

No. 10-290

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

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MICROSOFT CORPORATION,  
*Petitioner,*

v.

i4i 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 *AMICUS CURIAE*  
AMICOUR IP GROUP, LLC  
IN SUPPORT OF RESPONDENTS**

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## INTEREST OF *AMICUS CURIAE*

This brief is submitted by *AmiCOUR* IP Group, LLC (“*AmiCOUR*”) as *amicus curiae* in support of Respondent’s position to uphold the “clear and convincing” evidentiary standard to overcome the presumption of patent validity for all invalidity defenses as provided in the 1952 Patent Act.<sup>1</sup>

*AmiCOUR* is an intellectual property consulting firm that provides economic valuation of intellectual property for business enterprises, universities, law firms, and independent inventors. The patent valuation process assists clients with corporate and asset acquisitions, licensing of patent portfolios, computation of infringement damages, and resource allocations. A decision by this Court that lowers the standard of proof to invalidate a U.S. patent will have a profound negative effect on the value of U.S. patents, adversely impacting all of these market transactions.

## SUMMARY OF ARGUMENT

The U.S. economy and capital markets depend heavily upon predictability when valuing patent rights. Any outcome which diminishes the integrity of a U.S. patent’s presumption of validity will have

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<sup>1</sup> In accordance with Supreme Court Rule 37.6, *AmiCOUR* states that this brief was not authored, in whole or in part, by counsel to a party, and that no monetary contribution to the preparation or submission of this brief was made by any person or entity other than the *amicus curiae* or their counsel. The parties have filed letters with the Clerk of Court providing consent to all *amicus* briefs.

dramatic, adverse economic consequences on the value of U.S. patents, particularly impacting the following market sectors: intellectual property licensing and asset acquisition, financial and tax accounting, regulatory agency reporting, manufacturing, commercial lending, research and development, commercial litigation, and ultimately, the equity markets.

Petitioner urges that a lower standard of proof be applied to invalidate a patent based on prior art which was not before the Patent Examiner during prosecution. Some *amici* supporting Petitioner would have that lower standard apply to any prior art not substantively discussed or considered on the record by the Patent Examiner.

However, there is no practical way to apply either of these distinctions when placing a value on a U.S. patent or patent portfolio. The financial, business, and educational communities count on the United States Patent and Trademark Office (PTO) to examine the relevant prior art and to allow or disallow patent applications, at least in part, on that basis. While risk of patent invalidation through litigation based upon prior art exists, regardless of whether it was presented to or discussed by the Examiner, that risk is much more predictable where there is a single, relatively high standard for invalidation, i.e., “clear and convincing evidence.” Lowering that standard will introduce a significantly higher level of unpredictability and uncertainty with respect to the value of U.S. patents as a whole. This increased uncertainty and unpredictability will necessarily cause a decrease in the value of all issued patents in the United States.

Any patent devaluation will ultimately require balance sheet adjustments for entities whose balance sheet assets carry U.S. patents. Publicly held corporations will have to report any material devaluation to shareholders and the Securities and Exchange Commission (SEC), resulting in a devastating impact on patent centric companies. Hardest hit will be the high tech and biotech firms, which contribute significantly to U.S. economic growth, particularly through job creation and whose innovations are primarily responsible for the United States' edge over global competitors. This negative effect on patent valuation will cascade across technology driven industry groups, the investment community, and will ultimately affect vital research communities. Thus, a decreased reliability from the present predictability of a U.S. patent's value will have a far-reaching effect on the U.S. economy and its position in the global marketplace. A shift of such magnitude should only be made through an Act of Congress.

