

No. 10-290

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

MICROSOFT CORPORATION,

*Petitioner,*

v.

141 LIMITED PARTNERSHIP AND  
INFRASTRUCTURES FOR INFORMATION, INC.

*Respondents.*

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*On Writ of Certiorari*  
To The United States Court Of Appeals  
For the Federal Circuit

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**BRIEF OF *AMICI CURIAE***  
**SECURITIES INDUSTRY AND FINANCIAL MARKETS**  
**ASSOCIATION AND**  
**THE CLEARING HOUSE ASSOCIATION**  
**IN SUPPORT OF PETITIONER**

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**INTERESTS OF THE *AMICI CURIAE*<sup>1</sup>**

*Amicus curiae*, Securities Industry and Financial Markets Association (“SIFMA”) is a trade association representing the shared interests of hundreds of securities firms, banks, and asset managers. SIFMA members include the leading investment banks, broker-dealers, and mutual fund companies. SIFMA’s mission is to support a strong financial industry, investor opportunity, capital formation, job creation, and economic growth, while building trust and confidence in the financial markets.

Established in 1853, The Clearing House is the nation’s oldest banking association and payments company. It is owned by the world’s largest commercial banks, which collectively employ 1.4 million people in the United States and hold more than half of all U.S. deposits. *Amicus curiae*, The

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<sup>1</sup> No counsel for a Party or a Party to this proceeding authored this brief in whole or in part and no counsel for a Party to this proceeding made a monetary contribution intended to fund either the preparation or the submission of this brief. No person other than *Amici Curiae*, their members, or their counsel made a monetary contribution to the preparation or submission of this brief. Notice of *Amici Curiae*’s intention to submit a brief in this proceeding was timely provided to the Parties. Letters of the Parties’ general consent for *Amici Curiae* to submit a brief are on file with the Court.

Clearing House Association (collectively, with SIFMA, “*Amici*”) is a nonpartisan advocacy organization representing – through regulatory comment letters, *amicus* briefs and white papers – the interests of its owner banks on a variety of systemically important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing, and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily and representing nearly half of the automated-clearing-house, funds-transfer, and check-image payments made in the United States.

*Amici* believe that providing enhanced evidentiary protection to patents, particularly in cases where relevant prior art was never considered by the patent examiner (“Examiner”), is detrimental to the global economy. The financial markets rely heavily on computerized systems for information processing. Today’s financial industry is built on extensive interdependencies between brokerage firms, banks, depositories, data processors, market data vendors, exchanges, and clearing entities. These systems embody devices, processes, and software that in many cases predate the applications issuing as patents. *Amici* are concerned that rigidly requiring proof of patent invalidity by clear and convincing evidence places an undue burden on the financial industry, a frequent target of patent holders.

The patent procurement system provides no advance notice to *Amici*’s member organizations that a patent application that may affect them is under consideration. They have no opportunity to provide

relevant prior art to the Examiner that might change the Examiner's decision to grant the patent in the first instance. Further, the financial services industry is not generally in possession of the type of prior art usable in reexamination proceedings. Therefore, typically, the first and only time an *Amici* member's prior art evidence is considered by a factfinder is at trial. The costs of defending against a patent infringement claim are already extreme; *Amici* are concerned that holding its member organizations to a higher evidentiary burden than the patentee enjoyed when obtaining the patent makes them even more vulnerable to questionable patents asserted by plaintiffs whose only interest is a quick settlement. Any person with a financial interest in the global economy – in other words, everyone – shares this burden. *Amici* are interested in making certain that both sides to a patent dispute are on a level playing field, which can only be assured if the same evidentiary standard is applied in a court of law as is applied in the Patent and Trademark Office (“PTO”) when the patent application is examined during prosecution.

## SUMMARY OF ARGUMENT

35 U.S.C. § 282 provides that “[a] patent shall be presumed valid” and “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” The statute does not impose a particular standard of proof upon a party challenging validity. Prior to the creation of the Court of Appeals for the Federal Circuit, none of the regional circuit courts required that proof of invalidity on the basis of prior art never seen by the Examiner must meet a heightened clear and convincing standard. Nor has this Court ever announced such a requirement. Nonetheless, the Federal Circuit applies the clear and convincing standard to all invalidity challenges, even when the potentially invalidating prior art was never before the Examiner.

In *KSR International Co. v. Teleflex, Inc.*, 550 U.S. 398, 426 (2007), this Court acknowledged that the rationale underlying the presumption of validity for issued patents – that the Examiner reviewed the relevant evidence in approving the claim – is “much diminished” with respect to prior art that was never before the Examiner. Ignoring this Court’s guidance, the Federal Circuit maintained its rigid stance in the present case by again requiring that invalidity must be proven by clear and convincing evidence. The Federal Circuit’s stance is contrary to the guidance of this Court as well as to the standards applied by the regional circuits before 1982.

Prior to the Federal Circuit's decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), many financial services companies routinely maintained their innovative and inventive business methods as closely held trade secrets. This practice limited the public availability of documents and other material that could potentially be used to prove the unpatentability of some business methods. Even where prior uses or offers to sell certain software were public, such prior art was especially difficult to locate and apply in the context of patent prosecution. As a result, Examiners and the public often are left with severely limited prior art evidence.

After *State Street*, the floodgates opened for business method patent filings. Since then, the number of patents filed each year has increased by approximately 40%, drastically increasing Examiner workload. The combination of the increased number of patents being filed and the difficulty in finding documents and other material relevant to the patentability of business methods all but ensures that relevant prior art will be missed during prosecution. Since some business method patents raise special problems in terms of vagueness and suspect validity, the danger is that patents with questionable validity will be issued and unjustly enforced.

The courts and the litigation process play vital roles in weeding out patents of questionable validity. In enacting § 282, Congress merely intended to shift the burden of proving invalidity to the challenger, giving deference to the expertise of the Examiner.



