

No. 10-290

IN THE
Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

141 LIMITED PARTNERSHIP AND
INFRASTRUCTURES FOR INFORMATION INC.,

Respondents.

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

**BRIEF OF CISCO SYSTEMS, INC., EBAY INC.,
NETFLIX, INC., OFFICE DEPOT, INC.,
TOYOTA MOTOR CORPORATION, AND TRIMBLE
NAVIGATION LIMITED AS *AMICI CURIAE* IN
SUPPORT OF PETITIONER**

PROFESSOR JOSEPH MILLER
LEWIS & CLARK LAW SCHOOL
10015 S.W. Terwilliger Blvd.
Room 321
Portland, OR 97219

Of Counsel for Amici Curiae

JOHN D. VANDENBERG
Counsel of Record
JOSEPH T. JAKUBEK
KLARQUIST SPARKMAN, LLP
One World Trade Center
121 S.W. Salmon Street
Suite 1600
Portland, OR 97204-2988
(503) 595-5300
john.vandenberg@
klarquist.com

February 2, 2011

Counsel for Amici Curiae

234573



COUNSEL PRESS

(800) 274-3321 • (800) 359-6859

TABLE OF CONTENTS

	<i>Page</i>
TABLE OF CONTENTS.....	i
TABLE OF CITED AUTHORITIES	iii
INTEREST OF <i>AMICI CURIAE</i>	1
SUMMARY OF ARGUMENT.....	3
ARGUMENT.....	5
I. THE BURDEN OF PROOF FOR PATENT INVALIDITY SHOULD BE CONSISTENT WITH THE OVERALL STATUTORY SCHEME	5
II. THE FEDERAL CIRCUIT’S HEIGHTENED STANDARD IGNORES THE STATUTORY SOURCES OF PRIOR ART THE PTO RARELY LEARNS OF DURING ROUTINE PATENT EXAMINATION.....	8
III. THE FEDERAL CIRCUIT’S HEIGHTENED STANDARD IS INCONSISTENT WITH THE PTO’S APPLICATION OF THE “PREPONDERANCE OF THE EVIDENCE” STANDARD WHEN REVIEWING SUBSTANTIAL NEW QUESTIONS OF PATENTABILITY.....	11

TABLE OF CONTENTS

	<i>Page</i>
IV. A FAILED VALIDITY CHALLENGE IN LITIGATION UNDER THE “CLEAR AND CONVINCING STANDARD” THWARTS THE LITIGANT’S RESORT TO <i>INTER PARTES</i> REEXAMINATION AND THE LOWER BURDEN OF PROOF.....	14
V. THE HIGHER STANDARD THWARTS CONGRESS’S INTENT IN PROVIDING FOR STAYS OF LITIGATION IN FAVOR OF REEXAMINATIONS AND PTO EXPERTISE.....	18
VI. THE HIGHER STANDARD CAN AND HAS LED TO DUPLICATION OF EFFORTS AND UNFAIR AND INCONSISTENT RESULTS UNDER IDENTICAL FACTUAL SITUATIONS	20
VII.A PREPONDERANCE STANDARD BETTER REFLECTS THE LEGISLATIVE RECOGNITION OF THE HARM CAUSED BY UNWORTHY PATENTS	22
CONCLUSION	24

TABLE OF CITED AUTHORITIES

	<i>Page</i>
CASES	
<i>Abbott Labs. v. Geneva Pharm., Inc.</i> , 182 F.3d 1315 (Fed. Cir. 1999)	10
<i>Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.</i> , 725 F.2d 1350 (Fed. Cir. 1984)	14
<i>Baxter Int'l, Inc. v. COBE Labs., Inc.</i> , 88 F.3d 1054 (Fed. Cir. 1996)	10
<i>Beachcombers, Int'l, Inc. v. WildeWood Creative Prods., Inc.</i> , 31 F.3d 1154 (Fed. Cir. 1994)	10
<i>Bilski v. Kappos</i> , 130 S. Ct. 3218 (2010)	8
<i>Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.</i> , 402 U.S. 313 (1971)	5
<i>Edward Katzinger Co. v. Chicago Metallic Mfg. Co.</i> , 329 U.S. 394 (1947)	6
<i>Egbert v. Lipman</i> , 104 U.S. 333 (1881)	10
<i>Erlenbaugh v. U.S.</i> , 409 U.S. 239 (1972)	6