## ARGUMENT

### I. A LOWER STANDARD OF PROOF WILL UNDERMINE THE INTEGRITY OF U.S. PATENTS, CAUSING A SIGNIFICANT DECLINE IN THE VALUE OF U.S. PATENTS

#### A. The Inventing Community Relies On The Integrity Of A U.S. Patent Grant As A Valuable Capital Asset

“A patent shall be presumed valid... The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” 35 USC § 282. “Because a patent is presumed to be valid, see 35 USC § 282 (1994), the party asserting invalidity has the burden of showing invalidity by clear and convincing evidence.” *WMS Gaming Inc. v. IGT Inc.*, 184 F. 3d 1339, 1355 (Fed. Cir. 1999), (citing *Monarch Knitting Mach., Corp. v. Sulzer Morat GmbH*, 139 F. 3d 877, 881 (Fed. Cir. 1998)) (emphasis added). The purpose for this judicially created heightened standard is to carry out the Congressional mandate of the statutory presumption. *A fortiori*, if the clear and convincing burden of proof is lowered, then the presumption under Section 282 is compromised.

The current heightened standard of proving invalidity by clear and convincing evidence has existed for over one hundred years<sup>2</sup> and has been relied upon by the intellectual property community in a wide range of business transactions such as:

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<sup>2</sup> See, AIPLA Br. at 6-13.

asset acquisitions, patent licensing, technology transfers, corporate valuations, tax treatment of intangible assets, economic forecasting, patent litigation, and stock pricing for publically traded companies. Over the last few decades patents have played an increasingly important role in the United States' economic performance. "This role of intellectual property has led not only to economic growth but also to the stabilization of markets. When investors see growing markets they then move to capture the economic rents that may be associated with the growth." Mario W. Cardullo, *Intellectual Property-The Basis for Venture Capital Investments*, WIPO, [http://www.wipo.int/sme/en/documents/venture\\_capital\\_investments.htm](http://www.wipo.int/sme/en/documents/venture_capital_investments.htm) (last visited Mar. 9, 2011).

A lower standard of proof, even if limited to prior art not before the PTO during prosecution, will trigger a significant drop in patent asset values in all of the above noted transactions and adversely implicate market sectors which contribute to the U.S. economy.

The ability to reasonably predict an outcome based on known and trusted rules is essential to any asset valuation, particularly the valuation of intangible property, such as patents. Predictability allows the participants in any market economy to avoid unnecessary risk. Reasonable predictability is essential for establishing the commercial value for patents which, in turn, drives the allocation of commercial resources. Investment decisions cannot be modeled and efficiently determined without this necessary element of predictability.

This Court recognized the importance of the “settled expectations” of inventors and the patent investment community, when it stated:

The Court of Appeals ignored the guidance of *Warner-Jenkinson*, which instructed that courts must be cautious before adopting changes that disrupt the settled expectations of the inventing community. See *520 U.S. 17, 28, 137 L. Ed. 2d 146, 117 S. Ct. 1040*. In that case we made it clear that the doctrine of equivalents and the rule of prosecution history estoppel are settled law. The responsibility for changing them rests with Congress. *Ibid*. Fundamental alterations in these rules risk destroying the legitimate expectations of inventors in their property. The petitioner in *Warner-Jenkinson* requested another bright-line rule that would have provided more certainty in determining when estoppel applies but at the cost of disrupting the expectations of countless existing patent holders. We rejected that approach: "To change so substantially the rules of the game now could very well subvert the various balances the PTO sought to strike when issuing the numerous patents which have not yet expired and which would be affected by our decision." *Id.*, at 32,

*n. 6; see also id., at 41* (GINSBURG, J., concurring).

*Festo v. Shoketzu Kizoki Kogyo Kabushiki Co.*, 535 U.S. 722, 739 (2002) (emphasis added). The clear and convincing burden of proof with respect to invalidity challenges also rests on well settled law and well settled expectations. *See, The Barbed Wire Patent*, 143 U.S. 275 (1892); *Radio Corp. of America v. Radio Eng'g Labs., Inc.*, 293 U.S. 1, 2 (1934); *Connell v. Sears, Roebuck & Co.*, 722 F. 2d 1542, 1549 (Fed. Cir. 1983); *Zenith Elecs. Corp. v. PDI Commc'n Sys., Inc.*, 522 F. 3d 1348, 1363-64 (Fed. Cir. 2008). Although Petitioner may benefit if this Court adopted a lower burden of proof, any benefit to Petitioner is at the cost of undermining the integrity of U.S. patents and their reliability as capital assets by, not just inventors, but the entire intellectual property community and marketplace. To change, so substantially, the rules of the game now would subvert the various balances in our intellectual property community and U.S. economy.