Had Congress intended to raise the standard of proof post-issuance, it clearly could have done so, as it did under § 273 for the optional defense offered under the First Inventor Defense Act. The absence of similar language in § 282 makes it clear that Congress did not intend a rigid application of a heightened standard to prove patent invalidity in all cases.

The rationale behind § 282 is to recognize the Examiner's expertise. When considering validity in light of prior art that was not before the Examiner, as this Court reasoned in *KSR*, that rationale seems much diminished. A preponderance of the evidence standard therefore should apply in keeping with the standard the Examiner would have applied had the prior art been made available during prosecution. Given the volume of patent applications and the heavy workload of Examiners, *Amici* further believe that preponderance of the evidence is the proper standard for all invalidity challenges except in those cases where the Court or Congress has explicitly required clear and convincing evidence. This will benefit all patentees as an abundance of invalid patents dilutes the value of all truly innovative patents.

The financial services industry is particularly vulnerable to patent disputes and it is estimated that financial patents are litigated at a rate of 27 to 39 times greater than patents overall. This has resulted in the financial services industry becoming a favorite target of patentees holding questionable patents, including patent holders whose entire business model is solely premised on acquiring and

enforcing patents. Merely obtaining or holding patents for their enforcement value betrays the purpose of the patent system. It also limits innovation in fields like the financial services industry, which rely heavily on complex technology and systems that potentially incorporate hundreds of components that others might later claim are patentable inventions. Maintaining a clear and convincing standard of proof for invalidity challenges encourages speculative patent applicants and holders of questionable patents to invade the province of businesses where prior art is not traditional patents and printed publications.

New financial industry transparency laws, while positive for investors and for the continued growth of the financial services industry, bring with them the added risk that transparency will further encourage speculative patent applicants or patentees bent on enforcing questionable patents. *Amici* therefore ask the Court to reverse the Federal Circuit and to clarify that “preponderance of the evidence” is the standard for proving patent invalidity in all cases, or at the very least, when based upon prior art evidence never seen by the Examiner.

## ARGUMENT

“[T]he patent system relies upon stubborn defendants in patent cases to weed out invalid patents.”

House Committee on Small Business,  
THE IMPORTANCE OF PATENT REFORM  
ON SMALL BUSINESS, Mar. 29, 2007  
(Statement of Prof. John R. Thomas,  
Geo. U. L. Center).

### I. **“Clear and Convincing” Should Not Be The Evidentiary Standard For Proving Invalidity When The Owner Of A Questionable Patent Relies On Prior Art That Was Never Seen By The Patent Examiner**

The United States patent system is carefully designed to promote the “Progress of Science and the useful Arts, U.S. Const. art. 1, cl. 8, while protecting the public domain, *Bonito Boats v. Thunder Craft Boats*, 489 U.S. 141, 148 (1989). It is a cornerstone of American innovation, providing welcome protection to inventors and innovators in a highly competitive world. It has also long provided fodder for litigation. *See, e.g., Reckendorfer v. Faber*, 92 U.S. 347, 352-54 (1876) (discussing mid-nineteenth century cases). Historically, it was not unusual for decisions made by the Examiner to be afforded some measure of respect, *e.g., id.* at 351 (noting that the “patent commissioner” invests an invention with “*prima facie* respect arising from the governmental approval”), but a party disputing the validity of a patent was not always subject to a grossly unequal

evidentiary standard, e.g., *Mfg. Research Corp. v. Graybar Elec. Co.*, 679 F.2d 1355, 1363-64 (11th Cir. 1982).

The Federal Circuit's default rule of requiring "clear and convincing" evidence of patent invalidity in every instance, *i4i Limited P'ship v. Microsoft Corp.*, 598 F.3d 831, 848 (Fed. Cir. 2010), creates an onerous burden not found in 35 U.S.C. § 282. This disparate treatment favoring the patentee is almost always unfair, and, as this Court has recognized, it is particularly unfair when applied to prior art evidence that was not seen by the Examiner. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007). In fact, prior to the creation of the Federal Circuit, there was one area of patent litigation that was uniformly treated by all of the regional circuits: the clear and convincing standard simply did not apply in those instances where the Examiner had never reviewed the prior art. (See Pet. Br. at 34-36 for a discussion of cases.) The Federal Circuit, therefore, is the outlier.

*Amici* ask this Court to clarify to the Federal Circuit that preponderance of the evidence is the proper standard of proof to require of a party asserting invalidity in all cases, unless this Court or Congress has otherwise spoken, or at a minimum, when the invalidity challenge is on the basis of prior art that was never reviewed by the Examiner.

**A. The Presumption Of Validity Is “Much Diminished” When The Patent Examiner Never Saw The Prior Art Evidence; Therefore, No Heightened Deference Is Owed**

As the *KSR* Court unanimously acknowledged, the presumption of validity given a patent upon its issuance finds its basis in the Examiner’s expertise. *KSR Int’l Co.*, 550 U.S. at 426. If the Examiner has never reviewed the relevant evidence, then the presumption is “much diminished.” *Id.* While the *KSR* Court did not expressly decide the question, there is no doubt as to this Court’s guidance to the Federal Circuit to lower the standard of proof required of a party defending against a questionable patent based on never-seen prior art evidence. Holding the defendant to a heightened standard with respect to such evidence than that enjoyed by the applicant during prosecution places an unfair – and, as in this case, sometimes impossible – burden on the defendant.

If the Examiner had seen the entire picture before the patent issued, the outcome may have been different. As discussed more fully below, however, there is little or no opportunity for third parties to know of the patent application or to intervene in the process prior to the patent issuing. In practice, the first opportunity for third parties to challenge a patent’s validity occurs following the patent’s issuance and the patentee’s assertion of its rights under the patent – in other words, after the presumption of validity has attached under 35

U.S.C. § 282, which the Federal Circuit interprets as requiring a heightened standard of proof.

