

No. 10-290

In the
Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

14I LIMITED PARTNERSHIP AND
INFRASTRUCTURES FOR INFORMATION, INC.

Respondents.

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

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

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INTERESTS OF THE *AMICI CURIAE*¹

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

¹ 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 or 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 provided to the Parties at least ten days in advance. Letters of the Parties’ general consent for *Amici Curiae* to submit a brief are on file with the Court.

than half of all U.S. deposits. *Amicus curiae*, The 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 in cases where relevant prior art was never considered by the patent examiner (“Examiner”) would be detrimental to the global economy. The financial markets rely heavily on computerized systems for information processing. As such, 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 and subsystems embody devices, processes, software, and business methods that in many cases predate the applications issuing as new patents. *Amici* are concerned that rigidly requiring proof of patent invalidity by clear and convincing evidence when that proof is based upon prior art that was never seen by the Examiner places an undue burden on the financial industry, a frequent target of patentees.

The patent 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. The first time an *Amici* member's prior art evidence is considered by a fact-finder is at trial. The costs of defending against a patent infringement claim are already extreme; *Amici* are concerned that holding their 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, particularly with regard to prior art that was never reviewed by the Examiner.

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. Nonetheless, the Federal Circuit consistently applies the clear and convincing standard to all such challenges, even when the potentially invalidating prior art was never before the Examiner.

In *KSR Int’l 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 diminished with respect to prior art that was never before the Examiner. Ignoring this Court’s clear 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. *i4i Limited P’ship v. Microsoft Corp.*, 598 F.3d 831, 848 (Fed. Cir. 2010). 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. As a result, patent examiners were left with limited access to often key 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 the overall workload for patent examiners. 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 flushing 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 evidence been made available during prosecution.

The financial services industry is particularly vulnerable to patent disputes. It is a favorite target of patentees holding questionable patents, including patentees 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, which is to promote the "Progress of Science and the useful Arts." U.S. Const. art. 1, cl. 8. It also limits innovation in fields like the financial services industry that rely heavily on technology. Maintaining a clear and convincing standard of proof as to prior art that was never considered by the Examiner encourages speculative patent applicants and patentees with questionable patents to invade the province of businesses that historically protected their business methods under trade secret laws, the only clear avenue available prior to *State Street*.

The financial services industry has seen monumental growth in the past fifty years, in part due to

technological advances that allow transactions to be processed reliably and rapidly. Today, nearly half of all U.S. households invest in the markets. A disruption to the financial services industry as a result of a patent dispute has global implications based on the interdependencies of the global markets. Patentees holding presumptively valid patents are in a superior position in any dispute; therefore, financial services companies are increasingly forced to enter into settlement agreements or licensing agreements in order to avoid a catastrophic disruption to their services or lengthy, expensive litigation where the balance of power remains with the patentees whose standard of proof in obtaining the patent was much lower.

The new 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 grant *certiorari* in order to clarify that “preponderance of the evidence” is the standard for proving patent invalidity based upon prior art evidence never seen by the Examiner.

ARGUMENT

A plethora of presumptions and procedures tip the scales in favor of the ultimate issuance of a patent, once an application is filed. In addition, as many have noted, the PTO is underfunded, and PTO patent examiners all too often do not have sufficient time to evaluate patent applications fully. These circumstances suggest that an overly strong presumption of a patent's validity is inappropriate. Rather, courts should require only a "preponderance of the evidence" to rebut the presumption of validity.

U.S. Federal Trade Commission,
*To Promote Innovation, The
 Proper Balance of Competition
 and Patent Law and Policy*
 (2003) ("FTC Report"), Executive
 Summary at 8.

I. The Court Should Grant *Certiorari* In Order To Clarify That, As Articulated In *KSR*, Rigid Adherence To The "Clear And Convincing" Standard Is Not Required When The Relevant Evidence Was Not First Reviewed By The Patent Examiner

Petitioner asks the Court to clarify a very narrow question on which it has already opined: Whether clear and convincing evidence should be the standard required by a party defending against a patent claim, when the evidence on which the

defendant relies was never considered by the Examiner. *Amici* join petitioner in requesting that the Court grant *certiorari* in order to resolve this issue in accordance with the Court's position in *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007). To that end, *Amici* adopt Petitioner's brief in full.