B. Meaningful Assessment Of The Fair Market Value of Patents Tied To The Statutory Presumption Of Validity And Confidence In Agency Decisions Is Greatly Diminished When Such Decisions Are Easily Undermined.

A patent grants its owner a right to exclude, which often generates economic profits in return for the costs undertaken to create the invention. The measure of these future economic profits can



determine which new ideas and technology receive funding for research and development, engineering, capital equipment, labor, manufacturing and management allocations, marketing and distribution budgets, and the investments of shareholders, venture capitalists, angel investors, commercial and investment banks and the capital markets in general. Intellectual property has become an extremely valuable capital asset and the relative value of such property will only increase as economies, and particularly the U.S. economy, become more and more technology based.

While all property rights exclude others from trespassing, the greatest value of a property right is that it enables us to convert those assets into capital. It was true for James Watt, for example. His ability to use his patents to obtain financing for his business was just as important to him as the ability to exclude others from copying the design of his steam engine. And just as it was during the Industrial Revolution, capital is still the engine that powers the market economy. . . . One of the great economic advantages of the U.S. economy is that it has come further in converting intellectual assets into capital than any other country in the world.

MARK BLAXILL & RALPH ECKART, *THE INVISIBLE EDGE* 268 (Portfolio 2009). Additionally, “[a]long

with this explosion of patents has come a boom in the revenues derived from patent licensing, as companies realize that intellectual property is among their most valuable and fungible of assets.” KEVIN G. RIVETTE & DAVID KLINE, *REMBRANDTS IN THE ATTIC: UNLOCKING THE HIDDEN VALUE OF PATENTS* (Harvard Bus. Press 1999)

“Companies today derive a startling 70 percent of their market value from their intangible assets, of which IP portfolios are a significant part.” Amy Achter & Paul DiGiammarino, *New Metrics for Changing Times*, INTEL. ASSET MGMT., Apr./May, 2008, available at <http://amicourip.com/amicus/kmetrics.pdf>. The importance of intellectual property as part of a company’s asset portfolio has increased dramatically over the past thirty years. Cardoza et al., *The Power of Intangible Assets*, INTEL. ASSET MGMT., Apr./May 2006, at 33-37, available at <http://amicourip.com/amicus/ivalue.pdf>.

Since 1975, intangible book value as a percentage of market capitalization of the S & P 500 has approximately doubled every 10 years; from an average of 1.6% in 1975.. to 15.5% in 2005. . . . Intangible book value as a percentage of total book value has grown at an even faster rate, increasing from 1.9% in 1975 to 43.2% in 2005.

*Id.* at 34. In the area of biotechnology, many companies develop the innovative technology, patent it and then license it to companies that have the resources to take the product to market. Such

companies may base their revenues solely “on their ability to develop, protect and license innovations.” Esteban Burrone, *Patents at the Core: the Biotech Business*, WIPO (2006), [http://www.wipo.int/sme/en/documents/patents\\_biotech.htm](http://www.wipo.int/sme/en/documents/patents_biotech.htm) (last visited Mar. 10, 2011).

The increasing importance of innovation to the United States is beyond dispute and is one area of bipartisan consensus. Indeed, the President’s most recent State of the Union address emphasized the critical importance of “encouraging American innovation” and explained that in light of international competitive pressures, “innovation doesn’t just change our lives. It is how we make our living”. Barack H. Obama, President of the United States, Remarks by the President in State of Union Address (Jan. 25, 2011), *available at* <http://www.whitehouse.gov/the-press-office/2011/01/25/remarks-president-state-union-address>.

