

**In The  
Supreme Court of the United States**

—◆—  
MICROSOFT CORP.,

*Petitioner,*

v.

i4i LIMITED PARTNERSHIP, et al.,

*Respondents.*

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

—◆—  
**BRIEF OF *AMICUS CURIAE* COMPUTER &  
COMMUNICATIONS INDUSTRY ASSOCIATION  
IN SUPPORT OF PETITIONER**

—◆—

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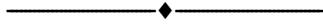
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**BRIEF OF *AMICUS CURIAE* COMPUTER &  
COMMUNICATIONS INDUSTRY ASSOCIATION  
IN SUPPORT OF PETITIONER**

The Computer & Communications Industry Association (CCIA) submits this brief as *amicus curiae* in support of Petitioner Microsoft Corp., and respectfully requests that the Federal Circuit be reversed.



**INTEREST OF *AMICUS*<sup>1</sup>**

The Computer & Communications Industry Association is a non-profit trade association dedicated to open markets, open systems, and open networks. CCIA members participate in many sectors of the computer, information technology, and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry.<sup>2</sup> CCIA members use the patent system regularly, and depend upon it to fulfill its constitutional purpose of promoting innovation. CCIA is increasingly concerned that the patent

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

<sup>2</sup> A list of CCIA's members is available at <<http://ccianet.org/members>>. Although Petitioner Microsoft Corp. is a member of CCIA, it did not author this brief in whole or in part, nor did it make a monetary contribution intended to fund its preparation.

system has expanded without adequate accountability and oversight.



### **SUMMARY OF ARGUMENT**

The Federal Circuit requires “clear and convincing” evidence to invalidate granted patents. Bestowing this enhanced presumption of validity upon granted patents is fundamentally at odds with the Patent Act. Many factors already favor the patent applicant: the statute’s presumption of entitlement, the examiner’s limited and undocumented expertise, the limited scope of the examination process, the mismatch between the examiner and the applicant, and the examiner’s incentives to grant the application. In light of these factors, the Federal Circuit’s extraordinary deference to a highly constrained agency process is without basis.

By making questionable patents hard to invalidate, the clear-and-convincing standard creates an artificial incentive to apply for patents. It induces more applications and more patents, especially weak, marginal, and invalid patents. This unmerited legal leverage dilutes and undermines the value of genuine inventions. It distorts market competition, discourages the challenging of invalid patents, and promotes opportunism.

The added difficulty and cost of invalidating patents adds to the free rider problem in challenging invalid patents: the challenger bears higher costs and

risks while others, including the challenger's competitors, stand to reap the benefits. The enhanced presumption disproportionately bars small challengers, who submit to a license as the "rational" alternative to the high cost of challenging an invalid patent – or merely researching the feasibility of a challenge.

By encouraging the patenting of marginal and questionable advances, the artificially enhanced presumption of validity contributes to the patent thickets that plague many areas of technology, especially information and communications technology. It exacerbates information overload on all sides and the growing opacity of a system originally intended to promote public disclosure. It likewise adds to the examination backlog at the PTO.

These corrosive and destructive effects have been achieved by the very court created to strengthen the patent system. The Congressional purpose in establishing the Federal Circuit was administrative, not substantive – to strengthen the patent system by improving the consistency with which the law was applied, not to "strengthen" invalid patents. Yet by reading an enhanced presumption of validity into the plain language of the statute, the Federal Circuit has compromised the functioning of the system by encouraging the proliferation of invalid patents and creating legal barriers to innovation.



## ARGUMENT

### I. THE ENHANCED PRESUMPTION OF VALIDITY IS A LEGACY OF A DISCREDITED MODEL IN WHICH BAD PATENTS CAN DO NO HARM.

The roots of the enhanced presumption of validity draw largely from questionable evidence asserted against interference proceedings where inventorship is contested. See *Radio Corp. of America v. Radio Engineering Labs. Inc.*, 293 U.S. 1 (1934); *Morgan v. Daniels*, 153 U.S. 120 (1894). Under the Federal Circuit, it has blossomed from a narrow evidentiary standard into a sweeping general rule piggybacking on the general proposition of Section 282. Yet it is a judge-made embellishment of plain unadorned statutory language, given without analysis or acknowledgment of adverse consequences. In a simpler era, it might be argued that there could be no harm:

It is difficult to understand the attitude of those who feel that ideally a patent should be granted only for the meritorious invention which is capable of becoming a commercial success. Patents are not Nobel or Pulitzer prizes! They are not for exceptional inventors but for average inventors and should not be made hard to get. True, they are temporary monopolies, but therein alone lies their power as inducements to invent, to disclose, to invest, and to design around. Why must an invention be a commercially hot number to be patentable? If it is a total dud, how is the public injured by a patent on it? A monopoly

on something nobody wants is pretty much of a nullity. That is one of the beauties of the patent system. The reward is measured automatically by the popularity of the contribution.<sup>3</sup>

This vision was expressed fifty years ago by Judge Giles Rich, the acknowledged dean of Federal Circuit jurisprudence, who sat on the Federal Circuit and its predecessor, the Court of Customs and Patent Appeals, for 43 years. In this idealized view of the patent system, the enhanced presumption of validity, like the patent itself, could do no harm. It is the legacy of an earlier, simpler era when patents could be portrayed as self-limiting, uniformly close to the market, visible to all the world, with each standing in isolation on its own merits.

Fifty years later, especially after the extensive series of 30 hearings held by the Department of Justice and the Federal Trade Commission in 2002, it is clear that the world – and the role played by patents – is a lot more complicated. After 24 days of hearings, involving over 300 panelists, the FTC produced a landmark report, *To Promote Innovation*.<sup>4</sup>

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<sup>3</sup> Giles S. Rich, *The Principles of Patentability*, 28 GEO. WASH. L. REV. 393, 407 (1960), reprinted in John Witherspoon, ed., *Non-Obviousness: The Ultimate Condition of Patentability*, at 2:1, 8 (BNA 1980).

<sup>4</sup> Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003); cited with approval in *eBay, Inc. v. MercExchange LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring) (“In cases now arising trial  
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The report showed, among other things, a spectrum of industry perspectives on the patent system that ranged from positive (pharmaceuticals) to negative (software and Internet services).<sup>5</sup>

The FTC's report concluded that a heightened presumption of validity was unjustified, observing that: "A plethora of presumptions and procedures tip the scales in favor of the ultimate issuance of a patent, once an application is filed."<sup>6</sup> Indeed, this is the standard prescribed by Congress. If situation-specific evidentiary rules are needed, they should stand or fall on their own merits; they should not be expanded into sweeping general rules that shape behavior in the market. As in other civil litigation, the baseline should remain the preponderance of the evidence. Any departures should be for compelling reasons.

## **II. THE NATURE OF PATENT EXAMINATION DOES NOT JUSTIFY AN ENHANCED PRESUMPTION OF VALIDITY.**

Consistent with fundamental principles of administrative law, any deference to a patent grant should

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courts should bear in mind that in many instances the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases. An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees.")

<sup>5</sup> *Id.*, ch. 3.

<sup>6</sup> *Id.*, Exec. Summ. at 8.

be based on a realistic assessment of the nature of the examination process and the presumptions upon which it is built. These principles of rational deference underlay *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999), in which this Court deferred to an agency decision to deny a patent application. However, a denial of a patent by the examiner permits the applicant the right to appeal to the Board of Patent Appeals and Interferences. 35 U.S.C. § 134. By contrast, a patent grant is a single step: the applicant need only satisfy the examiner, *see* 35 U.S.C. §§ 131, 151, who has the burden of denying the patent. *See* 35 U.S.C. § 102. Presumptions and scrutiny should be based on the scope, intensity, and character of the relevant process. *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944). A straightforward assessment of the examination demonstrates that the Federal Circuit's enhanced standard is unwarranted.

**A. The burden is on the examiner to show why a patent should not be granted.**

The examination begins with a presumption that the applicant is entitled to his temporary monopoly unless the examiner can show otherwise: "A person shall be entitled to a patent unless . . ." 35 U.S.C. § 102; *In re Bogese*, 303 F.3d 1362, 1370 (Fed. Cir. 2002). Yet in many cases, the examiner will simply lack access to information that affects the validity of the patent, *e.g.*, information relevant to the on-sale bar or the failure to present best mode, as well as missing prior art. *See* Mark A. Lemley, *Rational*

*Ignorance at the Patent Office*, 95 NW. U. L. REV. 1, 5 (2001) (asserting that most relevant information is not easy to find and consists of information that will not appear in the databases used by examiners to conduct searches for prior art). In virtually all cases, the process starts with the applicant having the best knowledge of all relevant facts and the examiner struggling to catch up and make an informed decision on behalf of the public.

