believes that a single evidentiary standard should control, *amicus* submits that the crucial importance of litigation as a check on patent validity should compel the result that a preponderance standard is applicable in all instances. Such a rule would better balance the interests of stakeholders—appropriately promoting innovation and competition—than the Federal Circuit’s current approach. See FTC REPORT, Ch. 5, at 28.

When no prior art other than that which was considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job, which includes one or more examiners who are assumed to have some expertise in interpreting the references and to be familiar from their work with the level of skill in the art and whose duty it is to issue only valid patents. In some cases a PTO board of appeals may have approved the issuance of the patent.

725 F.2d at 1359. That makes good sense: when the PTO actually considers all the relevant art, there exists a rational basis to defer to decisions made by the agency.

The court then turned to circumstances in which one attempts to invalidate a patent relying on evidence not before the PTO: “When an attacker, in sustaining the burden imposed by § 282, produces prior art or other evidence *not* considered in the PTO, there is, however, *no reason to defer* to the PTO so far as *its* effect on validity is concerned.” *Am. Hoist & Derrick Co.*, 725 F.2d at 1359. This again is quite correct; the Federal Circuit expressly recognizes that there is “*no reason to defer*” to the PTO when the crucial issue is the effect of prior art that the PTO did not actually consider.⁵

⁵ The Federal Circuit has frequently repeated that PTO’s failure to consider prior art is somehow relevant, but it has never provided a means to actually ensure that fact is taken into account in the litigation process. See, e.g., *Uniroyal, Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988) (“The

But the discussion that follows defies logic:

Indeed, new prior art not before the PTO may so clearly invalidate a patent that the burden is fully sustained merely by proving its existence and applying the proper law; but that has no effect on the presumption or on who has the burden of proof. * * * Neither does the *standard* of proof change; it must be by clear and convincing evidence or its equivalent, by whatever form of words it may be expressed. * * * What the production of new prior art or other invalidating evidence not before the PTO does is to eliminate, or at least reduce, the element of deference due the PTO, thereby partially, if not wholly, *discharging* the attacker's burden, but neither shifting nor lightening it or changing the standard of proof. When an attacker simply goes over the same ground travelled by the PTO, part of the *burden* is to show that the PTO was wrong in its decision to grant the patent. When new evidence touching validity of the patent not considered by the PTO is relied on, the tribunal considering it is not faced with having to *disagree* with the PTO or with *deferring* to its judgment or with taking its expertise into account. The evidence may, therefore, carry more weight and go further toward sustaining the attacker's unchanging burden.

burden of proof is not reduced when the prior art is presented to the court which was not considered by the PTO. However, reliance upon such art when that art is more pertinent than the art considered by the PTO may facilitate meeting the burden of proving invalidity." (citation omitted).

Am. Hoist & Derrick Co., 725 F.2d at 1359-1360. In short, the Federal Circuit itself recognizes that there is no basis for deference when relevant prior art is not considered by the PTO. But the court nonetheless leaves in place the “clear and convincing” standard, asserting that somehow the unconsidered prior art will be given more weight by the factfinder.⁶ This simply makes no sense: there is no legal rule obliging the factfinder to give more weight to such evidence. Nor is there any principled means of doing so. Instead, the standard of proof is the mechanism that requires fact-finders to defer. Eliminating the heightened standard is the only way to eliminate the unjustified deference.

c. The Federal Circuit’s rule is also at odds with the principles of agency deference reflected in general administrative law doctrine. Indeed, administrative law is particularly instructive here insofar as the Court has held that the Administrative Procedure Act applies to appeals from the PTO directly. *Dickinson v. Zurko*, 527 U.S. 150, 165 (1999).