### C. Patent Valuations Will Necessarily Decrease

The increased uncertainty and risk associated with a lower standard of proof will diminish the ability to use critical intangible assets as capital producing resources because a lower value for such assets will be incorporated into every business plan, loan evaluation, or capital budgeting process with respect to any enterprise dependant on the protection of, and investment in, patents.

Most patent portfolio valuations are based upon a quantified scoring system using multifaceted qualitative methodologies that consider the following

factors: strength/coverage of claims, risk of prior art, appearance of inequitable conduct, prosecution history limitations, patent exhaustion and capacity to withstand an invalidity challenge. *See*, Method and System for Rating Patents and Other Intangible Assets, U.S. Patent No. 6,556,992 col.10 l.63-66 (issued Apr. 29, 2003) ("The quality of a patent in terms of the breadth or scope of rights secured, its defensibility against validity challenges and its commercial relevance can have particularly dramatic impact on its value."); System and Method for Patent Portfolio Evaluation, U.S. Patent No. 7,840,460 (issued Nov. 11, 2010); Köllner, *Due Diligence Or Discount Monetary Effect of Legal Aspects In Patent Valuation*, les Nouvelles, Mar. 2009, at 29, available at <http://amicourip.com/amicus/diligence.pdf>. Various patent population comparisons can be made to predict the value of a patent or patent portfolio. For example, "the first population might be a random sample of patents declared invalid by a federal court and the second population may consist of a random sample of patents from the general patent population, which are presumed to be valid." '992 Patent at col. 7 ln.15-19.

These valuation factors are all directly correlated to the presumption of validity and the current standard of proving a patent's invalidity by clear and convincing evidence. Adopting a preponderance standard would have two effects on the current scoring methods. First, it necessitates a lower defensibility score for future valuations.<sup>3</sup>

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<sup>3</sup> Court decisions upholding the validity of a patent have previously carried significant weight or value. However, a lower burden of proof increases the probability that a patent's

Second, it requires that greater weight be placed on any score relating to the risk of invalidation. Under both effects, computed patent scores will be lower on average and patents will be worth less because of the inherent uncertainty in a patent's validity.

The negative effects of increased risk will be amplified for patent centric companies, particularly in the capital markets. The diminished ability to rely upon patent protection will implicitly increase the beta, or empirically measured volatility, of the stocks for these patent rich companies. Investors will demand higher returns to offset this increased risk and will therefore pay less for shares of patent centric, innovation-based companies, causing the share prices of these companies to drop. This fundamental observation of investor behavior is embodied in the widely-accepted Capital Asset Pricing Model. William F. Sharpe, Capital Asset Prices With and Without Negative Holdings, Stan. Univ. Nobel Lecture (Dec. 7, 1990), *available at* [http://nobelprize.org/nobel\\_prizes/economics/laureates/1990/sharpe-lecture.pdf](http://nobelprize.org/nobel_prizes/economics/laureates/1990/sharpe-lecture.pdf); William N. Goetzmann, *An Introduction to Investment Theory*, YALE SCH. MGMT., <http://viking.som.yale.edu/will/finman540/classnotes/class1.html> (last visited Mar. 9, 2011). Simply put, “[w]ithout [patent] protection, business and industry will not expend (risk) the large amount of capital necessary to get an idea to the marketplace.” Senator Birch Bayh, *Bayh-Dole: Don't Turn Back The Clock*, 41 *les Nouvelles*, Dec. 2006 at 181-184, *available at* <http://amicourip.com/amicus/bayh.pdf>.

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invalidity will be challenged more than once, decreasing this value significantly.

The adoption of a lower standard of proof for patent invalidity will have an acute effect on the following market transactions:

1. *Investment in Innovation by Small Companies and Independent Inventors*. With a significantly reduced benefit to be obtained from a successful outcome before the PTO, there is a diminished incentive to invest in technology and apply for a patent. The heightened standard of proof was intended to support the Constitutionally mandated goal of encouraging invention and the reciprocal public disclosure, which strikes into the heart, soul, and purpose of our patent system. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989). “The patent monopoly was not designed to secure to the inventor his natural right in his discoveries. Rather, it was a reward, an inducement, to bring forth new knowledge.” *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 9 (1966) (citing Thomas Jefferson).