As the patent statute does not require applicants to perform a search for prior art, *see* 37 C.F.R. § 1.56, the applicant may impose the full burden of evaluating novelty and nonobviousness on the examiner. *See* Lemley, *supra*, at 5. The applicant may provide no references or, alternatively, may deluge the examiner with references. The latter strategy requires the examiner to read and evaluate a large volume of possibly relevant prior art, forcing the examiner to expend valuable time sorting through irrelevant material. While often rationalized as a defense against accusations of inequitable conduct, it also serves to wear down an examiner, consuming time at taxpayer expense, and increasing the likelihood of an allowance.

This tactic should not allow the applicant to assert that the submitted prior art was considered by the examiner and therefore deserves deference. Recent empirical research has shown that examiners rarely rely on applicant-submitted prior art. Christopher A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. 723, 770-71 (2009). As Cotropia observes:



The overloaded examiner must choose where to allocate her finite examining time. She may have to choose which of the submitted references she will read. In the overload situation, the submitted information becomes increasingly immaterial, meaning the examiner will waste at least some of her time reading non-material information. The bigger the haystack, the more lost a needle becomes.<sup>7</sup>

**B. The patent examiner is not ordinarily an expert.**

Deference to agency processes is justified on the basis of agency expertise. However, unlike agencies that conclude dozens or possibly hundreds of substantive adjudications or rulemakings each year, the PTO makes hundreds of thousands of decisions to grant or deny patent applications each year, and each decision may critically impact market behavior, costs, and risks. Recently, the PTO announced that it had granted over 240,000 patents in 2010, a stunning 31% increase over 2009.<sup>8</sup>

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<sup>7</sup> *Id.* at 772 (internal citations omitted). Even if there is a written explanation of why the submission is not relevant, there is no opportunity in litigation to question the examiner or ascertain the examiner's credentials.

<sup>8</sup> See U.S. Patent & Trademark Office, *U.S. Patent Statistics Chart Calendar Years 1963-2010*, available at [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm).

The PTO routinely assigns primary responsibility to an examiner whose credentials are not identified in the patent file and who may lack relevant expertise.<sup>9</sup> He or she may possess only an undergraduate degree in some scientific discipline, with little or no specialization and no practical background in industry.<sup>10</sup> An examiner's basic training in patent examination says little about his or her ability to research prior art or determine the level of "ordinary skill" in a particular field. There is no guarantee that the application will be matched to an examiner with the right disciplinary background. By contrast, litigation requires expert testimony that must meet Rule 702 and *Daubert* standards, and the witness is subject to interrogation. Fed. R. Evid. 702 (limiting technical and specialized testimony to experts qualified by

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<sup>9</sup> See Robert C. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 596-98 (1999) (asserting that the Patent Office has traditionally rejected sorting applications so that particular types of applications are assigned to examiners with corresponding expertise). Junior examiners may be denominated as "secondary examiners" overseen by "primary examiners," but it is the junior examiner that does the work. See Mark A. Lemley & Bhaven N. Sampat, *Examiner Characteristics and the Patent Grant Rate* 6 (Stanford Law and Econ. Olin Working Paper No. 369, 2009), available at <http://ssrn.com/abstract=1329091>. This technical oversight is far more limited than the enhanced ("second set of eyes") review initiated for business methods in 2000.

<sup>10</sup> See U.S. Patent & Trademark Office, *Patent Examiner Positions*, available at <http://www.uspto.gov/web/offices/pac/exam.htm#req>.

“knowledge, skill, experience, training, or education”); *Daubert v. Merrell Dow Pharms. Inc.*, 509 U.S. 579 (1993).

Since it is notoriously difficult and costly for the PTO to hire in “hot,” fast-moving areas, examiners with background in other, more mature technologies may have to be assigned to applications for new and volatile areas about which they know little. For example, the PTO did not consider computer science a qualifying degree until 1994,<sup>11</sup> despite the fact that it had been granting patents on computer hardware and software for many years. This means that for years, many of the examiners evaluating patent applications in computer science fields had no specialized training in computer science. Business methods remain problematic because examiners must have a technical degree, but fewer candidates will have both the mandated technical degree and adequate business training. Moreover, business method patent can apply to specialized fields such as financial services, in which an MBA provides little if any training. Yet in these areas, experience is especially important because the prior art is not documented in journals and patents as it is in fields of material technology.

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<sup>11</sup> See Gregory A. Stobbs, *Software Patents*, p. 393 (2d ed. 2000) (“Until as recently as 1994, the Director of Group 2300 was not permitted by Patent Office regulations to hire patent examiners with computer science degrees”).