TABLE OF CITED AUTHORITIES

	<i>Page</i>
<i>Graham v. John Deere Co.</i> , 383 U.S. 1 (1966)	8
<i>Graham County Soil & Water Conservation Dist. v U.S. ex rel. Wilson</i> , 130 S. Ct. 1396 (2010)	6
<i>Gustafson v. Alloyd Co.</i> , 513 U.S. 561 (1995)	6
<i>In re Bass</i> , 314 F.3d 575 (Fed. Cir. 2002)	13
<i>In re Caveney</i> , 761 F.2d 671 (Fed. Cir. 1985)	12, 13
<i>In re Etter</i> , 756 F.2d 852 (Fed. Cir. 1985)	12, 13, 19
<i>In re Klopfenstein</i> , 380 F.3d 1345 (Fed. Cir. 2004)	10
<i>In re Portola Packaging Inc.</i> , 110 F.3d 786 (Fed. Cir. 1997), <i>superseded by statute</i> , 35 U.S.C. § 303(a), Pub. L. No. 107-273, § 13105 (116 Stat.) 1758	13
<i>In re Swanson</i> , 540 F.3d 1368 (Fed. Cir. 2008)	16, 20, 21

TABLE OF CITED AUTHORITIES

	<i>Page</i>
<i>In re Winship</i> , 397 U.S. 358 (1970)	23
<i>Iovate Health Sci., Inc. v Bio-Engineered Supplements & Nutrition, Inc.</i> , 586 F.3d 1376 (Fed. Cir. 2009)	11
<i>KSR Int’l Co. v Teleflex Inc.</i> , 550 U.S. 398 (2007)	5, 8
<i>Pennock v. Dialogue</i> , 27 U.S. (2 Pet.) 1 (1829)	9-10
<i>Pfaff v Wells Elecs., Inc.</i> , 525 U.S. 55 (1998)	9, 10
<i>Precision Instrument Mfg. Co. v Auto. Maint. Mach. Co.</i> , 324 U.S. 806 (1945)	5
<i>U.S. v. Freeman</i> , 44 U.S. (3 How.) 556 (1845)	6
<i>U.S. v Morton</i> , 467 U.S. 822 (1984)	6
<i>United Savings Ass’n of Texas v Timbers of Inwood Forest Assoc., Ltd.</i> , 484 U.S. 365 (1988)	7

TABLE OF CITED AUTHORITIES

	<i>Page</i>
STATUTES	
35 U.S.C. § 101	8
35 U.S.C. § 102.....	<i>passim</i>
35 U.S.C. § 103.....	8, 21
35 U.S.C. § 112.....	8, 21
35 U.S.C. § 141	20
35 U.S.C. § 282.....	<i>passim</i>
35 U.S.C. § 301.....	13
35 U.S.C. § 302.....	13
35 U.S.C. § 303.....	13
35 U.S.C. § 304.....	11-12, 13
35 U.S.C. § 305.....	13
35 U.S.C. § 306.....	13
35 U.S.C. § 307.....	13
35 U.S.C. § 308.....	13

TABLE OF CITED AUTHORITIES

	<i>Page</i>
35 U.S.C. § 309.....	13
35 U.S.C. § 310.....	13
35 U.S.C. § 311.....	13
35 U.S.C. § 312.....	13
35 U.S.C. § 313.....	11-12, 13
35 U.S.C. § 314.....	13
35 U.S.C. § 315.....	13
35 U.S.C. § 316.....	13
35 U.S.C. § 317.....	<i>passim</i>
35 U.S.C. § 318.....	13, 18, 19
Sup. Ct. R. 37.3.....	1
Sup. Ct. R. 37.6.....	1
Patent Act of 1952, 66 Stat. 792.....	6

INTEREST OF *AMICI CURIAE*¹

Amici Curiae's businesses depend on their own innovations and those of their suppliers, such as Internet and data-management related inventions. *Amici Curiae* recognize the positive role our nation's patent system has played in encouraging the useful arts, but also suffer the adverse consequences of erroneous grants of unworthy patents—patents on public domain ideas or common-sense iterations of public domain ideas. One contributor to that dark side of the patent system is the Federal Circuit's unyielding mandate that trial courts must apply the heightened "clear and convincing evidence" standard to all patent invalidity challenges, even those raising substantial new challenges the U.S. Patent & Trademark Office ("PTO") never considered when granting the patent. This case presents this Court the opportunity to correct this error.

Cisco Systems, Inc. is one of the world's largest technology companies. It designs and sells consumer electronics, and networking and communications technology and services. Cisco's Internet-Protocol-based networking solutions constitute the foundation for computer networks across the globe. As the world's leading e-commerce company, eBay Inc.'s global portfolio of businesses enables hundreds of millions of people to

1. Pursuant to this Court's Rule 37.3(a), letters of consent from all parties to the filing of this brief have been submitted to the Clerk. In accordance with Supreme Court Rule 37.6, *amici curiae* state that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amici curiae* or their counsel.