In drafting the statutory scheme, however, Congress only shifted the burden from the patent holder to the party asserting invalidity, 35 U.S.C. § 282, and tempered the presumption with statutory defenses, *id.* at 1-4. Section 282 does not speak to the standard of proof. Requiring clear and convincing evidence at that stage is demonstrably unfair in that the identical evidence that may have convinced the Examiner to deny the patent application in the first place is thereafter held to a much higher standard simply because the Examiner did not have the opportunity to review it during prosecution. As the Court of Appeals for the Eleventh Circuit stated, were a “clear and convincing” standard to be applied “a patent applicant would be able to reap the benefits of the presumption of validity without necessarily undergoing the full scrutiny of the Patent Office, when it is that full expert scrutiny that is the reason for the presumption in the first place.” *Mfg. Research Corp.*, 679 F.2d at 1363-64.

Providing an even playing field under these circumstances will not put holders of high-quality patents at risk. If evidence would have rendered an application unpatentable had it been reviewed by the Examiner, then that same evidence should suffice to prove an issued patent to be invalid. Charging defendants with reaching the heightened standard during litigation allows holders of questionable patents to become beneficiaries of the inequity. Those patent holders can then unjustly

extract royalties or damages or possibly win injunctive relief from a company that is able to show that the patent-in-suit does not meet the standards of patentability, but is unable to prove it invalid by clear and convincing evidence. Applying a consistent preponderance standard will preserve high quality patents and invalidate questionable patents.

Patent prosecution, “the administrative procedure[] through which a patent application becomes a patent is an *ex parte* process involving only the patent applicant and the examiner.” U.S. Fed. Trade Comm’n (“FTC”), *To Promote Innovation, The Proper Balance of Competition and Patent Law and Policy* (2003) (“FTC Report”), Ch. 1 at 27 (citation omitted). Only the Examiner and the applicant “discuss the patent application; no third parties are involved in that discussion.” *Id.* Confidentiality typically is maintained from the time the application is filed until it is published, which occurs approximately 18 months later. *Id.*, Executive Summary at 15. During that window, persons with information relevant to the patentability of a particular invention have no knowledge that an application has been filed claiming that invention and have no opportunity to contribute relevant information. *Id.* Moreover, until such time as a patent issues, the applicant may amend or add claims; thus, even after publication of a patent application, a third party can never be sure of the application’s exact scope until after the patent has issued, which is generally the first time any third party has an opportunity to challenge patentability.

All patent system participants recognize that Examiners have limited time and resources. Examiners have no means of independently discovering all information relevant to the patentability of a computerized business method, particularly when that information lies beyond the routine search capabilities available to Examiners. Even if it were possible to discover all prior art and all relevant prior uses, the sheer volume of patent applications alone precludes such an exercise. As a point of comparison, the total number of patent applications filed in 1963 was 90,982; by 2001 that number had grown to 345,732. U.S. Patent Statistics Chart Calendar Years 1963-2009, *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). It is estimated that by 2001 the entire patent prosecution process took an average of three-to-four years, during which the patent examiner spent approximately 18 hours actually working on a particular application. See Mark A. Lemley & Bhaven N. Sampat, *Examiner Characteristics and the Patent Grant Rate* 6 (Stanford Law & Econ. Olin Working Paper No. 369, 2009), *available at* <http://ssrn.com/abstract=1329091>. That was ten years ago. By 2009, the number of patent applications filed annually had soared to 482,871. U.S. Patent Statistics Chart.

The FTC recognized that the PTO is not fully funded and that Examiners all too often do not have sufficient time to evaluate patent applications fully,” which further underscores the unfairness of the evidentiary standard because “[a] plethora of presumptions and procedures tip the scales in favor of the ultimate issuance of a patent, once an



application is filed.” FTC Report, Executive Summary at 8. Based on its findings, the FTC urged that “*courts should require only a ‘preponderance of the evidence’ to rebut the presumption of validity.*” *Id.* (emphasis added).

The problem recognized by the FTC has not been alleviated in the past eight years. The almost 40% increase in applications over the past decade has had a commensurate increase on Examiner workload. At the end of fiscal year 2009, the PTO had 6,143 Examiners and a backlog of 718,835 applications. USPTO, *How the Patent Pendency Model Works*, available at [http://www.uspto.gov/patents/stats/patent\\_pend\\_model.jsp](http://www.uspto.gov/patents/stats/patent_pend_model.jsp). The PTO’s application backlog and reduced workforce were acknowledged by David Kappos, Under Secretary of Commerce for Intellectual Property and Director of the PTO in his annual review:

Our challenge of reducing the backlog and pendency must be met so that all applicants can be guaranteed a high quality, timely patent. Last year, the USPTO had a backlog of more than 750,000 patent applications. As of this writing, we have reduced the backlog to under 720,000 applications, which is remarkable if you consider that filings are up four percent this year and the size of our workforce has decreased.

USPTO Year In Review (Sept. 2010), available at <http://www.uspto.gov/inventors/independent/eye/201009/2010inreview.jsp>.

Severe time constraints partnered with an expanding docket and pressure to clear the patent backlog only increases the risk and likelihood that an Examiner will inadvertently fail to discover prior art material to patentability during prosecution. That, of course, assumes that the prior art or other material even is available to be found. Examination difficulties are especially acute in the area of computer-implemented inventions. As in the present case (see Pet. Brf. at 4-6), the best prior art for the financial services industry is often not found in publications or patents but rather in prior uses, sales and offers to sell products embodying the patented software implemented feature. Not unexpectedly, prior art embodied in commercial practices is simply harder for overworked examiners to find. John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. Ill. L. Rev., 305, 319. The PTO and the user community recognize the problem and have begun work on pilot project solutions, which may make some impact in the future:

As new technologies have entered the patent system over the past 25 years patent offices have faced greater challenges in identifying all relevant prior art . . . during the patent examination process. In part this is due to the lack of a history of issued patents in these new subject matter areas. . . . However, more often this prior art challenge stems from the fact that the patent examiners do not have access to “non-patent” prior art, prior art in the form of journal articles,

whitepapers, documentation, or even software code, or that “non-patent” prior art has not been organized into searchable databases. Lacking the most relevant prior art, patent examiners have little choice but to grant such patents. The result is non-meritorious patents – patents that should never have issued or should not have issued with the breadth of claims expressed. Such overly broad or non-meritorious patents create a drag on innovation and cost industry and consumers hundreds of millions of dollars in patent litigation expense or unwarranted license fees.

