No. 10-290

In The Supreme Court of the United States

MICROSOFT CORPORATION,

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 THE PUBLIC PATENT FOUNDATION AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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INTEREST OF THE *AMICUS CURIAE*[1]

The Public Patent Foundation ("PUBPAT") is a not-for-profit legal services organization affiliated with the Benjamin N. Cardozo School of Law that aims to protect freedom in patent system. Specifically, PUBPAT represents the public interest against undeserved patents and unsound patent policy. PUBPAT has argued for sound patent policy before this Court, the Courts of Appeals for the Second, Eleventh and Federal Circuits, both houses of Congress, the U.S. Patent & Trademark Office (PTO), the United Nations, the European Union Parliament, the Australian Parliament, and many other national and international bodies. PUBPAT has also successfully challenged specific undeserved patents causing significant harm to the public through litigation and administrative proceedings. These accomplishments have established PUBPAT as a leading provider of public service patent legal services and one of the loudest voices advocating for comprehensive patent reform.

PUBPAT has an interest in this matter because the decision of this Court will have a significant effect on the public interest represented by PUBPAT. More

[1] In accordance with Supreme Court Rule 37.6, *Amicus Curiae* states that: (1) no counsel to a party authored this brief, in whole or in part; and (2) no person or entity, other than *amicus*, their members and counsel have made a monetary contribution to the preparation or submission of this brief. The Parties filed blanket consents for all *amici* briefs and were timely informed of the intent to file this *amicus* brief.

specifically, PUBPAT has an interest in ensuring that only patents that truly deserve to exist are maintained. The heightened presumption of validity adopted by the Court of Appeals exacerbates the poor patent quality that exists in America today, where roughly half of all patents challenged in court are proven invalid and the PTO's own statistics concede that more than 90% of all issued patents have substantial questions regarding their validity. In short, our patent system is critically flawed. Our Patent Office places a preference on quantity and is "customer" driven, meaning it issues way too many patents that are undeserved. The heightened presumption of validity is out of touch with this reality and unjustifiable as a matter of public policy.

PUBPAT believes this brief, authored by a registered patent attorney and professor of patent law, addressing some of the underlying public policy issues in this case provides the Court with relevant legal and factual information that may not otherwise be brought to its attention. This is especially true since PUBPAT has particular experience with issues relating to patent quality.

SUMMARY OF ARGUMENT

Patent quality is the single most important issue in our patent system, because without it, our patent system risks losing all credibility and the support of the American people. We must, above all other goals,

ensure only deserving patents are issued and maintained. Thus, it should be more than plainly obvious that requiring those with proof of a patent's invalidity to overcome a clear and convincing evidence standard harms the public interest by maintaining patents that are undeserved. As such, the Court of Appeals' application of a heightened presumption of validity is unsupportable and should be reversed.

ARGUMENT

The Court of Appeals below, while being the exclusive Court of Appeals for patent cases and, thus, quite familiar with patent related issues, has failed to acknowledge the pathetic state of American patent quality. As a result, it has tended to give patents entirely way too much credit. Rather than being rock-solid undeniable fortresses of legal dominance over a segment of technology, patents today give their owner nothing more than, at best, a fifty-fifty chance of having any exclusionary power at all. This means that a substantial portion of patents did not deserve to be issued. As such, the Court of Appeals' application of a heightened presumption of validity for all patents is without merit. If left undisturbed, the requirement that a party challenging a patent must come forward with clear and convincing evidence will cause substantial harm to the American public by exacerbating the problem of low patent quality. As such, the standard – and the decision below relying thereon – should be reversed.

I. THE COURT OF APPEALS' HEIGHTENED PRESUMPTION OF VALIDITY HARMS THE PUBLIC INTEREST BY EXACERBATING POOR PATENT QUALITY

A. Patent Quality In The United States Today Is Extremely Poor

There are several sources to help determine the current level of quality for U.S. patents, and all of them paint a very clear picture that patent quality today in America is extremely poor. One source, an ongoing project of the University of Houston Law School, which is known for having one of the most reputable patent departments in the country, tracks the results of patent litigation and empirically categorizes those results according to the specific issues involved with each case. Patstats, available at www.patstats.org. Looking at their data shows that approximately 45% of all issued patents reviewed by courts in 2009 were found to have been undeserved. *See* Univ. of Houston Law Ctr. Inst. for Intellectual Prop. & Info. Law, Full Calendar Year 2009 Report, http://www.patstats.org/2009_full_year_posting.htm.