⁶ The Federal Circuit has reiterated this flawed logic elsewhere. See, e.g., *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1375 (Fed. Cir. 1986) (“Notwithstanding that the introduction of prior art not before the examiner may facilitate the challenger’s meeting the burden of proof on invalidity, the presumption remains intact and on the challenger throughout the litigation, and the clear and convincing standard does not change.”); *Atlas Power Co. v. E.I. du Pont De Nemours & Co.*, 750 F.2d 1569, 1573 (Fed. Cir. 1984) (“Though the introduction of prior art not before the PTO may facilitate meeting the challenger’s ability to meet the burden of proof on invalidity, the presumption remains intact, the burden of persuasion remains on the challenger, and the ‘clear and convincing’ standard does not change.”).

When it makes a decision, an “agency must examine the relevant data and articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made.” *Motor Vehicle Mfrs. Ass’n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983). When reviewing an agency judgment, a court “must consider,” in part, “whether the decision was based on a consideration of the relevant factors.” *Ibid.* (quotation omitted). If the agency “entirely failed to consider an important aspect,” its decision would typically be considered “arbitrary and capricious.” *Ibid.* The APA itself provides for de novo review in circumstances where an agency does not engage in adequate fact-finding. See 5 U.S.C. § 706(2)(F).

These principles apply equally here. When the PTO does not consider materially relevant prior art—an important factor in the determination of patent validity—there can be no basis to defer to the agency determination. “The identification of material evidence that was not before the PTO rebuts the presumption of administrative correctness. The basis for the clear and convincing evidence standard is therefore removed.” Phipps, *supra*, at 144.

2. *The patentee’s property interest in a granted patent does not justify the Federal Circuit’s rule.*

Courts sometimes employ an intermediary evidentiary standard to tilt the scales toward one party in order to safeguard a fundamental value. This is a reflection of the principle that the “more stringent the burden of proof a party must bear, the more that party bears the risk of an erroneous decision.” *Cooper v. Oklahoma*, 517 U.S. 348, 362-363 (1996) (quoting

Cruzan v. Director, Mo. Dep't of Health, 497 U.S. 261, 283 (1990)). The Court has explained:

One typical use of the [clear and convincing evidence] standard is in civil cases involving allegations of fraud or some other quasi-criminal wrongdoing by the defendant. ***The interests at stake in those cases are deemed to be more substantial than mere loss of money*** and some jurisdictions accordingly reduce the risk to the defendant of having his reputation tarnished erroneously by increasing the plaintiff's burden of proof. Similarly, this Court has used the "clear, unequivocal and convincing" standard of proof to protect particularly important individual interests in various civil cases.

Addington, 441 U.S. at 424 (emphasis added). These important interests have included personal liberty with respect to civil commitment (*ibid.*), severance of parental rights (*Santosky v. Kramer*, 455 U.S. 745 (1982)), freedom of expression (*New York Times Co. v. Sullivan*, 376 U.S. 254, 279-280 (1964)), deportation (*Woodby*, 385 U.S. at 285), and denaturalization (*Chaunt v. United States*, 364 U.S. 350, 353 (1960)).

For several reasons, a patentee's interest in the underlying patent cannot justify a heightened standard of proof.

First, this Court has held repeatedly that the "loss of money" is not the sort of property interest that justifies a heightened standard of review. *Addington*, 441 U.S. at 424. See also *Santosky*, 455 U.S. at 756 ("This Court has mandated an intermediate standard of proof—'clear and convincing evidence'—when the individual interests at stake in a state pro-

ceeding are both particularly important and more substantial than mere loss of money.” (quotation omitted). Heightened standards of proof are only appropriate for those individual rights and interests—like the parent-child relationship—that are “far more precious than any property right.” *Santosky*, 455 U.S. at 758-759.

Because a patent is a quintessential property right, it cannot qualify for the substantial protection engendered by a heightened evidentiary standard. Indeed, the treatment of patents as property is mandated by the Patent Act itself, which “declares that ‘patents shall have the attributes of personal property.’” *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 392 (2006) (quoting 35 U.S.C. § 261). As the dispute here concerns allocation of property interests between corporate concerns, there simply are no “individual interests * * * more substantial than mere loss of money” at stake. *Santosky*, 455 U.S. at 756.