Post-Issue Peer to Patent, Center for Patent Innovations at New York Law School, *available at* <http://www.post-issue.org/>.

But the financial services industry (and indeed the entire economy) is threatened by low quality patents today, and some speculators are emboldened (if not demonstrably driven) by the Federal Circuit's inflexible “clear and convincing evidence” rule. Given today’s *ex parte* proceedings, the chances are remote that the Examiner will reliably find prior art belonging to a member of the financial services industry unless the applicant provides it.

**B. The Explosion Of Business Method Patents  
Post-*State Street* Has Made The Financial  
Industry Particularly Vulnerable To  
Predatory Patent Assertions**

The importance of the patent system to the financial services industry cannot be overstated. This is an industry that relies on vast, complex systems. It is so important to the U.S. and world economy, in fact, that the technological infrastructure supporting the industry has been “designated as critical national infrastructure by the Department of Defense under the *Financial Services Defense Sector Critical Infrastructure Protection (CIP) Program*.” U.S. Fed. Trade Comm’n, *STUDY OF THE EVOLVING IP MARKETPLACE*, June 9, 2009 (Statement of Keith Agisim, Bank of America Corp.) (discussing the “interoperability of complex financial systems that facilitate the movement of data relating to every type of financial transaction”). Yet, patents on software, electronics, and business methods never played the significant role in the financial services industry in the past that they do today.

This Court is already well aware that “business method patents were rarely issued until modern times.” *Bilski v. Kappos*, 561 U. S. \_\_\_, 130 S. Ct. 3218, 3229 (2010). A principal reason for the dramatic growth was the Federal Circuit’s decision in *State Street*, 149 F.3d at 1375, a case that ended any doubts about the patentability of software and business methods. Since *State Street*, patent applications for business methods, including software, have exploded. Adam B. Jaffe & Josh Lerner, *INNOVATION AND ITS DISCONTENTS: HOW OUR*

BROKEN PATENT SYSTEM IS ENDANGERING INNOVATION AND PROGRESS, AND WHAT TO DO ABOUT IT 119 (Princeton Univ. Press 2004). This is particularly true in the financial sector. *Id.* See also Bronwyn Hall, *Business Method Patents, Innovation, and Policy* 3-4 (Univ. of Cal. Berkley, Dept. of Economics, Working Paper E03-331, 2003), available at <http://repositories.cdlib.org/iber/econ/E03-331> (finding that ten-to-twelve thousand patents per year are issued under the broad definition of software/business methods).

With that boom has come a flood of litigation that far outpaces litigation in other fields. Josh Lerner, *The Litigation of Financial Innovations* (Harvard Business School, Working Paper 09-027, 2008), available at <http://www.hbs.edu/research/pdf/09-027.pdf>. Professor Lerner's extensive study of patent issues in the financial services sector concluded that "financial patents are being litigated at a rate of 27 to 39 times greater than that of patents as a whole," a substantially higher rate than even that suffered by the health or pharmaceutical industries. *Id.* at 14. The financial services industry is also far more likely to be subject to nuisance suits by non-practicing entities ("NPEs") – businesses that exist solely for the purpose of asserting and thereby monetizing their patents without contributing to the progress of "the useful Arts." U.S. Const., art. 1, cl. 8. As noted by Professor Lerner:

If large firms find litigation substantially more costly than do other parties – presumably due to the risk of damage to their reputation or to other lines of

business from a possible injunction – they may disproportionately be the subject of nuisance litigation, in which entities with lower litigation costs rationally target them with dubious claims, confident that the defendants will find it in their interest to settle the cases.

Josh Lerner, *The Litigation of Financial Innovations*, at 24.

Since the boom in applications for business method patents has occurred only in recent years, prior art evidence relating to 35 U.S.C. § 102 (novelty) and § 103 (obviousness) has proven difficult to discover during the application process. Businesses that previously relied on trade secret laws only began seeking patent protection for business methods at a significant rate after *State Street*. Even now, relevant prior art held by a third party often remains unavailable to Examiners. Nowhere is this truer than the financial services industry.

“Computerized business method patents” affect a number of industries, but “such patents, especially by virtue of the surprise factor, have most seriously affected the financial industry.” Frederick C. Williams, *Giving Inter-Partes Patent Reexamination a Chance to Work*, 32 AIPLA Q. J. 265, 268 (2004). Business method patents are “unusually problematic” in the banking industry because the industry’s reliance on trade secret laws prior to *State Street* has resulted in “documentary prior art for business methods, to the extent that it existed at all,

tend[ing] to lie in obscure sources.” *Id.* The inherent secrecy involved with treating business methods as trade secrets coupled with the PTO’s limited experience in examining applications for business method patents makes it exceedingly difficult for the financial services industry to protect itself from speculative patent applicants. Continuing to maintain a higher evidentiary standard for prior art that was never before the Examiner undoubtedly will have a significant and disproportionate impact on the financial services industry, which will, in turn, have a significant adverse impact on the broader economy.

“[S]ome business method patents raise special problems in terms of vagueness and suspect validity.” *Bilski*, 561 U. S. at \_\_\_, 130 S. Ct. at 3229. Left unabated, these problems have the effect of hindering rather than promoting the useful arts:

If a high enough bar is not set when considering patent applications of this sort, patent examiners and courts could be flooded with claims that would put a chill on creative endeavor and dynamic change.