**C. The resources devoted to the examination process are small – and for good reason.**

The scope of the PTO examination process is constrained by the sheer volume of operations in ways that are not typical of federal agency decision-making. The time available for the examiner to review a patent was estimated at eight to twenty-five hours by panelists at the 2002 FTC/DOJ hearings.<sup>12</sup> Professor Mark Lemley's landmark article, *Rational Ignorance at the Patent Office*, explains the pragmatic limits to the examination process given how few patents prove to have significant commercial value or end up in litigation. 95 NW. U. L. REV. 1, 6-12 (2001).

The flip side to this rational ignorance is that it is extremely inexpensive to apply for a patent. Normal fees up through examination (filing, search, and examination) total \$1,100.<sup>13</sup> However, these fees are subsidized by issuance and maintenance fees. The GAO has determined that the real cost to the PTO is approximately twice as much.<sup>14</sup>

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<sup>12</sup> Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, Exec. Summ., at 10 (2003).

<sup>13</sup> Fees are less for qualifying small entities. See 37 C.F.R. § 1.16 (2010).

<sup>14</sup> See U.S. General Accounting Office, *Intellectual Property: Fees Are Not Always Commensurate With The Costs Of Service*, 4 (1997), available at <http://www.gao.gov/archive/1997/rc97113.pdf>. The study showed that issuance and maintenance fees amounted

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The applicant's investment in the examination process is typically much higher since the applicant will normally hire a patent attorney. The cost in legal fees to have an attorney prosecute a patent application of minimal complexity is reported to average \$7,879 in 2008, while an attorney's opinion on validity costs around \$14,669.<sup>15</sup> In short, the PTO receives \$1,100 in fees for the initial processing and examination costs, while it costs the applicant nearly twenty times as much to file the application and obtain a legal opinion of validity.

Thus, the PTO gets \$1,100 in initial fees plus an issuance fee of \$1,500 – \$2,600 total<sup>16</sup> – for issuing a U.S. patent with an enhanced presumption of validity. The applicant, on the other hand, would have to pay \$14,669 for the opinion of one attorney as to a validity of a single patent – an opinion that comes

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to 53% of the PTO's income actually understates the subsidy because there was an unusually large number of applications because of the pending change of the patent term from 17 years from issuance to 20 years from filing. The subsidy remains similar today. *See* [http://www.uspto.gov/web/offices/com/annual/2009/ld\\_mda\\_06\\_02\\_04a.html#MainContent](http://www.uspto.gov/web/offices/com/annual/2009/ld_mda_06_02_04a.html#MainContent).

<sup>15</sup> AIPLA, Report of the Economic Survey, at I-115-116 (2009).

<sup>16</sup> The figures do not include the \$300 publication fee that applies for all applications that are not limited to the U.S. *See* 37 C.F.R. § 1.18(d) (2010). The \$300 could be allocated to the examination or the issuance depending on timing, although given the present backlog it would commonly be part of the examination process.

with no market value and no guarantee or legal effect. The differences in price relative to value reflect the fact that the examiner is typically outmatched, not only by the subject matter expertise of the applicant but also by the legal expertise of the applicant's lawyer. While some examiners have law degrees, many do not and may be susceptible to legal arguments.

All of the examination-related figures pale beside the real costs of determining validity, enforceability, and infringement. Contending parties will spend an average of \$732,000 per side in an interference proceeding.<sup>17</sup> Full litigation averages \$967,000 per side when the amount in controversy is less than a million dollars, and \$3,109,000 per side when the amount is between one and twenty-five million.<sup>18</sup>

In short, relative to the applicant, the PTO spends fairly little. Yet relative to the potential cost in litigation, the investment by both in prosecution is minimal. Parties may spend years in multi-million dollar litigations over a patent for which at most a few thousand was spent on "quality assurance." The patent examination is thus a remarkable bargain, exchanging the opportunity to exercise significant power over the course of commerce in exchange for nominal fees and a frequently cursory review.<sup>19</sup>

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<sup>17</sup> AIPLA, Report of the Economic Survey, at I-146 (2009).

<sup>18</sup> *Id.* at I-128-129.