When looking at this data, there are some caveats to keep in mind. First, it could be argued that the rate at which patents asserted in litigation are determined to be invalid is not applicable to the general pool of all issued patents, since only about 1% of issued patents end up getting litigated to a decision on their merits. While this may be a valid point, it does not mean that the actual validity rate of issued patents is higher or lower than that of litigated

patents, because it is generally only the patent owner who can put a patent in litigation. Therefore, many issued patents do not get their validity challenged in litigation because the patent owner chooses not to assert the patent.

Second, even if these statistics are limited to just litigated patents, they are still extremely important because litigated patents tend to have a much greater significance to the public, on average, than non-litigated patents. John R. Allison, Mark A. Lemley, Kimberly A. Moore & R. Derek Trunkey, *Valuable Patents*, 92 Georgetown Law Journal 435 (2004). To draw an analogy, if 45% of the people on death row who challenged their convictions were actually proven innocent, that wouldn't necessarily mean that 45% of all people on death row, much less 45% of all convicted criminals, were actually innocent (that ratio could be higher or lower), but the severity of each mistake regarding someone on death row is extreme nonetheless. Similarly, the technology involved with litigated patents is almost without exception extremely valuable, so any mistakes regarding the validity of those patents can cause severe harm in and of itself, regardless of the validity rate of issued patents overall.

Another source of information about patent quality is the PTO's own statistics relating to reexamination, which show that more than 90% of all requests for reexamination are granted, an action that requires a finding that a "substantial new question of patentability" exists. *Inter Partes Reexamination Filing Data – June 30, 2009*, USPTO, www.uspto.gov/web/patents/

documents/inter_partes.pdf ("*Inter Partes* Report") (95% of all requests for *inter partes* reexamination granted); *Ex Parte Reexamination Filing Data – June 30, 2009*, USPTO, www.uspto.gov/web/patents/documents/ex_parte.pdf ("*Ex Parte* Report") (92% of all requests for *ex parte* reexamination granted); 35 U.S.C. § 312. These statistics show that the overwhelming majority of patents issued by the PTO have "questionable" validity. Our patent office may not be a rubber stamp *per se*, but it is pretty close to one in reality.

Looking deeper, the PTO's data shows that 95% of patents challenged through the *inter partes* reexamination process, which allows for ongoing participation by the challenger, are canceled or changed, while more than 75% of patents challenged through the *ex parte* reexamination process, which does not allow the challenger to participate after submitting the initial request, have their claims canceled or changed. *Inter Partes Report* (all claims canceled 60%, claims changed 35%); *Ex Parte Report* (all claims cancelled 11%, claims changed 64%). This is absolutely disgusting. Our patent system should be ashamed that it has been perverted to the point of producing patents with such low quality. The American people deserve better.

One way to confirm how grim the state of affairs is for U.S. patent quality is to compare our system's patent application outcomes to those of other well respected patent offices. Firstly, the USPTO ultimately grants patents from 85% of all original applications, while that rate is only 64% in Japan. Cecil D. Quillen,

Ogden D. Webster, and Richard Eichman, *Continuing Patent Applications and Performance at the U.S. Patent and Trademark Office – Extended*, 12 Fed. Cir. B.J. 35 (2002). However, a better comparative picture is drawn by a study of roughly 70,000 issued U.S. patents and their corresponding foreign applications, which found that counterparts to patent applications issued in the U.S. were only issued by the European Patent Office 72.5% of the time and by the Japan Patent Office only 44.5% of the time. Paul H. Jensen, Alfons Palangkaraya & Elizabeth Webster, *Disharmony in International Patent Office Decisions*, 16 Fed. Cir. B.J. 679 (2006). This evidence shows that the U.S. Patent Office is indeed granting a very disproportionally high number of patents and not implementing procedures to ensure patent quality to the same level as other developed nations. For one, most of the world permits the filing of pre-grant oppositions to patent applications by members of the public. We have no such procedure here in America, where pre-grant oppositions are expressly banned.

B. Undeserved Patents Cause Substantial Public Harm

Patents that are undeserved can cause substantial harm to the American public, because an issued patent – regardless of its true legitimacy – can be used to threaten and impede otherwise permissible, socially desirable, conduct. The threat of having to incur the costs and potential liability of a patent lawsuit is one that few individuals or small businesses can

withstand, even if the patent is of doubtful validity. This chilling effect, when caused by a patent that would be ruled invalid if challenged, provides no social benefit to the American people, because the patent contains nothing new; its invalidity means that whatever it claims or describes was either already known or was obvious in light of what was already known. This effect can be devastating to the American people.