*Id.* at \_\_\_, 130 S. Ct. at 3229.

The importance and value of discouraging patent holders from taking advantage of businesses that historically relied upon trade secret laws to protect their business methods cannot be overemphasized. A system that allows owners of questionable patents to hold those businesses hostage due to the

application of a heightened evidentiary standard at trial is fundamentally unfair.

Respondent would like the Court to believe that “reexamination” is a viable alternative for the financial services industry under 35 U.S.C. §§ 301-307. (Resp. Br. 18-21.) That is not the case, however, as the statute limits prior art evidence that may be brought before the Examiner in a reexamination to “patents or printed publications,” 35 U.S.C. § 301, which is rarely the best or most useful prior art evidence available to the financial services industry. *Amicus* SIFMA has previously addressed the inadequacies of the reexamination system:

While available in theory, the current reexamination processes have generally proved ineffective and are not widely accessible or used. It is probably fair to say that the inter-partes reexamination process in particular, with its draconian estoppel provisions, has been a failure.

Senate Committee on the Judiciary, Hearing on S. 1145: PATENT REFORM: THE FUTURE OF AMERICAN INNOVATION, June 6, 2007 (Statement of John A. Squires).

The evidence available to a party asking for reexamination is limited to such an extent that reexamination has almost no practical application for financial services companies, the very businesses that are most vulnerable to holders of questionable patents. Evidence never seen by the Examiner in



the first instance and impossible to submit during any reexamination leaves financial services companies to rely on judicial resources for proving invalidity. Requiring these companies to meet a higher standard of proof with regard to prior art never seen by the Examiner exacerbates the problem of nuisance suits and encourages predatory patentees to pursue their claims.

**II. Establishing “Preponderance Of the Evidence”  
As The General Rule Would Be The Wisest  
Course In All Patent Disputes Except Where  
Congress Or This Court Expressly Determines  
Otherwise**

One thing is certain: There is no clear rationale for requiring a party asserting invalidity to prove its case by clear and convincing evidence. No such bright line rule is found in 35 U.S.C § 282 and, prior to 1982, there was certainly no consensus among the circuit courts of appeals that the heightened standard should prevail. The clear and convincing standard is reserved for the protection of “particularly important individual interests in civil cases.” *Addington v. Texas*, 441 U.S. 418, 424 (1979). It should not be applied to most patent cases.

While there is a public interest in encouraging innovation through meaningful patent rights, there is an equally important public interest in preserving the public domain from unjust encroachments by improvident patents and in protecting innocent parties from nuisance suits or forced settlements. *Amici* submit that it is in the public interest to

protect industries relying on complex, interconnected technologies from nuisance suits, implicitly brought because of the advantages offered under the present system. This concern underscores not only the importance of clarifying the standard evoked in *KSR* with respect to prior art not previously seen by the Examiner, but also justifies extending the rule to all patent disputes unless this Court or Congress has established rules for applying clear and convincing evidence.

Establishing “preponderance of the evidence” as the general rule in all cases except where Congress, *e.g.*, 35 U.S.C. § 273, or this Court, *e.g.*, *The Barbed Wire Patent*, 143 U. S. 275 (1892) (proving prior use “only by oral testimony” of prior invention requires a heightened standard), have already spoken would provide an equitable environment for parties to a patent dispute to resolve their claims. It would also be in keeping with congressional intent under 35 U.S.C. § 282 and avoid the Respondent’s concerns over potential difficulties in ascertaining “whether the PTO considered a particular piece of prior art.” (Resp. Br. at 21.)

**A. Congress Has Never Required A Heightened Standard Of Proof For Patent Invalidity; The Federal Circuit's Incorrect Interpretation of 35 U.S.C. § 282 Defeats Congress's Goal Of Uniform Interpretation Of The Patent Laws**

Congress's intention to provide uniformity in the interpretation of patent law is undermined by the Federal Circuit's heightened standard of proof for invalidity claims. The Federal Circuit was established by the Federal Court Improvements Act of 1982, Pub. L. No. 97-164, 96 Stat. 25, partly in response to the "lack of uniform treatment of patents among the federal circuits." Paul D. Carrington & Paulina Orchard, *The Federal Circuit: A Model for Reform?*, 78 GEO. WASH. L. REV. 575, 578 (Apr. 2010). Congress was concerned that the lack of uniformity had the dual effects of limiting the value of patents and of undermining patent law's goal of encouraging innovation and growth. *Id.* These differences resulted in similarly situated parties being subject to widely disparate results depending upon regional differences in attitudes toward patents, leading to uncertainty in the law and forum shopping. *Id.*; see also H.R. Rep. No. 97-312, at 21 (1981) (noting that patentees favored the 5th, 6th, and 7th Circuits).

Although this Court has correctly warned, "courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community," *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (citation omitted), it is the Federal Circuit's inflexible rule

that produced any disruption worth noticing. A party possessing prior art has only a single opportunity to present that evidence and should not be held to a standard higher than that which the Examiner would have applied. The Federal Circuit has taken a position that is contrary to the regional circuits, interjecting an unfairness into the system that did not exist under the pre-1982 uniform standard. Causing a sea change in the treatment of evidence was not Congress's purpose in establishing the Federal Circuit. It is time to rebalance the scales to ensure that the evidence relied on by a party challenging a patent is reviewed under the standard that would have applied during patent prosecution.

**B. Congress Codified A “Clear And Convincing” Evidentiary Standard To Apply Only To An Optional, Specific Defense Found In 35 U.S.C. § 273(b); It Did Not Set The Same Standard Under 35 U.S.C. § 282**

The Federal Circuit's emphasis on a clear and convincing evidentiary standard, *i4i Limited P'ship*, 598 F.3d at 848, stands in direct contravention to this Court's guidance in *KSR*. It also appears to contravene Congress's intention to mandate a higher burden only in those instances where a litigant defends against an infringement allegation under the First Inventor Defense Act of 1999, Pub. L. No. 106-113, 113 Stat. 1536, codified at 35 U.S.C. § 273 (the “FIDA”), rather than in cases where the defendant argues invalidity.