For emerging companies in highly competitive markets, the barrier to entry represented by a single patent can be all that separates survival from bankruptcy. However, the need for patent protection makes an already difficult task even tougher for the small entrepreneur seeking to enter the marketplace through inventive spirit. As one small successful entrepreneur noted, “[i]t is a high-risk and costly field, made even more so by the many-years delay between filing for a patent and the opportunity to fully leverage it in markets.” PAT KENNEDY, *IDEA JACKED: AN ENTREPRENEUR'S STORY OF INNOVATION AND TREACHEROUS COMPETITION IN GLOBAL MARKETS*, 317 (2009).

If the innovative entrepreneur, having endured such risks, costs, and delays, cannot rely on the validity of the patent ultimately obtained, small entrepreneurs and inventors, which drive a significant part of this country's innovation and employment, will not make the investment in patenting their invention. The increased vulnerability of patents and the downside risk and cost of patent enforcement litigation will result in the sale and license of intellectual property for substantially less than it is worth. This may be the harbinger of the patent owner's new reality, being left with an ineffectual piece of ribbon adorned paper because there is no way to confidently or cost effectively confront the piracy of inventive work product. This adverse market sector effect directly contravenes the aspirations of our Congress. "To build the jobs of tomorrow, we need to support inventors and entrepreneurs as they work to turn a good idea into a growing business." U.S. Senator Michael Bennett, Newsletter: Innovation Economy Mar. 9, 2011, *available at* <http://bennet.senate.gov/about/updates/>

2. *Asset Purchases*: Fair values of patents will decline if the risks of invalidity are increased since rational buyers of patents would reduce their buying price to reflect the additional risk. This correlates to large write-downs of patent assets because of the riskier, more unpredictable, environment.

3. *Reduced Patent License Negotiations*: Fewer companies will negotiate a patent license if they believe that they can prevail in litigation by invalidating the patent with a lower standard of invalidity. "A reality of litigation is the inclusion

of risk . . . Risk is measured by probabilities, and the best possible determination of these probabilities must be part of the financial calculations used to help manage the case.” S. Bechtel & L. Throckmorton, *Price Your Case: Expected Value Calculations in Patent Litigation*, les Nouvelles (Sept. 2008) at 209-15, *available at* <http://amicourip.com/amicus/price.pdf>. As a result, additional infringement in the marketplace will become commonplace as larger, better funded companies forgo the known predictability of taking a license for the risk of obtaining a better result in litigation. The patentee will be unfairly pulled into a costly (and often unaffordable) adversarial contest where the best case scenario for the patent owner is significant litigation expenses resulting in reduced profit margins, and the worst case scenario is complete devaluation of the investment.

4. *Current Patent Licenses Devalued and/or Breached*: Patent licensees will be increasingly inclined to cease making royalty payments or fail to renew their licenses if they believe the licensed patent can readily be declared invalid in litigation under the lower standard or that the licensor cannot afford the cost of litigation. This will result in a decrease in patent licensing which will significantly reduce the profits derivable from a patent or patent portfolio and, in turn, adversely affect the incentive to innovate and the market capitalization for innovation.

5. *Future Patent Licenses: Increased Litigation*: Potential licensees (and infringers) would be emboldened to reject requests for licenses and require the patent owner to initiate litigation in



order to enforce her patent. Again, this will result in the reduction or possible elimination of potential cash flows received from the patented invention and potentially drive the entrepreneur out of business. To the extent licenses can still be obtained, the uncertainty in the patent grant will be reflected in lower upfront fees and a lower on-going royalty stream, both of which can be deadly to a cash-starved, start-up company.

6. *The Number of Patents Challenged and Declared Invalid Increases:* A lower standard of proof will undeniably result in a greater number of patents being challenged for invalidity and a greater number being declared invalid. The likelihood of each patent being challenged more than once is also increased. The costs associated with such repeated challenges to a patent's validity, even if unsuccessful, greatly reduce the patentee's ability to profit from his invention.