buy, sell and pay online. Founded in 1995, eBay connects a diverse and passionate community of individual buyers and sellers, as well as small businesses. Their collective impact on e-commerce is staggering: In 2009, the total worth of goods sold on eBay was \$60 billion — \$2,000 every second. With more than 87 million active registered accounts worldwide, PayPal has made it possible for people to pay and get paid online across different locations, currencies, and languages. Responding to the eBay community, which had quickly adopted PayPal as its preferred payment method, eBay Inc. acquired the company in 2002. Since then, PayPal's customer base has grown both on eBay and across e-commerce. Having built a single global payments engine that has some of the best risk and fraud detection capabilities in the payments industry, PayPal continues to be one of the leading ways to pay online. Today, PayPal is available in 190 markets, 24 currencies, and is accepted by millions of online merchants around the world. Netflix, Inc. is the world's leading Internet subscription service for enjoying movies and TV shows and has 20 million members in the United States and Canada. Office Depot, Inc. is a global supplier of office products and services, and sold \$12.1 billion of products and services to consumers and businesses of all sizes in fiscal year 2009 alone. Toyota Motor Corporation is one of the world's leading automobile manufacturers with over 28,000 employees and 1500 franchised dealerships in the U.S. alone, through its U.S. subsidiaries. Trimble Navigation Limited provides GPS, lasers, optical, and inertial technologies, as well as wireless communications and application-specific software to provide complete solutions that link positioning to productivity. Trimble's products are used in over 100 countries around the world, with employees in more than 21 countries.

SUMMARY OF ARGUMENT

The Court of Appeals for the Federal Circuit applies a strict, unyielding rule that catapults the private interests of certain patent owners above the broader interests of the public as a whole. Its rule is that trial courts must always apply a “clear and convincing evidence” standard to all patent invalidity challenges, even those never considered by the PTO, and even when based on facts the patent applicant concealed from the PTO. This strict rule favoring patent owners distorts multiple parts of the Patent Act, thereby disrupting the careful balance between private and public interests established by Congress in crafting our patent examination and enforcement system. The Patent Act, which must be construed as a harmonized whole, embodies not only the important goal of rewarding true innovation, but the equally important goal of minimizing the disruption of innovation and competition caused by mistaken government grants of monopolies to undeserving would-be inventors. In service of this balance, Congress has mandated that the baseline of prior art against which we judge the novelty of an invention includes not only prior patents easily accessed by the PTO, but also publicly used and marketed technology about which the PTO may remain ignorant during its review of a patent application. Congress has also established, and recently strengthened, a PTO post-grant “reexamination” regime in which new, previously undecided challenges to an issued patent’s validity are considered without undue deference to the original grant, under a “preponderance of the evidence” standard. The Federal Circuit’s strict rule mandating a “clear and convincing evidence” standard for all invalidity challenges violates this balance, and gives an undue, illogical deference to the original, incomplete patent examination process.

Indeed, several specific statutory provisions make little sense unless all courts give substantial new questions of patentability the same fresh look they are given by the PTO. For example, under the Reexamination Statutes, a final court decision that an alleged infringer did not satisfy its burden of proving invalidity cuts off that party's right to **request** or **maintain** an *inter partes* reexamination in the PTO on any basis which the alleged infringer raised or could have raised in such civil action. This statutorily-mandated equivalency between court and PTO proceedings makes sense if the same "preponderance of the evidence" burden of proof is applied to substantial new questions of patentability in both forums, but not otherwise. The Federal Circuit's refusal to relax its demand for "clear and convincing evidence," even when substantial new questions of patentability are presented, conflicts with these statutory provisions.

The Federal Circuit's error is clear, and the harm it causes to innovative businesses and the public is substantial.

ARGUMENT**I. THE BURDEN OF PROOF FOR PATENT INVALIDITY SHOULD BE CONSISTENT WITH THE OVERALL STATUTORY SCHEME**

This Court long has recognized that patents are a high-risk exception to the rule against granting government monopolies:

A patent by its very nature is affected with a public interest [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.

Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 816 (1945).

The government’s grant and enforcement of patents on true innovations can be a powerful force for advancement of the useful arts, and a boon to the economy and public. But as this Court has recognized, the converse is equally true: “Granting patent protection to advances that would occur in the ordinary course without real innovation retards progress” *KSR Int’l Co. v. Teleflex Inc.*, 550 U.S. 398, 402 (2007); see also *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 349-50 (1971) (“[T]he holder of a patent should not be insulated from the assertion of defenses

and thus allowed to exact royalties for the use of an idea that is not in fact patentable.”); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394, 400 (1947) (noting the “necessity of protecting our competitive economy by keeping open the way for interested persons to challenge the validity of patents which might be shown to be invalid”). Congress crafted the Patent Act, including in its grand recodification thereof in 1952, Act of July 19, 1952, ch. 950, 66 Stat. 792, to balance the competing goals of rewarding true innovation and minimizing needless government-granted monopolies on technological trivialities. The Patent Act embodies this balance in both substantive and procedural provisions.