In the wake of *State Street*, Congress enacted the FIDA as part of the American Inventors Protection Act of 1999, Pub. L. No. 106-113. Section 273 allows an earlier inventor of a “method of doing or conducting business” that was later patented by another to defend against an infringement claim under certain specified circumstances without alleging that the patent is invalid. To avail itself of this defense, a party must prove that, acting in good faith, it reduced the subject matter to practice at least one year before the effective filing date of the patent and commercially used the subject matter before the effective filing date. 35 U.S.C. § 273(b)(1). Clearly, this was Congress’s tacit acknowledgement that sufficient documentary evidence might not be publicly available to prove the invalidity of business method patents, for which *State Street* had recently opened the floodgates.

With respect to a § 273 defense to alleged infringement, Congress explicitly set forth the burden of proof: “A person asserting the defense under this section shall have the burden of establishing the defense by clear and convincing evidence.” 35 U.S.C. § 273(b)(4). In enacting § 273, Congress provided an optional, limited defense to infringement with a high evidentiary burden, which, if successful, permits a contemporaneous, non-infringing use of a patented business method. Section 273 demonstrates that when Congress intends to establish such a high burden, it will say so. Moreover, there are other examples in the intellectual property field that demonstrate Congress’s ability to clearly establish an increased burden on those challenging the validity of federally-

granted rights. The Lanham Act, for example, provides that following five years of continuous use and in the absence of certain conditions, if an affidavit is filed attesting to meeting the requirements, a trademark owner's registered mark "shall be incontestable." 15 U.S.C. § 1065. Once a mark has become incontestable under § 1065, the statute provides that the registration documentation "shall be conclusive evidence of the validity of the registered mark. . . ." 15 USC § 1115. Not a presumption of validity as is found in § 282, but "conclusive evidence," 15 USC § 1115.

Congress placed a heightened burden on first inventors under the FIDA and placed a heightened burden on challengers of incontestable trademarks under § 1115. A plain reading of § 282, however, does not reflect a similar heightened burden being required of a party challenging the validity of a patent. All Congress did there was place the burden: "The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity." 35 U.S.C. § 282. Had it intended a heightened burden, Congress could have established "clear and convincing" as the evidentiary standard to defeat the presumption of a patent's validity. It did not. As this Court has previously acknowledged, "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). Congress has amended § 282 eight times since promulgating the statute in 1952, including in 1999, Pub. L. 106-113, § 1000(a)(9), the same year it promulgated the FIDA. Yet, Congress has never articulated a requirement for a heightened

evidentiary standard to rebut the presumption of validity.

While *Amici* believe that “preponderance of the evidence” should be the standard in *any* invalidity action, fairness dictates that invalidity actions involving prior art never seen by the Examiner should be accorded the same “preponderance of the evidence” standard the Examiner would have applied. Congress’s omission in mandating the heightened standard in an invalidity action under 35 U.S.C. § 282 underscores that Congress did not intend to establish such a high burden.

### **C. Establishing “Preponderance Of The Evidence” As the General Rule Will Benefit Patentees And The Patent System Overall**

Establishing “preponderance of the evidence” as the general rule can only benefit all concerned. While it is important to protect quality patents, the patent system also relies on being able to prove the invalidity of patents that never should have issued. The present system creates an imbalance that must be addressed. At the time the Federal Circuit instituted the clear and convincing standard, the PTO began making it easier to obtain a patent. This confluence of events continues to invite speculative patent applicants to seek a patent for the sole purpose of asserting it. The financial services industry provides an excellent example of the type of industry vulnerable to such predatory assertions.

The financial services industry relies on highly complex, interconnected technologies and networks

which are “vulnerable to hold-up” by patent holders who can allege infringement and “obtain an injunction, effectively shutting down the network”; thereby putting the patent holder “in a very strong bargaining position.” Robert M. Hunt, *Business Method Patents and U.S. Financial Services 7* (Federal Reserve Bank of Philadelphia, Working Paper No. 08-10R), available at <http://www.philadelphiafed.org/research-and-data/publications/working-papers/2008/wp08-10.pdf>. The present system encourages litigation as a means of determining economic rights, which is costly, inefficient, and contrary to the purpose of the patent laws. It encourages predatory patent holders to assert low quality patents, while at the same time forcing alleged infringers into settlements to avoid the cost of litigation that may come out badly because of the heightened evidentiary standard. Putting the balance back into the system will discourage predatory suits and will provide equal footing at the settlement table.

Respondent’s assertion that correcting the standard now “would be an enormous and unwarranted disruption of settled expectations” (Resp. Br. at 17) should fall on deaf ears. First, there is no justification for many NPEs or other patent holders to claim investment backed settled expectations, as Respondent does here. Illegitimate expectations, not even arguably grounded in statute, of holders of improvidently granted monopolies cannot be perfected by the mere passage of time, even if accompanied by Congressional silence. Second, the presumption of validity is not being



disturbed – and that is all Congress accorded the patent holder.

A patent's value is already protected in litigation through the statutory presumption of validity and by placing the burden of proof on the party asserting invalidity. Holders of high quality patents need not be concerned about establishing “preponderance of the evidence” as the general rule because their patents are likely to withstand a claim of invalidity. The present system, however, confers excessive protection to holders of questionable patents, which should be a concern for everyone, especially for holders of quality patents whose value is diluted.

### **III. A Trial Court's Vital Role In The Patent Process Is At Risk Of Being Reduced When A Higher Evidentiary Burden Is Placed On The Party Challenging The Validity of A Patent**

The outcome of a patent dispute has a direct effect on the parties, but a greater interest is also at stake. “The possession and assertion of patent rights are ‘issues of great moment to the public,’” based on the constitutional underpinning to promote the “Progress of Science and the useful Arts.” *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 815-16 (1945) (quoting *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 246 (1944) (quoting U.S. Const. art. 1, cl. 8)). See also *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 177 (1965) (acknowledging the “far-reaching social and economic consequences of a patent”). The role of the courts is crucial to adjudicating disputes and also to

protecting the public interest. Fairness is in the public interest. The scales of justice should not be allowed to tilt so heavily in favor of one party to the dispute.