As the *KSR* Court unanimously acknowledged, the presumption of validity given a patent upon its issuance finds its basis in the Examiner's expertise. *Id.* 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 the guidance the Court offered 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 evidence never seen by the Examiner 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 in the first instance. 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. 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. See 35 U.S.C. § 282. This presumption, however, merely means that the defendant bears the

burden of proving invalidity. Section 282 does not speak to the standard of proof. Requiring clear and convincing evidence of the defendant 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.

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 owners of questionable patents to become beneficiaries of the inequity. Those patentees can then unjustly extract royalties or damages or possibly win injunctive relief from a company that is in fact innocent of infringement but unable to prove the patent-in-suit invalid by clear and convincing evidence. By granting *certiorari*, the Court can ensure that patent litigation preserves high quality patents and invalidates questionable patents, as it was intended.

A. Heightened Deference To The Examiner's Decision Is Not Owed When The Examiner Never Saw The Relevant Prior Art Evidence

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.” 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 is maintained from the time the application is filed until it is published approximately 18 months later. *Id.*, Executive Summary at 15. During that window, persons with information or material relevant to the patentability of a particular invention are not put on notice 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, an interested third party can never be sure of the application’s exact scope until after the patent has issued. Generally, the first opportunity that third parties have to challenge patentability is after the patent has issued.

Examiners have limited time and resources. They have no means of independently discovering all information or material relevant to the patentability of a business method, particularly when that information lies beyond the search capabilities available to Examiners. Even if it were possible, the sheer volume of patent applications alone precludes such an exercise. The total number of patent applications filed in 2001 was approximately 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. Even at that comparatively lower number of applications, it is estimated that the entire patent prosecution process

took an average of three to four years, of 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>. By 2009, however, the number of patent applications filed annually had soared to 482,871. U.S. Patent Statistics Chart.

The almost 40% increase in applications over the past decade has had a commensurate increase on Examiner workload. Severe time constraints coupled with an expanding docket only increases the risk and likelihood that an Examiner will inadvertently fail to discover patents, prior art, or other information material to patentability during prosecution. That, of course, even assumes that the prior art or other material is available to be found. In many cases, particularly with respect to the financial services industry, prior art is not easily searchable and would likely be impossible to find during any prosecution even if the Examiner had access to a third-party's records. Given the *ex parte* nature of the proceedings, however, the chances are remote that the Examiner would find prior art belonging to a member of the financial services industry unless the applicant provided it to them. As such, it could not have been the intention of Congress, in enacting § 282, that evidence that would have precluded the patent grant in the PTO would be neutralized by the clear and convincing evidentiary standard once it crosses the threshold of the courtroom.

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

Patents on software, electronics, and business methods have never played as significant a role in the financial services industry as they do today. That fact was recognized by the Court in *Bilski v. Kappos*, 561 U. S. ___, 130 S. Ct. 3218 (2010), which noted that “business method patents were rarely issued until modern times.” *Id.* at ___, 130 S. Ct. at 3229. One principal reason for the change was the Federal Circuit’s decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368, 1375 (Fed. Cir. 1998), a case which emerged from the financial services industry and ended any doubts about the patentability of software and business methods. Since *State Street*, software and 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).

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*. Patent examiners thus only recently began having access to these additional sources of potential prior art. Even now, relevant prior art held by a third party often remains unavailable. Nowhere is this more true 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. As the *Bilski* Court acknowledged, 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 control measures that will discourage patent speculators and patentees from taking advantage of businesses that historically relied upon trade secret laws to protect their business methods cannot be over-emphasized. 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.

II. Courts Play A Vital Role in The Patent Process, Which May Be Diluted By Placing A High Evidentiary Burden On Parties 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)); 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 the parties’ dispute and also to protecting the public’s interest.