For example, there have been several patents that were used to preclude competition in markets worth billions of dollars that were later proven to be undeserved. *See*, *e.g.*, *Bristol-Myers Squibb Co. v. Ben Venue Labs., Inc.*, 246 F.3d 1368 (Fed. Cir. 2001) (patent preventing competition to $1.6B per year cancer treatment, Taxol, proven invalid); *Eli Lilly & Co. v. Barr Labs.*, 251 F.3d 955 (Fed. Cir. 2001) (patent barring alternatives to $2.9B per year antidepressant medication, Prozac, proven invalid). Poor patent quality is also partially to blame for the intensive increase in patent litigation, the dramatically higher cost of patent litigation, and the rapid rise of patent speculators – mostly contingency fee patent litigators – who are more than willing to assert questionable patents against large and small commercial actors for the opportunity to collect nuisance settlements or chance of reaping windfall judgments.

Further, the over-patenting that results from low patent quality leads to thickets of patents that choke first inventors with countless small improvement patents claimed by others. In what is akin to

grade-inflation, by granting too many people too many patents, those inventors who legitimately did derive wonderful new technology get less credit than they deserve because of all the other patents that are issued in the related field. This results in less incentive for the truest of innovators amongst us and instead encourages investments in making minor improvements to the inventions of others. These are, unfortunately, but a few of the many harmful effects that poor patent quality is having on the American public today.

C. A Heightened Presumption Of Validity Exacerbates Poor Patent Quality

Patents are, by nature, government-granted restraints on freedom. Every Tuesday (the day of the week the Patent Office issues new patents) there are roughly 4,500 new things that no American is allowed to do, and there is no fair use defense to patent infringement like with copyright and trademark. Thus, only those who love big government and the meddling of Washington bureaucrats into the lives and affairs of American citizens and American businesses can inherently want a bigger, stronger patent system. Thomas Jefferson, the founder of our patent system, was right to be skeptical of patents when he labeled them a necessary evil which must be short-lived and strictly limited to only those few situations when they are absolutely necessary.

Aligned with this cautious perspective on patents, this Court has repeatedly recognized that maintaining high patent quality is of the utmost importance in ensuring that the patent system benefits the American people. *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 427 (2007) ("[T]he results of ordinary innovation are not the subject of exclusive rights under the patent laws. Were it otherwise patents might stifle, rather than promote, the progress of useful arts.") (citing U.S. Const., art. I, § 8, cl. 8). Undeserved patents substantially harm the public by imposing the high costs of exclusive rights without providing any corresponding advance in the state of the art. The public bears the burden of the chilling effect of meritless patents without receiving any commensurate benefit upon their expiration. Invalid patents pose a dead-weight economic loss for society, not to mention the inhibition on any civil liberties that may be intertwined with the unjustifiably claimed technology.

Further, this Court has recognized that challenging the validity of patents has a pro-competitive effect. Accused infringers who prove a patent invalid perform an important public service by correcting the PTO's errors on their own nickel. *See Lear v. Adkins*, 395 U.S. 653, 670 (1969) (explaining that if those "with economic incentive to challenge the patentability of an inventor's discovery" do not do so, "the public may continually be required to pay tribute to would be monopolists without need or justification"); *Pope Mfng. Co. v. Gormully*, 144 U.S. 224, 234 (1892) ("[i]t is as

important to the public that competition should not be repressed by worthless patents as that the patentee of a really valuable invention should be protected in his monopoly"). Even those who try but fail to prove a patent invalid perform a public service by narrowing uncertainty as to the patent's validity, thus encouraging others to respect it. *Kloster Speedsteel AB v. Crucible, Inc.*, 793 F.2d 1565, 1581 (Fed. Cir. 1986).

The American people deserve a patent system that implements sound policy, and a heightened presumption of validity is unsound to the extreme. Only patents that survive a standard presumption of validity merit the corresponding social ills patents cause. Patents that are only valid if protected by a heightened presumption of validity do not deserve to be maintained.

CONCLUSION

For the foregoing reasons, this Court should reverse the Court of Appeals decision below and hold that patents are only entitled to a standard presumption of validity, not a heightened presumption of validity.

Respectfully submitted,

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