

Case Study: Microsoft Corp. V. I4i LP

Law360, New York (January 14, 2011) -- On Nov. 29, 2010, the Supreme Court granted Microsoft's petition for certiorari in *Microsoft Corp. v. i4i LP*, electing to hear an appeal that could alter the evidentiary standard that litigants must meet to invalidate a patent. This case has important implications for patent cases involving questions of patent validity.

The question the Supreme Court will consider is whether the U.S. Court of Appeals for the Federal Circuit erred in holding that Microsoft's invalidity defense must be proved by clear and convincing evidence, where the U.S. Patent and Trademark Office did not consider the prior art on which the invalidity defense is based. In its petition for certiorari, Microsoft argued that the Federal Circuit's categorical application of the clear and convincing evidence standard where the USPTO did not consider the prior art conflicts with Supreme Court jurisprudence, as well as pre-Federal Circuit case law from all 12 regional circuits.

Microsoft also maintained that the clear and convincing evidence standard distorts the patent system by making it too difficult to invalidate patents. They argued that a lower evidentiary burden is necessary to help weed out invalid patents that are improperly granted due to the USPTO's strained resources and inherent time and cost limitations.

Soon after its establishment in 1982, the Federal Circuit adopted the clear and convincing evidence standard as the burden applicable when a litigant raises invalidity as a defense to patent infringement. The correctness of that standard has been essentially unchallenged for more than two decades, until it was recently called into question by the Supreme Court in *dicta* in *KSR International Co. v. Teleflex Inc.*, 550 US 398 (2007).

There, the court noted that where an invalidity defense rests on evidence that the USPTO did not consider in issuing the patent, "the rationale underlying the presumption — that the USPTO, in its expertise, has approved the claim — seems much diminished." *Id.* at 426. Accused infringers like Microsoft have latched onto that language and begun to contest the Federal Circuit's burden of proof standard where validity is challenged based on prior art or other evidence that was not considered by the USPTO during examination of the patent.

The Lower Court Case

i4i Limited Partnership sued Microsoft in the U.S. District Court for the Eastern District of Texas, resulting in a \$290 million judgment against Microsoft that was later affirmed by the Federal Circuit. i4i alleged that certain functionality of Microsoft's word processing software, Microsoft Word, infringed i4i's patent. Among other defenses, Microsoft claimed that i4i's patent was invalid because the patented invention had allegedly been embodied in S4, a software product sold in the U.S. more than a year before i4i's patent application was filed, thus rendering the invention unpatentable under the "on-sale" bar of 35 U.S.C. § 102(b). The USPTO did not consider this prior art software during prosecution of the patent.

However, because i4i had long since discarded the source code for this early software, i4i argued that Microsoft could not prove by clear and convincing evidence that the early software anticipated the patent. Microsoft preserved its argument by requesting a jury instruction that would have set the evidentiary standard for proving patent invalidity at a preponderance of the evidence for defenses based on prior art not reviewed by the examiner. The district court refused that instruction. The jury concluded that Microsoft infringed i4i's patent and had failed to prove by clear and convincing evidence that the patent was invalid.

Microsoft maintained its argument in post-trial motions, moving for a new trial arguing that the district court improperly instructed the jury that Microsoft must prove invalidity in light of prior art not previously considered by the USPTO by clear and convincing evidence. The district court denied Microsoft's motion, relying on controlling Federal Circuit precedent. Microsoft appealed to the Federal Circuit, raising many arguments, including that the district court's jury instructions were erroneous because they applied the clear and convincing evidence standard even to invalidity arguments based on prior art not considered by the USPTO in prosecuting the patent. The Federal Circuit rejected Microsoft's arguments and affirmed the judgment of the district court.

In its petition to the Supreme Court, Microsoft focused on the standard of proof necessary to invalidate a patent, arguing that, at least in cases where the USPTO had not considered the prior art during patent prosecution, the applicable standard should be a preponderance of the evidence. Microsoft argued that the presumption of patent validity is based on the rationale that the USPTO, an expert agency, has reviewed the invention and deemed it patentable; therefore, the burden of proving invalidity should logically be reduced in situations in which the USPTO did not consider the evidence suggesting patent invalidity.

Microsoft's petition was supported by 11 amicus briefs filed on behalf of 19 companies that are frequently sued for patent infringement, as well as industry groups and professors of law and economics. Some of these amici made the broader argument that the clear and convincing evidence standard is inappropriate in evaluating patent validity, and the evidentiary standard should be reduced to a preponderance of the evidence in all situations, even when the USPTO considered the prior art.