Patentees seeking to enforce their patents already have a substantial advantage in any patent dispute simply by virtue of the patent carrying a statutory presumption of validity. 35 U.S.C. § 282. That presumption is tempered by the statutory defenses provided for any party seeking to invalidate the patent. 35 U.S.C. § 282(1-4). In drafting the statutory scheme, however, Congress only shifted the burden from the patentee to the party asserting invalidity. It did not also increase that burden from the preponderance of the evidence standard that the applicant enjoys under the patent rules to clear and convincing evidence, as applied by the Federal

Circuit, in cases where the Examiner never reviewed the relevant evidence. As the Court of Appeals for the Eleventh Circuit made clear, 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. v. Graybar Elec. Co.*, 679 F.2d 1355, 1363-64 (11th Cir. 1982).

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 enforce 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. Leveling the playing field with regard to evidence never seen by the Examiner will avoid the unfairness inherent in the current system and provide for a more just result. This perspective was shared by all of the circuit courts of appeals that addressed the issue prior to the establishment of the Federal Circuit. (See Pet. Br. at 15-18 for a discussion of cases.)

**A. Congress's Intention To Provide Uniformity In
The Interpretation Of Patent Laws Is
Undermined By The Federal Circuit's
Heightened Standard Of Proof Where The
Prior Art Was Never Seen By The Examiner**

The Federal Circuit was established as part of the Federal Court Improvements Act of 1982 (the "FCIA"), Pub. L. No. 97-164, 96 Stat. 25, in part 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 effect 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. *See id.*; H.R. Rep. No. 97-312, at 21 (1981) (noting that patentees favored the 5th, 6th, and 7th Circuits).

One area of patent litigation, however, was uniformly treated by all of the regional circuits prior to the FCIA: the clear and convincing standard simply did not apply in those instances where the Examiner had never reviewed the prior art. The Federal Circuit, therefore, is the outlier.

As this Court has 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) (citing *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 28 (1997)). A party in possession of prior art – which by its presence in the dispute asserts its membership in the “inventing community” *id.* – 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. *Certiorari* should be granted in order 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 prosecution when that evidence was never reviewed by the Examiner.

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 v. Microsoft Corp.*, 598 F.3d 831, 848 (Fed. Cir. 2010), stands in direct contravention to this Court’s warning in *KSR* and 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's Defense Act, Pub. L. No. 106-113, 113 Stat. 1536 (1999), codified at 35 U.S.C. § 273 (the "FIDA"), as opposed to when a litigant asserts that a patent is invalid on the basis of never seen § 102 and § 103 evidence.

In the wake of *State Street*, Congress enacted the FIDA as part of the American Inventor's 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. § 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 that would include a high evidentiary burden in order to allow 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.

With respect to an assertion of invalidity under § 282, however, all Congress did was shift the burden to the party challenging validity: “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 the higher burden, Congress could have established “clear and convincing” as the evidentiary standard to defeat the presumption of a patent’s validity even when the Examiner did not review the prior art. It did not; rather, it left it to the discretion of the court. While *Amici* believes that “preponderance of the evidence” should be the standard in any validity 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 for never seen prior art evidence in an invalidity action makes it clear that it did not intend to establish such a high burden. This Court should grant *certiorari* to clarify that neither should the Federal Circuit set such a high burden.

III. It Is In The Public Interest To Enforce The *KSR* Standard 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.

The financial world of the 1960s has ceased to exist, in part 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 it is not just the U.S. financial markets that are affected by patentees attempting to enforce questionable patents.

A. Decisions And Settlements Affecting The U.S. 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 is not unusual to 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 of a patent based upon prior art 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 so much of its now-patentable business methods were historically

treated as trade secrets. 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 a high evidentiary standard in invalidating such 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 engage in or settle frivolous patent disputes due to the risk of not being able to clear the hurdle represented by a clear and convincing standard 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 patent holders of questionable patents. Applying a heightened burden of proof in cases involving never-seen prior art evidence increases the financial services industry's vulnerability substantially. With the costs of litigation skyrocketing, more financial services companies will be forced to settle and enter into expensive licensing agreements 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, not to invite catastrophe or to encourage holders of questionable patents to turn an easy dollar. Leveling the playing field by reestablishing "preponderance of the evidence" as the standard of proof for 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 Petition for a Writ of *Certiorari* should be granted.

Respectfully submitted,

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