The Federal Circuit persists in construing one Patent Act procedural provision, 35 U.S.C. § 282, in a way one cannot fairly square with the Act’s remaining substantive and procedural mandates. That blinkered construction is erroneous, for “[c]ourts have a ‘duty to construe statutes, not isolated provisions.’” *Graham County Soil & Water Conservation Dist. v. U.S. ex rel. Wilson*, 130 S. Ct. 1396, 1404 (2010) (quoting *Gustafson v. Alloyd Co.*, 513 U.S. 561, 568 (1995)); see also *U.S. v. Morton*, 467 U.S. 822, 828 (1984) (“We do not . . . construe statutory phrases in isolation; we read statutes as a whole.”); *Erlenbaugh v. U.S.*, 409 U.S. 239, 244 (1972) (instructing that “individual sections of a single statute should be construed together”).² Section 282 merely provides that “[a] patent shall be presumed valid.”

2. The principle is longstanding: “The correct rule of interpretation is, that if divers statutes relate to the same thing, they ought all to be taken into consideration in construing any one of them, and it is an established rule of law, that all acts *in pari materia* are to be taken together, as if they were one law.” *U.S. v. Freeman*, 44 U.S. (3 How.) 556, 564 (1845).

35 U.S.C. § 282. It does not express a special standard of proof. The Federal Circuit rigidly construes this provision as imposing a universal “clear and convincing evidence” standard, without any effort to harmonize the provision with the parts of the Patent Act that define the prior art against which an invention’s novelty is judged, or that provide for a second look within the PTO where it appears a patent may have issued improvidently. This failure even to attempt a harmonized reading of all these provisions has led the Federal Circuit to distort Section 282. This Court, however, has laid out the proper course:

Statutory construction . . . is a holistic endeavor. A provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme . . . because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law.

United Savings Ass’n of Texas v. Timbers of Inwood Forest Assoc., Ltd., 484 U.S. 365, 371 (1988) (citations omitted).

The Federal Circuit has bent the Patent Act badly out of shape in a misguided effort to preserve its favored “clear and convincing evidence” standard for questions of patent validity raised in infringement litigation. This Brief focuses on distortions evident from (1) the substantive provisions establishing several patent invalidity grounds that are impractical for the PTO to investigate, and (2) the procedures for PTO reexamination proceedings and their relationship to in-court patent reexaminations.

II. THE FEDERAL CIRCUIT'S HEIGHTENED STANDARD IGNORES THE STATUTORY SOURCES OF PRIOR ART THE PTO RARELY LEARNS OF DURING ROUTINE PATENT EXAMINATION

As this Court has noted:

Even if an invention qualifies as a process, machine, manufacture, or composition of matter, in order to receive the Patent Act's protection the claimed invention must also satisfy 'the conditions and requirements of this title.' § 101. Those requirements include that the invention be novel, see § 102, nonobvious, see § 103, and fully and particularly described, see § 112.

Bilski v. Kappos, 130 S. Ct. 3218, 3225 (2010). The core novelty provision, 35 U.S.C. § 102, defines the prior art against which we judge whether a patent applicant's invention is genuinely new and thus potentially deserving of patent protection.³ By establishing the line between the old and the new, Section 102 helps strike "[t]he 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

3. Novelty, by itself, is insufficient. Under the further nonobviousness requirement that 35 U.S.C. § 103 imposes, an invention does not merit a patent unless it is a sufficiently great technological advance over the prior art. *See generally KSR*, 550 U.S. at 406. Section 102 defines the outer boundary of the prior art one may consider in evaluating obviousness *vel non* under § 103. *See Graham v. John Deere Co.*, 383 U.S. 1, 12-14 (1966).

stifle competition on the other, [as] has been a feature of the federal patent laws since their inception.” *Pfaff v. Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998).

Some of the types of prior art established by Section 102 are readily available to, and routinely used by, the PTO when it examines a patent application to decide whether to grant a patent. For example, Section 102 defines the prior art to include things “patented or described in a printed publication in this or a foreign country,” measured from either of two baseline dates— from “before the invention thereof by the applicant for patent,” or from “more than one year prior to the date of the application for patent in the United States.” 35 U.S.C. §§ 102(a) and (b). The PTO searches prior art patents, including both U.S. and foreign patents, when it examines a patent application. Were these the **only** types of prior art, there would be some argument for construing the Section 282 presumption of validity on the assumption that the PTO would usually uncover the prior art references of greatest interest in a given case, although even then the time available to the Examiner is widely recognized as inadequate for the task. But these are **not** the only types of prior art in U.S. law.