<sup>19</sup> While the tradeoffs between cost, speed, and quality are recognized in principle, longstanding expectations have built up  
(Continued on following page)

**D. The examiner is encouraged to grant rather than deny applications.**

Notwithstanding the intent of the Framers, who “did not want those monopolies freely granted,”<sup>20</sup> the examiner has incentives to grant rather than disallow patents.<sup>21</sup> Under the PTO’s examiner ‘count’ system, which quantifies examiner productivity, points have long been awarded based on dispositions, which makes it easier to allow an application rather than spend additional time contesting it. Robert C. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH. L.J. 577, 609 (1999); John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 314 (2001); Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 SW. L.J. 323, 335 (2008) (citing U.S. Patent &

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around the fee structure with little attention to the more variable legal costs and the indeterminate relationship to quality. As a consequence, patent applicants have become accustomed to cheap and powerful patents. Grantees feel that the bargain has been struck and that they deserve what the Federal Circuit has said they are entitled to (*see* Letter of 170 Companies to U.S. Attorney Gen. and Solicitor Gen., Dec. 22, 2010, urging against intervention on behalf of Petitioner, *available at* <http://bio.org/ip/letters/20101222.pdf>), rather than the very limited examination for which they have actually paid.

<sup>20</sup> *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 154 (1950) (Douglas, J., concurring).

<sup>21</sup> *See generally* Merges, *Six Impossible Patents Before Breakfast*, *supra* note 9 (describing misaligned incentives).

Trademark Office, MANUAL OF PATENT EXAMINING PROCEDURE § 711.04(a)-(c), at 700-104 to 700-105).<sup>22</sup>

The incentive can also be derived from the operating philosophy and culture of the patent office. For five years (1997-2002), the PTO adopted an extraordinary mission statement for its patent operation: “to help our customers get patents.” As the PTO’s 1997 Patent Strategic Plan stated boldly: “Acknowledgment of the Patent Mission ‘to help our customers get patents’ in our daily activities must serve as a standard for all we do.”<sup>23</sup> A culture and operating philosophy explicitly favoring grants cannot sustain a heightened presumption of validity. Even assuming that the PTO is now more discriminating – a doubtful proposition giving the striking increase in recent patent grants<sup>24</sup>

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<sup>22</sup> While recent changes to the count system may have improved these misaligned incentives, the recent spike in grants inspires little confidence, and in any event, prospective changes will not correct the misaligned incentives under which the Respondents’ exclusive rights were granted. See U.S. Patent & Trademark Office, *Recently Announced Changes to USPTO’s Examiner Count System Go Into Effect* (Feb. 18, 2010), available at [http://www.uspto.gov/news/pr/2010/10\\_08.jsp](http://www.uspto.gov/news/pr/2010/10_08.jsp).

<sup>23</sup> U.S. Patent & Trademark Office, *Patent Strategic Plan* (Apr. 1997), available at <http://www.uspto.gov/web/offices/pac/patplan.htm>. Significantly, the mission of the trademarks operation remained “to examine trademarks.” U.S. Patent & Trademark Office, *Corporate Plan – 2000* (compare p. 20 and p. 38).

<sup>24</sup> See U.S. Patent & Trademark Office, *U.S. Patent Statistics Chart Calendar Years 1963-2010*, available at [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm).



– many patents granted during this period of explicitly permissive culture will remain in effect for a decade.

**E. Unlike other administrative proceedings, patent examination is conducted *ex parte*.**

The limitations of an *ex parte* proceeding are notorious. Most administrative proceedings lead to a decision based on evidence submitted from a variety of sources and a public record. Opposing interests are able to monitor the process and participate openly if not formally. Proceedings are publicly advertised from the start, the issues are spelled out by the agency, and the number of proceedings is small enough that companies can monitor and contribute to those of interest.<sup>25</sup> By contrast, the patent system lacks the transparency and accountability needed to ensure that “the monopoly privileges that Congress has authorized . . . ultimately serve the public good.”

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<sup>25</sup> The number of annual patent filings far exceeds the number of new regulations or proposed regulations in a given year. In fact, the number of patents filed in a given year is greater than six times the number of pages in the corresponding year’s *Federal Register*. See U.S. Patent & Trademark Office, *Performance and Accountability Report: Fiscal Year 2010*, 53 (patent filings totaled 509,367 in FY 2010, 486,499 in FY 2009, and 496,886 in FY 2008); 75 Fed. Reg. 82,589 (Dec. 30, 2010) (the 2010 *Federal Register* contained 82,589 pages); 74 Fed. Reg. 69,676 (Dec. 31, 2009) (the 2009 *Federal Register* contained 69,676 pages); 73 Fed. Reg. 80,700 (Dec. 31, 2008) (the 2008 *Federal Register* contained 80,700 pages).

*Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 526 (1994). The Patent Act provides that the Office “shall establish appropriate procedures to ensure that no protest or other form of pre-issuance opposition to the grant of a patent on an application may be initiated after publication of the application without the express written consent of the applicant.” 35 U.S.C. § 122(c).

The statute actually constrains the availability of information in the examination process.<sup>26</sup> In addition to the blanket exclusion of third-party participation, the PTO allows for third-party submissions of information only on very limited terms;<sup>27</sup> contributors must pay a fee and are forbidden to comment on the relevance of submitted material.

**F. The costs of evaluating the patent are most efficiently born by the applicant.**

The patent applicant is in a position to know more about the technology, the prior art, alternative technologies, and the relevant market than anyone else. Compared to the examiner, the applicant aided by counsel is, in all likelihood, better qualified to

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<sup>26</sup> By contrast, after the patent is granted anyone can have documentary prior art placed in the file without paying a fee. 35 U.S.C. § 301.

<sup>27</sup> U.S. Patent & Trademark Office, MANUAL OF PATENT EXAMINING PROCEDURE § 1134 (Third Party Inquiries and Correspondence in a Published Application).

engage in “the difficult business ‘of drawing a line between the things which are worth to the public the embarrassment of an exclusive patent, and those which are not.’” *Bonito Boats Inc. v. Thunder Craft Boats Inc.*, 489 U.S. 141, 148 (1989) (quoting Thomas Jefferson). Of course, the applicant is an interested party, but the applicant should be interested in objective knowledge of the validity of the patent that issues.

In particular, and most importantly for the case at hand, patent applicants are free to secure patents with whatever degree of confidence they believe is appropriate for their needs. They can do so by researching prior art, evaluating obviousness, and ensuring that the patent is otherwise secure. If they desire certainty, they may invest in a far more thorough job than an examiner can possibly do under the time constraints of working at the PTO. They can undertake this investment whenever they choose, before the patent is granted or years later when contemplating an infringement suit. They may choose to sit back and see whether the paths of the technology, market conditions, or the patent holder’s business circumstances justify a greater or lesser investigation.

By imposing its unwarranted clear and convincing evidence standard, the Federal Circuit has therefore distorted the market for patent validity, which should be essentially self-regulating. It should not be distorted and obscured by fabricated legal standards that impress juries and complicate the decision process. Nor should the Federal Circuit burden

others, especially small companies and individuals, with the impossibly costly task of monitoring and evaluating all patent applications as they are published. To do so would be to wholly transfer the substantial costs of utilizing the system from the applicant (who is under no obligation to search and need only respond to the objections of examiner) to all the applicant's competitors to bear individually, along with distributors, retailers, and users downstream. The artificially enhanced presumption of validity that results from the clear and convincing evidence standard increases the burdens of nearly all constituencies affected by the patent system except applicants themselves, who are in fact best suited to evaluate validity. Thus, both efficiency and equity dictate that the costs and risks should be borne by those best-positioned to know and benefit: the applicants.

### **III. AN ARTIFICIALLY ENHANCED PRESUMPTION OF VALIDITY SUBSIDIZES INVALID PATENTS, UNBALANCING THE PATENT SYSTEM AND DISTORTING THE MARKET.**

Patent holders that seek to impose these massive distributed costs on the market are asking not only for a subsidy, but a massively inefficient subsidy borne over and over by other participants in the market – and ultimately by consumers. By approving issuance and maintenance fees Congress has subsidized the front end of the process by loading the back end. *See* U.S. Patent & Trademark Office,

*Performance and Accountability Report: Fiscal Year 2010*, at 55 chart. Congress has formulated an explicit subsidy by reducing fees for small entities, *see* 35 U.S.C. § 41(h)(1), in effect enabling the subsidization of small entities by large entities.<sup>28</sup> As in other areas of policy, any further subsidies should be targeted and explicit, and not created by judges as a substantive standard that implicitly inflates the value of patents.

**A. The enhanced presumption creates an artificial incentive and subsidy for invalid patents.**

The heightened presumption gets the applicant a patent that may be worth substantially more than the scope of the examination merits. Patent applications are subsidized from the outset. Examination fees are set low because issuance and maintenance fees, which involve little administrative burden, are set to recoup PTO costs from successful patent applicants. The 1997 GAO study of intellectual property fees showed the actual cost of patent examination to be twice what applicants paid, inasmuch as issuance and maintenance fees amounted to half the PTO's income.<sup>29</sup> Even at twice the price, *i.e.*, the true cost to the PTO, the application fee is further subsidized by

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<sup>28</sup> U.S. General Accounting Office, Report to the Chairman, Committee on the Judiciary, U.S. Senate, *Intellectual Property: Fees Are Not Always Commensurate With the Costs of Services*, at 5 (1997).