In sum, the decrease in the value of a U.S. patent will lead to less market capitalization, less resources devoted to innovation and an overall weakening of the United States' position as a technology leader in the global marketplace.

#### D. Losses From Asset Impairment Will Be Recognized In Financial Reporting

Commercial and economic valuations of patents are often underpinned by licensing negotiations, known royalty rates, and the open market sales of patents.<sup>4</sup> As discussed above, the

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<sup>4</sup> E.g., an open market auction of patent assets is operated bi-annually by ICAP Ocean Tomo.

adoption of a lower standard to prove a patent invalid would map directly to an across the board reduction in the value of U.S. patents. In many cases, reductions in anticipated patent related cash flows will be reportable events for publically traded corporations because the companies that have acquired patents will be required to write-down the value of those patents carried in their financial statements in order to comply with generally accepted accounting principles (“GAAP”). Financial Accounting Standards Board (FASB) Accounting Standards Codification™ ¶ 350-30-35-14. FASB standards require that intangible assets subject to amortization, such as patents, be reviewed for impairment, and that if the carrying amount of the intangible asset is not recoverable through the undiscounted cash flows expected to result from its use and/or disposition, the asset must be written down to a revised fair value and an impairment loss recognized. *Id.* at ¶ 360-10-35-17.

Companies that acquire patents, either through an outright purchase or through a business combination, record the carrying (or book) value of the patent acquired in their financial statements either its acquisition cost (if purchased) or “fair value” (acquisition through a business combination). *Id.* at ¶¶ 805-50-30-1 to 30-4; 805-20-30-1; 820-10-35-2. Subsequent to acquisition, companies must test the recoverability of such assets whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. *Id.* ¶ 360-10-35-21. If an impairment event occurs, “an impairment loss shall be recognized if the carrying amount of an intangible asset [such as a

patent] is not recoverable and its carrying amount exceeds its fair value.” *Id.* at ¶ 350-30-35-14. Therefore, if an event or change in circumstance occurs that causes the carrying value of the patent to no longer be recoverable through its cash flow generation, the carrying value needs to be written down to “fair value.” *Id.* at ¶¶ 360-10-35-17; 820-10-35-2.

While the short term impact of lowering the standard of proof to establish patent invalidity may not, in itself, immediately require large write-downs in the carrying values of patent assets held by companies, such a ruling will, over a period of time, lead to subsequent events in various market sectors that will require write-downs of patent values to correlate with “fair value”. Events which will trigger impairment write downs include: the reduced acceptance of patent licenses, the failure to renew patent licenses, greater litigation, and an increase in patent invalidation. All of these events lead to reduced recoupment of investment, reduced profit margin, and in the case of invalidity, a write-down of the full carrying value of the patent.

These accounting adjustments will disproportionately impact companies that have invested the most in innovation, whether through research and development or the acquisition of patents from others. This will have a chilling effect both on research and development and the capital market for patents and technology companies. Over time, a lowered standard of proof for patent invalidity will erode profit margins and adversely impact stock prices and stock market performance,

especially for patent centric and technology driven companies.

**II. ANY LOWERING OF THE STANDARD OF PROOF TO INVALIDATE A PATENT SHOULD BE MADE BY CONGRESS BECAUSE OF THE SIGNIFICANT ADVERSE EFFECT THE CHANGE WILL HAVE ON THE VALUATION OF U.S. PATENTS, THE U.S. ECONOMY, AND THE UNITED STATES' POSITION AS A TECHNOLOGY LEADER IN THE GLOBAL MARKETPLACE**

The United States Constitution states that: “[t]he Congress shall have power . . . To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.” U.S. CONST., art. I, § 8, cl. 8. The consequence of adopting a lower standard of proof in patent validity litigation will be a dramatic adverse affect on the value of patents and investment in innovation, which is directly contrary to the Congressional mandate “to promote the progress of science.” As such, any change in the current standard applied to invalidate a patent should be made by Congress.