Section 102 further defines the prior art to forbid a patent where “the invention was known or used by others in this country . . . before the invention thereof by the applicant,” 35 U.S.C. § 102(a), and where “the invention was . . . in public use or on sale in this country, more than one year prior to the date of the application for patent,” 35 U.S.C. § 102(b). These prior art activities in the marketplace, comprising public uses, sales and offers of technology, have barred patent protection at least since this Court’s decisions in such landmark cases as *Pennock v. Dialogue*,

27 U.S. (2 Pet.) 1 (1829) (invalidating a patent based on prior public sales), and *Egbert v Lipman*, 104 U.S. 333 (1881) (invalidating a patent based on prior public use). The Patent Act now codifies these prior art exclusions in Section 102. Had Congress intended to create a presumption of validity that ignored these core categories of prior art, it would surely have done so explicitly.

The PTO is far less likely to learn about these critical types of invalidating prior art for the simple reason that the information is often in the hands of third parties, **not** the patent applicant, and comes to light **only** in subsequent patent infringement litigation. Admittedly, the invalidating prior sale or public use is sometimes that of the inventor herself, and comes to light accordingly, either at the PTO (if the inventor is forthcoming) or in later infringement litigation. *See, e.g., Pfaff*, 525 U.S. at 57-60 (invalidating a patent based on the inventor's prior sale of the invention); *In re Klopfenstein*, 380 F.3d 1345, 1346-47 (Fed. Cir. 2004) (rejecting an application based on the inventors' prior public use of the invention). But the prior art often arises from a third party's activity, and is brought to light only because the threat of infringement liability prompted the accused infringer to search it out. *See, e.g., Abbott Labs. v Geneva Pharm., Inc.*, 182 F.3d 1315, 1318-19 (Fed. Cir. 1999) (invalidating a patent based on a third party's prior sale of the claimed compound); *Baxter Int'l, Inc. v COBE Labs., Inc.*, 88 F.3d 1054, 1058-59 (Fed. Cir. 1996) (invalidating a patent based on a third party's prior public use of a centrifuge); *Beachcombers, Int'l, Inc. v WildeWood Creative Prods., Inc.*, 31 F.3d 1154, 1159-60 (Fed. Cir. 1994) (invalidating a patent based on a third party's prior public use of the claimed kaleidoscope). And even printed-publication art can be quite obscure, comprising such things

as advertisements in print magazines. *See Iovate Health Sci., Inc. v. Bio-Engineered Supplements & Nutrition, Inc.*, 586 F.3d 1376, 1379 (Fed. Cir. 2009) (involving an invalidating magazine advertisement). The PTO during examination almost never learns about third-party-based prior art uses (such as product demonstrations at trade shows), sales, or obscure unpublicized offers for sale, although such art can be just as strong a ground of invalidity as a prior art U.S. patent.

Third-party prior public uses and sales of technology are a critical part of the public domain that Section 102 defines and protects, but the Federal Circuit's construction of Section 282 effectively ignores them. The PTO has no power, no budget, and no investigative personnel to interview third parties about possible past public sales or uses of technology. To pretend it does, in the name of the presumption of validity, is the height of folly. Where the PTO never considered a prior art reference—which Congress has ensured will often be the case—the most that Section 282 could require is that the patent challenger bear the burden of coming forward with the evidence and proving invalidity by a preponderance of all the evidence.

III. THE FEDERAL CIRCUIT'S HEIGHTENED STANDARD IS INCONSISTENT WITH THE PTO'S APPLICATION OF THE "PREPONDERANCE OF THE EVIDENCE" STANDARD WHEN REVIEWING SUBSTANTIAL NEW QUESTIONS OF PATENTABILITY

If a substantial new question of patentability is presented by a prior art patent or publication, the PTO will reexamine any patent it issued. *See* 35 U.S.C. §§

304, 313. Once that threshold “substantial new question of patentability” is established, the PTO will reexamine the patent claims in view of the prior art, applying a “preponderance of the evidence” standard. *See In re Etter*, 756 F.2d 852, 857 (Fed. Cir. 1985). This standard respects both the private interests of true innovators and the public’s interest in terminating unjustified government monopolies.

Trial courts also reexamine patents issued by the PTO whenever an accused infringer challenges the patent’s validity. Through no fault of the PTO, which received more than 450,000 utility patent applications in 2009, these in-court patent invalidity challenges often present substantial new questions of patentability never considered by the PTO, including previously unconsidered prior art patents, public uses, sales, and publications. But, unlike PTO reexaminations, these in-court reexaminations, under the Federal Circuit’s strict rule, cannot use the same “preponderance of the evidence” standard used in PTO reexaminations. Instead, the Federal Circuit forces trial courts to apply the heightened “clear and convincing evidence” standard when determining the validity of a patent, even when the prior art was not previously considered by the PTO. This absolute mandate permits undeserving patents to stand, and unsettles the balanced structure of the Patent Statutes.