The Legal Background on the Appropriate Evidentiary Burden

The patent statute offers limited guidance on the appropriate evidentiary standard for proving invalidity. Section 282 of Title 35 requires that "[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 U.S.C. § 282. Although the statute identifies the party who bears the burden of proof, it does not state the evidentiary standard for carrying that burden.

Microsoft and several amici argue that, because Section 282 is silent on the evidentiary burden, the applicable standard should be a preponderance of the evidence, citing *Grogan v. Garner*, 498 US 279, 286 (1991) (noting that where the statute at issue "does not prescribe the standard of proof," and that "[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof"). *i4i*, on the other hand, argues that Section 282 codifies pre-1952 Supreme Court law holding that more than a preponderance is required to prove a patent invalid, and the evidence must be clear and convincing, citing among other cases, *Radio Corp. of Am. v. Radio Eng'g Labs. Inc.*, 293 US 1, 2 (1934).

Although the parties disagree on its relevance to the question presented, *i4i* argues that the Supreme Court's decision in *Radio Corp.* lends support for the Federal Circuit's clear and convincing evidence standard. There the court stated that "there is a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence." *Radio Corp.*, 293 US at 2; see also, *id.* at 7-8 ("A patent regularly issued ... is presumed valid until the presumption has been overcome by convincing evidence of error."); *id.* at 8 ("[A]n infringer who assails the validity of a patent fair upon its face bears a heavy burden of persuasion, and fails unless his evidence has more than a dubious preponderance.").

Despite these strong statements from the Supreme Court, before the creation of the Federal Circuit, the regional circuits' interpretation of the presumption of validity was not uniform. Several circuits applied a heightened burden of proof (clear and convincing evidence), but these same courts applied a lower burden (preponderance of the evidence) when the validity of the patent was challenged based on evidence that was more pertinent than the prior art considered by the USPTO during prosecution.

Microsoft, however, argues that the circuits were in agreement on at least one point — that the statutory presumption of validity is weakened when the challenger comes forward with evidence not considered by the USPTO. See, e.g., *Baumstimler v. Rankin*, 677 F.2d 1061, 1066 (5th Cir. 1982); see also, *Manufacturing Research Corp. v. Graybar Electric Co.*, 679 F.2d 1355, 1364 (11th Cir. 1982) (requiring only preponderance of the evidence to show patent invalidity when the USPTO had not considered the prior art during prosecution).

The inception of the Federal Circuit brought with it uniformity on this question. The Federal Circuit has consistently interpreted Section 282 as requiring that the party challenging a patent's validity prove invalidity by clear and convincing

evidence. See, e.g., *Am. Hoist & Derrick Co. v. Sowa & Sons Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984) ("When no prior art other than that which was considered by the [US]PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government agency presumed to have properly done its job, which includes one or more examiners who are assumed to have some expertise in interpreting the references and to be familiar from their work with the level of skill in the art and whose duty it is to issue only valid patents.").

The Federal Circuit has applied this clear and convincing standard even where the invalidity defense is based on prior art never presented to or considered by the USPTO in prosecuting the patent. See *Uniroyal Inc. v. Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988) ("The burden of proof is not reduced when prior art is presented to the court which was not considered by the [US]PTO."). *i4i* argues that the Federal Circuit has consistently applied this interpretation without Congressional disapproval for over a quarter of a century, and thus the responsibility for changing this standard rests with Congress rather than the courts

Possible Outcomes of Supreme Court Review

The Supreme Court will be considering the question presented by the *i4i* case this term. Microsoft contends that a lower burden should apply where the USPTO has not considered the prior art at issue during prosecution of the patent. Some amici advocate a broader change in the law, arguing that the clear and convincing evidence requirement should be eliminated in all cases and only a preponderance of evidence should be necessary to prove patent invalidity.

In addressing the merits of the question presented, the Supreme Court's review could have several possible results. The court could uphold the Federal Circuit, leaving the current clear and convincing evidence standard wholly unchanged. The court could agree with Microsoft and hold that the preponderance standard applies in the situation where the USPTO did not consider the prior art. Or the court could go further, as some amici have urged, and hold that the preponderance standard applies to all validity questions, regardless of whether the USPTO has considered the prior art.

Yet another possibility is that the court could divide 4-4, since Chief Justice John Roberts did not take part in the consideration of the certiorari petition, presumably due to a financial conflict of interest. A 4-4 affirmance would leave the Federal Circuit rule in place without any formal guidance from the Supreme Court on the issue.

The case likely will be argued this March or April, and a decision in *Microsoft v. i4i* is expected by the end of June 2011.

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