This Court is not unfamiliar with the difference in standards between the PTO administrative process and those of the courts.

While we have focused attention on the appropriate standard to be applied by the courts, it must be remembered that the primary responsibility for sifting out unpatentable material lies in the Patent Office.

*Graham*, 383 U.S. at 18.

This Court, respecting the differences in standards between the PTO and private litigation, maintained *stare decisis*, stating:

We have been urged to find in § 103 a relaxed standard, supposedly a congressional reaction to the “increased standard” applied by this Court in its decisions over the last 20 or 30 years. The standard has remained invariable in this Court...

*Id.* at 19.

Adopting a lower standard to prove patent invalidity will necessarily interfere with the powers granted to Congress. Anything less than application of the clear and convincing standard, which has been relied upon by many inventors and varied market sectors for over one hundred years, leaves the patent system open to increased risk and uncertainty, which, in turn, dramatically influences patent protection, patent royalties, license agreements, litigation, corporate acquisitions, the equity markets and the market value of business assets. A change in the legal standard which has the capacity to affect such a large amount of U.S. market sectors so pervasively should be left to Congress to address, so that all stakeholders can analyze, rigorously study, and carefully evaluate the full economic impact of changing the standard of proof for patent invalidity.

**CONCLUSION**

In sum, we respectfully request that this Court affirm the decision of the Court of Appeals for the Federal Circuit.

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**APPENDIX**

**Financial Accounting Standards Board (FASB)  
Accounting Standards Codification™**

**350 Intangibles—Goodwill and Other  
30 General Intangibles Other than Goodwill  
35 Subsequent Measurement**

**General**

- > Recognition and Measurement of an Impairment Loss**
- >> Intangible Assets Subject to Amortization**

**Paragraph 14**

**350-30-35-14** An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 by applying the recognition and measurement provisions in paragraphs 360-10-35-17 through 35-35. In accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10, an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

**360 Property, Plant, and Equipment**  
**10 Overall**  
**35 Subsequent Measurement**

**Impairment or Disposal of Long-Lived Assets**

- > Long-Lived Assets Classified as Held and Used**
- >> Measurement of an Impairment Loss**

**Paragraph 17**

**360-10-35-17** An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

- > Long-Lived Assets Classified as Held and Used**
- >> When to Test a Long-Lived Asset for Recoverability**

**Paragraph 21**

**360-10-35-21** A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying

amount may not be recoverable. The following are examples of such events or changes in circumstances:

- a. A significant decrease in the market price of a long-lived asset (asset group)
- b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
- d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)
- f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

**805 Business Combinations**

**50 Related Issues**

**30 Initial Measurement**

**805-50-30-1 to 805-50-30-4**

**Acquisition of Assets Rather than a Business**

**> Determining Cost**

**Paragraph 1**

**805-50-30-1** Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the fair value of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply.

**Paragraph 2**

**805-50-30-2** Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or equity interests issued), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply.

**> Allocating Cost**

**Paragraph 3**

**805-50-30-3** Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in the preceding two paragraphs. The cost of a group of assets acquired in an asset acquisition shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to goodwill. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall be determined based on its relative fair value. See paragraph 805-50-55-1 for an illustration of the relative fair value method to assets acquired outside a business combination.

**Paragraph 4**

**805-50-30-4** See paragraphs 740-10-25-49 through 25-55 for guidance on the accounting for acquired temporary differences in certain purchase transactions that are not accounted for as business combinations.

**820 Fair Value Measurements and Disclosures**

**10 Overall**

**35 Subsequent Measurement**

**General**

**> Definition of Fair Value**

**Paragraph 2**

**820-10-35-2** Fair value is defined in this Subtopic as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance is organized as follows:

- a. The price
- b. The principal (or most advantageous) market
- c. Market participants
- d. Application to assets
- e. Application to liabilities
- f. The asset or liability.