The PTO initially examines the patentability of claims of a patent application under the “preponderance of the evidence” standard. *In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985). After a patent has issued from the PTO, anyone may ask the PTO to reexamine the issued patent based on patent or publication prior art if a substantial new

question of patentability is shown. *See, e.g.*, 35 U.S.C. §§ 301-318. Once again, as with the original examination, the PTO applies the “preponderance of the evidence” standard when reexamining the patent. *See Etter*, 756 F.2d at 857 (“The innate function of the reexamination process is to increase the reliability of the PTO’s action in issuing a patent by reexamination of patents thought ‘doubtful.’ House Report at 3.”); *see also Caveney*, 761 F.2d at 674; 35 U.S.C. §§ 301, 303, 311, and 312.

This reexamination “start over” applies the “preponderance of the evidence” standard not only to prior art that was not previously considered by the PTO, but also to prior art that **was** previously considered by the PTO during the original examination of the patent if presented in a new light. *See* 35 U.S.C. §§ 303(a) and 312(a) (“The existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office.”). In 2002, Congress amended these statutes in this respect to expressly allow previously considered prior art to be used during reexamination, and to overrule a prior Federal Circuit decision that had limited PTO reexaminations essentially to new prior art. *See In re Portola Packaging Inc.*, 110 F.3d 786 (Fed. Cir. 1997), *superseded by statute*, 35 U.S.C. § 303(a), Pub. L. No. 107-273, § 13105 (116 Stat.) 1758, 1900, as recognized in *In re Bass*, 314 F.3d 575, 577 (Fed. Cir. 2002).

In sum, Congress has protected the public by subjecting issued patents to cancellation in a PTO “preponderance of the evidence” proceeding, while protecting the private interests of patent owners by requiring a (low) threshold showing of a substantial new question of patentability.

Nevertheless, the Federal Circuit has put the private interests of patent holders ahead of the public interest, by mandating that a patent challenger in a civil action establish a patent's invalidity by "clear and convincing evidence" even when the evidence relied upon was not considered by the PTO before issuing the patent. *See, e.g., Am. Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984). That the burden of proof is on the challenger follows from the statutory presumption of validity. 35 U.S.C. § 282. But Section 282 does not require a "clear and convincing evidence" burden of proof. Particularly where a court does not have the benefit of the PTO's consideration of evidence presented to the court, there is no good reason to give undue weight to the private interests of the patent holder and deviate from the "preponderance of the evidence" standard that would apply if the same new evidence were presented to the PTO.

IV. A FAILED VALIDITY CHALLENGE IN LITIGATION UNDER THE "CLEAR AND CONVINCING STANDARD" THWARTS THE LITIGANT'S RESORT TO *INTER PARTES* REEXAMINATION AND THE LOWER BURDEN OF PROOF

Congress has enacted several statutory provisions that treat a court case as providing an equivalent opportunity to challenge a patent claim as does a PTO reexamination proceeding. This legislative treatment makes more sense if the same burdens of proof are applied in both forums to substantial new questions of patentability.

As a first example, 35 U.S.C. § 317(b), provides in pertinent part:

(b) FINAL DECISION. Once a final decision has been entered against a party in a civil action . . . that the party has not sustained its burden of proving the invalidity of any patent claim in suit . . . then neither that party nor its privies may thereafter request an *inter partes* reexamination of any such patent claim on the basis of issues which that party or its privies raised or could have raised in such civil action . . . and an *inter partes* reexamination requested by that party or its privies on the basis of such issues may not thereafter be maintained by the Office, notwithstanding any other provision of this chapter.

Thus, a final court decision that an alleged infringer did not satisfy its burden of proving invalidity cuts off that party's right to **request** or **maintain** an *inter partes* reexamination in the PTO on any basis which the alleged infringer raised or could have raised in such civil action. This makes sense if the same "preponderance of the evidence" standard is applied in court. But, if a higher "clear and convincing evidence" standard is applied in court, then the application of Section 317(b) in such a case invites a possibly perverse result, *viz.*, a patent would be immunized from a lower standard of proof in an *inter partes* challenge in the PTO only because an invalidity challenge failed under a higher standard of proof in a final decision of a concurrent or prior civil action.⁴

4. Contrary to Respondent's Brief (Br. 20) in opposition to Microsoft's petition for a writ of certiorari arguing that Congress was aware of Section 282's interpretation, there is no evidence that Congress considered the consequences of applying disparate burdens, or that it had a justifiable or sensible reason for allowing

Moreover, mandating the higher standard in litigation for new invalidity grounds never considered by the PTO conflicts with the Federal Circuit's own recognition that Congress intended the reexamination statutory scheme as a vehicle to correct previous "governmental mistakes" by the PTO. Specifically, in *In re Swanson*, 540 F.3d 1368, 1378 (Fed. Cir. 2008), the Federal Circuit stated:

We agree with the PTO's current position. Section 303's language and legislative history, as well as the differences between the two proceedings, lead us to conclude that Congress did not intend a prior court judgment upholding the validity of a claim to prevent the PTO from finding a substantial new question of validity regarding an issue that has never been considered by the PTO. To hold otherwise would allow a civil litigant's failure to overcome the statutory presumption of validity to thwart Congress' purpose of allowing for a reexamination procedure to correct examiner errors, without which the presumption of validity never would have arisen. *See Patlex*, 758 F.2d at 604 ('A defectively examined and therefore erroneously granted patent must

such possibly perverse results. Indeed, it is hard to imagine such a reason. And even though Section 317(b) does not bar a subsequent *ex parte* reexamination, an *ex parte* reexamination does not provide a patent challenger a full and fair opportunity to challenge a patent to the same extent that an *inter partes* reexamination would. Again, such inconsistency and unfairness would be eliminated by applying a "preponderance" burden in a court proceeding when the invalidity evidence was not previously considered by the PTO.

yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes.’).

However, if a patent challenger fails in a final court decision to meet the higher “clear and convincing evidence” standard based on prior art not previously considered by the PTO, Section 317(b) prevents the PTO from continuing an *inter partes* proceeding to correct such a mistake under the lower standard. Thus, the Federal Circuit’s strict mandate counters the Congressional purpose of “facilitating the correction of governmental mistakes” because it is less likely that such mistakes would be corrected under the higher standard, and the litigant and PTO will be stopped by Section 317(b) from using *inter partes* reexamination and the lower standard to correct the mistake.⁵

5. Respondent’s Brief (Br. 21) suggests that Congress’s policy judgment not to establish an “exact parallel to litigation” should not be second guessed by the courts. However, correcting the burden of proving invalidity in litigation would neither equate reexamination or administrative proceedings with litigation given their many differences, nor thwart Congress’s intent in enacting such administrative proceedings. In fact, properly construing the burden would further Congress’s intent of correcting governmental mistakes. Furthermore, it is proper and necessary to “second guess” the Federal Circuit’s unyielding mandate to apply the “clear and convincing” standard in view of such subsequent statutory changes enacted by Congress.

V. THE HIGHER STANDARD THWARTS CONGRESS'S INTENT IN PROVIDING FOR STAYS OF LITIGATION IN FAVOR OF REEXAMINATIONS AND PTO EXPERTISE

Section 318 of the Patent Act, 35 U.S.C. § 318, is a second example of Congress treating as equivalents a court challenge and a PTO challenge of an issued patent. It provides:

Once an order for inter partes reexamination of a patent has been issued under section 313, the patent owner may obtain a stay of any pending litigation which involves an issue of patentability of any claims of the patent which are the subject of the inter partes reexamination order, unless the court before which such litigation is pending determines that a stay would not serve the interests of justice.

35 U.S.C. § 318.

The utility of this provision is distorted by the Federal Circuit's strict, unyielding mandate that the trial court always use a higher standard of proof than applies in a PTO reexamination proceeding. Even when a trial court has before it facts never presented to the PTO, it must choose between a "preponderance of the evidence" reexamination in the PTO and a "clear and convincing evidence" standard in court. In other words, due to the Federal Circuit's mandate, whether the same evidence invalidates the same patent turns in part on the exercise of discretion by the trial court. But given the public interest in terminating erroneously issued patents, the

standard of proof applied to substantial new questions of patentability should not be a matter of trial court discretion on whether or not to stay a case pending PTO reexamination. As is, if the court grants a stay of such a case, the claims will be examined by the PTO during *inter partes* reexamination under the lower “preponderance of the evidence” standard. If the court denies the stay, however, the claims will be examined in the civil action under a higher “clear and convincing evidence” standard (while possibly being simultaneously examined by the PTO under the lower standard of proof). This leads to an illogical situation and possibly inconsistent results, undermines the intent of Section 318, and distorts the balance between private interests and public interests crafted in the Patent Statutes.

Moreover, Section 318 expressly states that the “patent owner” may obtain the litigation stay. Although there are limited instances where patent owners seek such stays, applying a higher burden of proof in a civil action undoubtedly makes it less likely that patent owners will seek a stay of litigation in favor of reexamination proceedings where the burden of proof is lower. Thus, the Federal Circuit’s higher standard again thwarts the intent and effect of the statute, and appears contrary to Congress’s intent to reduce the burden on the courts and have patents reexamined applying the technical expertise of the PTO. *See Etter*, 756 F.2d at 857 (“When the patent is concurrently involved in litigation, an auxiliary function is to free the court from any need to consider prior art without the benefit of the PTO’s initial consideration.”).

When Congress in 1999 strengthened the PTO reexamination regime by adding *inter partes*

reexaminations proceedings, it no doubt was aware of the Federal Circuit’s “clear and convincing evidence” mandate. But, Congress enacted the original Patent Reexamination statutes in 1980, before the Federal Circuit was created, and at a time when the regional courts of appeals uniformly applied a “preponderance of the evidence” standard for in-court patent reexaminations. Nothing in the legislative history shows any Congressional intent to approve of the Federal Circuit’s deviation from the “preponderance of the evidence” standard that prevailed in the regional circuits before the creation of the Federal Circuit.