<sup>29</sup> *Id.* at 4.

an enhanced presumption of validity that burdens the private sector with the real costs.

Thus, along with an inexpensive examination, the patentee gets a presumption that can be used profitably in a variety of ways. It can be used to leverage litigation that costs each side *three orders of magnitude* more than the application fee – and where hundreds of millions of dollars may be riding on the validity of the patent. It can be used to induce small companies to take licenses in lieu of the cost of investigating a challenge. It can be used as negotiating leverage against a deep-pocketed producer or service provider that has inadvertently incorporated a small patented function in costly full-featured offerings. All these uses have real value for the patentee and impose real costs on other innovators, as well as the entire downstream value chain.

**B. An artificially enhanced presumption of validity exacerbates the problem of invalidating bad patents.**

Many scholars have commented on the collective action problem inherent in invalidating bad patents. See Stuart M. Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 GEO. L.J. 269, 324 (2007); Jay P. Kesan & Andres A. Gallo, *Why "Bad" Patents Survive In The Market And How Should We Change? – The Private And Social Costs Of Patents*, 55 EMORY L.J. 61, 87 (2006); John R. Thomas, *Collusion and*

*Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 320 (2001). Challenges to bad patents are similar to public goods and are thus undersupplied in the marketplace because the challenger bears the entire cost, including the risk that she will become the first target for retribution if the challenge is unsuccessful. However, if successful, the invalidation will benefit many, including the challenger's competitors. By artificially strengthening marginal patents, an enhanced presumption of validity exacerbates this market failure by adding to the burden of eliminating invalid patents – and to the benefit that a challenger invalidating a patent bestows on its rivals among others in the line of fire.

Ironically, this free-rider problem is greater for weak patents, since weak patents on obvious technology are more likely to be routinely infringed by multiple parties. There are likely to be few if any inadvertent infringers of truly groundbreaking inventions, but many innovators may inadvertently replicate the advances captured by trivial, improperly issued patents. With many possibly infringing competitors, the benefits of invalidation may be spread far and wide, but at the sole expense of the challenger.

### **C. Widespread liability and costs lead to strategic behavior.**

These free-rider and collective action problems point to other opportunities and consequences whose

resulting incentives stray far from the principles and purpose of the patent system. In cases of widespread infringement of a questionable patent, it will benefit the patentee to collude with aggressive challengers. It may be rational for the patentee to pay the challenger to withdraw and hide potentially invalidating prior art, so that the patentee can keep the patent alive against the challenger's competitors and its own customers. With the patent's enhanced presumption of validity intact, the patentee that settles can refocus on asserting the patent against smaller targets less likely to research and mount a defense. Rational small firms will be willing to pay a \$10,000 license fee simply to avoid the average cost (\$21,000) of getting an opinion on validity and infringement.<sup>30</sup>

Recent data collected by Patent Freedom shows a substantial recent increase in the number of defendants in lawsuits brought by non-practicing entities, suggesting an increasing use of marginal and ultimately invalid patents to pursue many alleged infringers.<sup>31</sup> Even these figures do not get at the

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<sup>30</sup> The 2009 AIPLA Report of the Economic Survey shows an average cost of \$21,002 for a validity opinion combined with an infringement opinion. See AIPLA, Report of the Economic Survey, I-115 (2009).

<sup>31</sup> Patent Freedom, *Current Research, Litigations Over Time* (Jan. 1, 2011), available at <http://www.patentfreedom.com/research-lot.html> (showing that there were more than 2,600 occasions in 2010 when a company found itself in litigation with a non-practicing entity, a 48% increase over three years. The total number of instances of litigation actually declined in

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frequency with which small entities are victimized. Many will choose to settle before the patentee files suit, in order to avoid the mere expense of answering a lawsuit in addition to the costs of settlement. Even when suit is filed, there is little reporting because the defendants are commonly small and unknown, and thus not newsworthy.<sup>32</sup> They will not want their customers to know that they have been branded as patent infringers and that their goods or services may be contaminated.