Preponderance of the evidence is the default standard in civil actions, and “[e]xceptions to this standard are uncommon, and in fact are ordinarily recognized only when the government seeks to take unusual coercive action—***action more dramatic than entering an award of money damages or other conventional relief***—against an individual.” *Price Waterhouse v. Hopkins*, 490 U.S. 228, 253 (1989) (emphasis added), superseded by statute as recognized in *Borgo v. Goldin*, 204 F.3d 251, 255 n.6 (D.C. Cir. 2000). Because no unique individual rights or interests beyond property are at issue here, there is no basis to apply a heightened standard.⁷

⁷ This analysis is consistent with the Court’s determination in *eBay* that the patent’s statutory characterization as a property

Second, the Patent Act's silence regarding the burden of proof strongly counsels against the judicial creation of a "clear and convincing" evidence standard. This Court has held that statutory "silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof." *Grogan v. Garner*, 498 U.S. 279, 286 (1991). Had Congress wished to establish a particularly high hurdle to invalidate a patent, it could have done so. But Congress did not. To the contrary, Congress *has* specified a "clear and convincing" evidence standard when a party raises an infringement defense based on being an earlier inventor. 35 U.S.C. § 273(b)(4). When Congress wishes to create a heightened evidentiary standard in the Patent Act, it does so expressly.

Third, the standard of proof chosen "reflects not only the weight of the private and public interests affected, but also a societal judgment about how the risk of error should be distributed between the litigants." *Santosky*, 455 U.S. at 755. In terms of allocating the property interest contested between the patent holder and a litigant claiming invalidity, it would be nothing short of arbitrary to favor the patent holder over the challenger. Private interests, ra-

right did not preclude application in patent infringement actions of the traditional standard for granting equitable relief. As the Court stated, "the creation of a right is distinct from the provision of remedies for violations of that right. Indeed, the Patent Act itself indicates that patents shall have the attributes of personal property '[s]ubject to the provisions of this title.'" *eBay*, 547 U.S. at 392. Here, to the extent the Patent Act, as interpreted by this Court, applies the heightened standard of proof only in situations in which the PTO considered the prior art, the property right conveyed by a patent is "subject to" that procedural rule.

ther, stand in equipoise—precisely the circumstances in which a preponderance of the evidence standard is appropriate. *Herman & MacLean*, 459 U.S. at 390 (“A preponderance-of-the-evidence standard allows both parties to share the risk of error in roughly equal fashion. Any other standard expresses a preference for one side’s interests.” (quotation omitted)). To hold otherwise would reduce patent validity to lottery, rewarding a patent holder that happened to be the beneficiary of the grant of an unjustified patent.

Fourth, the policy considerations underlying the Patent Act substantially caution against adoption of the “clear and convincing” standard in circumstances where the PTO did not consider prior art. As explained above (see pages 6-12, *supra*), the Federal Circuit’s rule has the effect of substantially hindering innovation and is thus detrimental to the public at large.

This practical effect runs directly contrary to the public interests that underlie patent law:

[T]he patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time. The balance between the interest in motivating innovation and enlightenment by rewarding invention with patent protection on the one hand, and the interest in avoiding monopolies that unnecessarily stifle competition on the other, has been a feature of the patent laws since their inception.

Pfaff v. Wells Elecs., Inc., 525 U.S. 55, 63 (1998). Thus the “the owner of a potentially invalid patent should bear an equal risk with the accused infringer of potentially incorrect resolution of factual issues related to validity. The proper standard of proof for resolving all questions of invalidity, therefore, should be preponderance of the evidence.” Daniel, *supra*, at 412.

The FTC has likewise noted that the intermediate standard of proof “appears unjustified.” FTC REPORT, *Executive Summary*, at 8. Instead, the FTC concluded, “courts should require only a ‘preponderance of the evidence’ to rebut the presumption of validity.” *Ibid*. When the PTO has not considered relevant prior art, that is precisely the standard that should be applied. This approach ensures that litigation can serve its critical function of effectively policing the quality of patents.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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