**A. The Present System Sends Signals To The Jury Unfairly Favoring The Patentee**

This Court has previously opined on the reasons for carefully establishing the standard of proof as the standard selected will (1) “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” and (2) “serve[] to allocate the risk of error between the litigants and to indicate the relative importance attached to the ultimate decision.” *Addington*, 441 U.S. at 423 (citing *In re Winship*, 397 U.S. 358, 370 (1970) (Harlan, J., concurring)).

Educating the jury is valuable, but in a patent dispute where one party – the patent holder – has the benefit of the statutory presumption of validity and a lower standard of proof while the opposing party – the alleged infringer – is assigned a higher burden, such disparity can create a dangerous risk of an unfair outcome. When a jury is asked to decide patent disputes, which are already complex, it is less likely that they can have the experience to understand the nuances between evidentiary standards. This can be further complicated when multiple claims are involved, each of which may be subject to a different standard.

As one federal judge observed during a case conference, the issues involved with the patent-in-suit alone can be difficult for juries to understand:

On the technical issues here . . . I find this extremely difficult to understand. And the notion that a jury is going to understand it, to me, is foolishness. You can talk for months and the jury isn't really going to understand this in the sense of being able to make a reasoned, rational decision about it. They will make a decision, we hope. Maybe they will hang because they'll say that we can't possibly understand this, but in my experience, they make a decision. But what is it based on? . . . It is kind of trial by ordeal or by sort of a champion, like a jousting contest rather than on the actual scientific merits of who is right and who is wrong.

*Monolithic Power Sys. v. O2 Micro Int'l Ltd.*, 558 F.3d 1341, 1345 (Fed. Cir. 2009) (ellipses in original). Adding another layer of complexity by assigning parties different burdens encourages the jury to give greater deference to the validity of the patent than intended by the statutory presumption.

In 2009, the consulting firm PriceWaterhouse-Coopers ("PwC") conducted a study analyzing, in part, the role of juries in patent disputes over a three-decade period. It found a substantial upward trend in the number of patent jury trials where damages were awarded:

A significant trend toward jury trials has emerged since the 1980s, with the shift becoming more evident over the last decade. . . . [J]uries decided only 14 percent of the cases with damages awards during the 1980s and 24 percent during the 1990s. In this decade, juries have decided 51 percent of the cases with damages awards.

PwC, *A Closer Look, Patent Litigation Trends and the Increasing Impact of Non-Practicing Entities* (2009) at 8, available at <http://www.pwc.com/us/en/forensicservices/publications/assets/2009-patentlitigation-study.pdf>. PwC determined that the widening disparity between jury and bench awards to be a likely “contributing factor to the significant increase in the use of juries over the last decade.” *Id.*

The desire for juries is understandable given that jury instructions underscore the favorable conditions for patent holders. While instructions may vary by court or case, the pattern jury instructions for the Court of Appeals for the Fifth Circuit are illustrative. The “preponderance of the evidence” standard is described as “*simply* mean[ing] evidence that persuades you that the plaintiff’s claim is more likely true than not true.” Pattern Jury Instruction 2.20 (emphasis added). “Clear and convincing evidence,” on the other hand, is described as “evidence that produces in your mind *an abiding conviction* that the claims are invalid.” Pattern Jury Instruction 2.14 (emphasis added). Even the Model Patent Jury Instructions released last year by the Federal Circuit Bar Association accentuate the

increased burden on the party asserting invalidity. A patent holder alleging infringement must only prove “that it is more likely than not” that requirements for infringement have been proved. 2010 FCBA Model Patent Jury Instructions (Feb. 18, 2010), Instruction 3.1. In contrast, the instruction for a party asserting invalidity, creates a personal relationship with the juror: “To prove that any claim of a patent is invalid, [alleged infringer] must persuade *you* by clear and convincing evidence, i.e., *you* must be left with a clear conviction that the claim is invalid.” *Id.* at Instruction 4.1 (brackets in original; emphasis added).

Juries are already told to presume the patent is valid, and even sophisticated jurors are likely to defer to the PTO’s expertise without question. Asking juries to penetrate the complexities of a patent case and then to apply a higher standard of proof to only one party clearly risks unduly influencing the jury in favor of the patentee well beyond what the statutory presumption intends.

**B. Predatory Patentees Reap The Dual Benefit Of The Presumption And Also The Unequal Burden Of Proof Placed On The Party Asserting Invalidity, Which Was Not Congress’s Intent**

*Amici* submit that the beneficiaries of the Federal Circuit’s evidentiary requirement are not just the owners of questionable patents, but also every speculative patent applicant whose sole goal in obtaining a patent is to assert it against businesses with deep pockets. The high standard of proof

required of defendants and the increased risks of not meeting that standard during lengthy, expensive litigation or of being enjoined from using the disputed business method – or both – effectively holds businesses hostage to questionable patents. The losing party in such a case, of course, is not just the defendant but also the public at large, which ultimately is penalized through increased costs and decreased innovation.

PwC's 2009 study, which also investigated the upsurge of jury awards granted to non-practicing entities – patentees who neither manufacture nor use the patented invention – reveals a higher percentage of jury trials sought by NPEs. “Since 1995, 55 percent of trials involving NPEs have been jury trials, as compared to only 41 percent of trials involving practicing entities.” PwC *A Closer Look*, at 10. Jury awards were also determined to be “several multiples” higher than awards from the bench, particularly for NPEs, *id.* at 10-11. The unevenness of the present system can only further incentivize predatory patentees to go to trial and encourage others to obtain and assert weak patents. Leveling the playing field will avoid the unfairness inherent in the present system and provide for a more just result.