By adding to the legal cost of contesting defective patents and favoring opportunists who make strategic use of high legal costs, an enhanced presumption of validity inflates the value of patents in a manner

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2010, indicating that the number of defendants per litigation increased substantially).

<sup>32</sup> An infringement opinion alone costs on average over \$13,000. AIPLA, Report of the Economic Survey 2007 at I-77. Most attacks on small entities are probably settled before a lawsuit is filed, and in most cases the parties are not newsworthy. *But see* Amy Harmon, *Technology Users: Uneasy on SBC Claim to Patent On Web Tool*, N.Y. TIMES, Jan. 28, 2003, available at <http://www.nytimes.com/2003/01/28/business/technology-users-uneasy-on-sbc-claim-to-patent-on-web-tool.html>; *Retail e-Commerce Lawsuits Are Settled, But More May Be in The Works*, Internet Retailer, May 1, 2004, available at <http://www.internetretailer.com/internet/marketing-conference/81025-retail-e-commerce-lawsuits-are-settled-but-may-be-works.html>; Michael Arrington, *Channel Intelligence Sues Just About Everyone Who Offers Wishlists*, TechCrunch, July 17, 2008, available at <http://www.techcrunch.com/2008/07/17/channel-intelligence-sues-just-about-everyone-who-offers-wishlists/>.

that Congress never intended.<sup>33</sup> Moreover, it creates spurious value for the least meritorious patents, those covering the most pedestrian of advances, if indeed they are advances – the very patents that contribute least to innovation while creating stumbling blocks, mine fields, and thickets for real innovators.

The availability of marginal patents also undermines the incentives and rewards for major discoveries by diminishing the scope of the patents that protect them. Having to contend with a number of marginal patents for variations of the technology diminishes the prospects and raises costs for major inventions, especially in technologies where innovation is sequential. The economics are explained by Federal Reserve economist, Robert M. Hunt in his 1999 paper, *Nonobviousness and the Incentive to Innovate: An Economic Analysis of Intellectual Property Reform*.<sup>34</sup> While Hunt's work is focused on the standard of nonobviousness, the principles apply to marginal patents in general. The result is to diminish the incentives for major breakthroughs while benefiting and proliferating minor advances.

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<sup>33</sup> *Atlantic Works v. Brady*, 101 U.S. 192, 200 (1883) (“It was never the object of those laws to grant a monopoly for every trifling device. . . . Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention.”).

<sup>34</sup> Robert M. Hunt, *Nonobviousness and the Incentive to Innovate: An Economic Analysis of Intellectual Property Reform* (Fed. Reserve of Philadelphia, Working Paper No. 99-3, 1999), available at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/1999/wp99-3.pdf>.

**IV. BY ENCOURAGING DUBIOUS PATENTS, AN ENHANCED PRESUMPTION OF VALIDITY ADDS TO THE PROBLEM OF PATENT THICKETS, THE OVERALL OPACITY OF THE SYSTEM, AND THE BACKLOG OF APPLICATIONS.**

In creating the Federal Circuit in 1982,<sup>35</sup> Congress sought to make outcomes more predictable by allowing a single court to develop appellate law. However, the Federal Circuit, especially in its early years, confused strengthening patents with strengthening the system. An enhanced presumption of validity undoubtedly benefits individual patents, but it has disproportionately strengthened marginal ones, and has disturbed the Congressionally created balance between patents and free competition. In so doing, the Federal Circuit has encouraged overpatenting, diluted the value of worthy patents, greatly increased legal costs for one side, and added immeasurably to the risks of developing real products and services. The risks and cost burden are especially great for complex technologies and systems, which can contain tens of thousands of functions and components, each of which may be protected by one or more patents.

The inevitable result of overpatenting is an overload of information that is particularly damaging to a system whose quid pro quo is the disclosure of useful

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<sup>35</sup> Federal Courts Improvement Act, Pub. L. No. 97-164, 96 Stat. 25 (1982).

knowledge. Disclosure is compromised and obscured where useful information is so fully mingled with poor information, information that may or may not be subject to third-party control, and information that can only be interpreted at great cost by professionals – or worse, in a trial before lay jurors at a cost that exceeds the amount in controversy.<sup>36</sup> This is a system in which the routine and mediocre compromise and burden the exceptional.

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### CONCLUSION

For the foregoing reasons, the decision of the Federal Circuit should be reversed.

Respectfully submitted,

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<sup>36</sup> The AIPLA figures cited for full litigation of amounts under \$1 million show that the combined average costs are likely to exceed twice the amount in controversy. *See supra* note 17.