VI. THE HIGHER STANDARD CAN AND HAS LED TO DUPLICATION OF EFFORTS AND UNFAIR AND INCONSISTENT RESULTS UNDER IDENTICAL FACTUAL SITUATIONS

Congress has designated the same appellate court, the Federal Circuit, to decide appeals of patent challenges from both courts and the PTO. 35 U.S.C. § 141. A patent owner or third party *inter partes* reexamination requester dissatisfied with a final decision of the PTO’s Board of Patent Appeals and Interferences may appeal that decision to the Federal Circuit. Sometimes, the Federal Circuit ends up reviewing decisions comparing the same patent against the same prior art under two different standards, once for the appeal originating from a PTO reexamination applying the “preponderance of the evidence” standard and once for a court proceeding applying the “clear and convincing evidence” standard.

For example, in *Swanson*, the Federal Circuit affirmed the PTO’s rejection of a patent in a reexamination proceeding. The PTO rejected the patent under the

“preponderance of the evidence” standard even though certain of the prior art was cited during the original examination of the patent. *Swanson*, 756 F.2d at 1373-74. Unfortunately, five years before affirming the PTO’s rejection of the patent, the Federal Circuit had affirmed a district court’s finding under the “clear and convincing evidence” standard that the patent was **not** invalid over that very same prior art. *Id.* at 1373. Had the district court (and hence the Federal Circuit) applied the lower standard, it undoubtedly would have been more likely that this unworthy patent would have fallen years earlier. This situation is untenable and erodes the public’s confidence in the patent and court systems, dis-serving the public.⁶

6. Respondent’s position (Br. 29) — that the standard of proof is not outcome determinative because invalidation rates for *inter partes* reexamination and litigation are nearly the same — fails to take into account that invalidity defenses in reexamination are limited to Section 102 and Section 103 defenses based *only* on printed publication prior art. In other words, reexamination cannot be based on other types of prior art such as “prior use” or “on sale” evidence, nor can it be based on other statutory invalidity grounds such as “best mode” or “enablement” defenses under Section 112, for example. As such, the fact that invalidation rates in *inter partes* reexamination are nearly the same as litigation (assuming that is true for the sake of argument) even though the possible grounds for invalidity are substantially narrower in reexamination strongly suggests that the standard of proof is indeed outcome determinative.

VII. A PREPONDERANCE STANDARD BETTER REFLECTS THE LEGISLATIVE RECOGNITION OF THE HARM CAUSED BY UNWORTHY PATENTS

If the existence of erroneously granted patents on inventions unworthy of exclusive rights was of no public concern, then a “clear and convincing” evidence standard might be appropriate, as it would advance the interests of true innovators holding legitimate patents. But, that premise is false. As described above, Congress and this Court have recognized the great harm caused to innovation and free competition by the grant of unworthy patents. The standard of proof, therefore, should reflect that the harm from erroneously affirming an unworthy patent is no less than the harm from mistakenly invalidating a worthy patent. As in other civil cases, the preponderance standard would strike that balance.

[A] standard of proof represents an attempt to instruct the fact-finder concerning the degree of confidence our society thinks he should have in the correctness of factual conclusions for a particular type of adjudication.

* * * *

In a civil suit between two private parties for money damages, for example, we view it as no more serious in general for there to be an erroneous verdict in the defendant’s favor than for there to be an erroneous verdict in the plaintiff’s favor. A preponderance of the evidence standard therefore seems peculiarly

appropriate, for, as explained most sensibly, it simply requires the trier of fact 'to believe that the existence of a fact is more probable than its nonexistence before (he) may find in favor of the party who has the burden to persuade the (judge) of the fact's existence.'

In re Winship, 397 U.S. 358, 370, 371-72 (1970) (Harlan, J., concurring) (footnote omitted).

CONCLUSION

This Court should correct the Federal Circuit and declare “preponderance of the evidence” as the controlling burden-of-proof standard when the particular invalidity challenge was not previously considered by the PTO.

Respectfully submitted,

JOHN D. VANDENBERG

Counsel of Record

JOSEPH T. JAKUBEK

KLARQUIST SPARKMAN, LLP

One World Trade Center

121 S.W. Salmon Street

Suite 1600

Portland, OR 97204-2988

(503) 595-5300

john.vandenberg@

klarquist.com

Counsel for Amici Curiae

PROFESSOR JOSEPH MILLER

LEWIS & CLARK LAW SCHOOL

10015 S.W. Terwilliger Blvd.

Room 321

Portland, OR 97219

Of Counsel for Amici Curiae

February 2, 2011