**IV. It Is In The Public Interest To Establish “Preponderance Of The Evidence” As The Standard Either Pursuant To *KSR* Or, Preferably, As The General Rule, As The Financial Services Industry Is A Favorite Target Of Patentees Seeking Exorbitant License Fees Or Money Settlements Based Upon Questionable Patents**

It is no secret that the last half-century has seen revolutionary changes within the financial services industry. The United States has gone from a paper-based economy to an economy that cannot be sustained absent its supporting technology and business methods. Today, nearly half of all U.S. households participate in the financial markets, either through direct stock purchases, mutual funds, or retirement accounts. *See, e.g.,* Investment Company Institute & SIFMA, *Equity and Bond Ownership in America, 2008*, available at [http://www.ici.org/pdf/rpt\\_08\\_equity\\_owners.pdf](http://www.ici.org/pdf/rpt_08_equity_owners.pdf).

The financial world of the 1960s has ceased to exist, partly in response to Congress’s recognition that the United States markets are “an important national asset which must be preserved and strengthened,” including through the implementation of “[n]ew data processing and communications techniques.” 15 U.S.C. § 78k-1(a)(1)(A)-(B). Technological advances in the United States alone make the evidentiary issue at stake here of vital interest, but the effects are global.

### **A. Decisions And Settlements Affecting The Financial Services Industry Impact The Global Economy**

Our economy is global; the markets have become so interdependent that a decision in the United States also affects people well beyond its borders. Indeed, technological advances have brought more trading to the market than ever before. Where at one time, it would have been unusual for the New York Stock Exchange to trade three billion shares in a year, now it might trade three billion shares in a day. In February 2008, for example, NYSE-Euronext announced that its U.S.-based cash-equities exchanges, NYSE and NYSE Arca, had collectively traded an average of 3.9 billion shares per day during the January 2008 trading month. *NYSE-Euronext Business Summary for January 2008*, available at <http://www.nyse.com/press/1202124549638.html>. The fact that NYSE-Euronext operates a family of exchanges located in six countries, including the New York Stock Exchange, underscores just how interdependent technology has become to the global economy. *Id.*

The financial services industry relies on its business methods to handle an extraordinary volume of transactions quickly, reliably, and cost-effectively. When there is a disruption in the financial system, the impact is instantaneous and can have a profound effect. This is not mere supposition. The impact of a technological disruption was dramatically displayed in May 2010 when a computer error caused the markets to drop precipitously in a 16-minute period. Nelson D. Schwartz & Louise Story, *Surge of*



*Computer Selling After Apparent Glitch Sends Stocks Plunging*, N.Y. Times, May 6, 2010, available at <http://www.nytimes.com/2010/05/07/business/economy/07trade.html>; Graham Bowley, *U.S. Markets Plunge, Then Stage a Rebound*, N.Y. Times, May 6, 2010, available at <http://www.nytimes.com/2010/05/07/business/07markets.html>. It is not difficult to surmise the havoc an injunction awarded based on a questionable patent could wreak on the financial markets.

The financial services industry is committed to providing a secure and reliable environment to all market participants and ancillary parties in a technologically advanced world. To continue maintaining that security and reliability, it is of profound importance that the financial services industry be able to protect its business methods from speculators interested in holding it hostage to questionable patents. The lure to holders of questionable patents of reaching an industry that controls large flows of money is obvious. Requiring the financial services industry to prove invalidity by clear and convincing evidence creates an unfair and far-reaching advantage in favor of the patentee who was held to a much lower standard when obtaining the questionable patent.

#### **B. Lawsuits Based On Questionable Patents Are A Plague Upon The Financial Industry, Which Risks Stifling Innovation**

The financial services industry is particularly vulnerable to patent suits because its business methods were historically treated as trade secrets

and not published. The confidentiality ascribed to patent applications makes prior art evidence not seen by the Examiner crucial to any defense of an infringement claim. If the financial services industry continues to be burdened with an overly high evidentiary standard in invalidating these patents, the expense of defending such suits and the risk of losing despite a lengthy and costly litigation battle will likely stifle financial services industry innovation, which is to the detriment of everyone.

It is estimated that the cost of defending a patent dispute is minimally \$1.5 million and may be greater than \$4 million for each defendant. Steve Bills, *The Tech Scene: Patent Case Settlements: Economics or Endgame?* TECHNOLOGY, Vol. 173, No. 177, at 1 (Sept. 2008). Controlling costs is a vital component of innovation for the financial services industry where a lapse can have far-ranging implications. The financial services industry cannot continue to be placed in the position of having to settle frivolous patent disputes due to the risk of not being able to clear the hurdle represented by a clear and convincing standard, particularly when the patent may never have issued in the first place had the Examiner seen what is often the most relevant evidence.

Transparency for the financial services industry is the byword going forward. Congress has mandated new rules that are intended to forge even more reliable financial markets. See Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203 (2010). While increased transparency is intended to have a positive effect overall, it leaves

financial services vulnerable to speculative patent applicants and existing holders of questionable patents. Applying a heightened burden of proof increases the financial services industry's vulnerability substantially. With the costs of litigation skyrocketing, more financial services companies will be forced into expensive settlements with holders of questionable patents rather than taking the risk of lengthy, unsuccessful litigation or potential injunctive relief that could cripple the markets.

The purpose of the patent system is to promote innovation while protecting the public domain, not to invite catastrophe or to encourage holders of questionable patents to turn an easy dollar. Establishing "preponderance of the evidence" as the standard of proof in invalidity cases, or at a minimum, for those cases involving prior art that was never before the Examiner, will go a long way toward properly limiting risks to the financial services industry that otherwise could have a global impact.

**CONCLUSION**

For the reasons set forth above, the judgment of the United States Court of Appeals for the Federal Circuit should be reversed.

Respectfully submitted,

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