

# Client Alert

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## Supreme Court Holds that the Patent Act Requires Invalidity Defense to be Proved by Clear and Convincing Evidence

*Microsoft Corp. v. i4i Limited Partnership*, 564 U.S. (June 9, 2011).

On June 9, 2011, the US Supreme Court issued a unanimous opinion (8-0, with the Chief Justice recused), holding that 35 U.S.C. § 282 establishes a presumption of patent validity that an alleged patent infringer must overcome by clear and convincing evidence in all circumstances. The decision affirmed the "clear and convincing" evidentiary standard long applied by the Federal Circuit and leaves the law largely where it has been for more than 50 years. The decision also provides guidance to patent litigants and lower courts as to the instructions that juries should be given concerning the relative weight of prior art evidence that was not before the Patent and Trademark Office examiner at the time the patent was granted.

### The i4i Litigation

i4i Limited Partnership sued Microsoft in the United States District Court for the Eastern District of Texas, alleging that certain functionality of Microsoft's word processing software, Microsoft Word, infringed i4i's patent. Among its defenses, Microsoft claimed that i4i's

patent was invalid because the patented invention had allegedly been embodied in a software product called S4, an earlier product also created by i4i that was sold in the United States more than a year before the patent application was filed. Thus, Microsoft argued, i4i's invention was not patentable because of the "on-sale" bar in 35 U.S.C. §102(b). The PTO had not considered this prior art software during its examination of i4i's patent application. 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 responded by requesting a jury instruction that would have set the evidentiary standard instead at a "preponderance of the evidence" for defenses based on prior art not reviewed by the PTO examiner. Microsoft argued that the statute is silent on the question, and that many lower court cases leading up to the enactment of the Patent Act had applied a lower burden in circumstances where the PTO examiner had not considered prior art. The district court refused to give the requested charge, and the jury returned a \$290 million verdict against Microsoft.

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The Federal Circuit affirmed, based on its long-standing precedent that patent invalidity must be proved by clear and convincing evidence. The Supreme Court granted Microsoft's petition for certiorari to consider whether that standard was proper when a PTO examiner had not considered the prior art that is before the factfinder at trial.

## The Supreme Court's Decision

The Supreme Court affirmed in an opinion by Justice Sotomayor, holding that Congress adopted the "clear and convincing" standard when it enacted § 282. Although § 282 does not expressly articulate the standard of proof, "by stating that a patent is 'presumed valid,' Congress used a term with a settled meaning in the common law."<sup>1</sup> Citing its decision in *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, the Court found that by the time Congress enacted § 282 the presumption of patent validity was understood "not to be overthrown except by clear and cogent evidence."<sup>2</sup> Based on this settled understanding, a defendant asserting an invalidity defense bears "a 'heavy burden of persuasion,' requiring proof of the defense by clear and convincing evidence. That is, the presumption encompassed not only an allocation of the burden of proof but also an imposition of a heightened standard of proof."<sup>3</sup>

Microsoft argued that *Radio Corp.* was not controlling, and that the law in the lower courts was very unsettled at the time Congress enacted § 282. It further argued that the preponderance of the evidence standard should be applied to invalidity challenges generally because reading the phrase "[a] patent shall be presumed valid" as embodying a clear-and-convincing burden of proof renders superfluous the statute's statement that "[t]he burden of establishing invalidity of a patent ... shall rest on the party asserting such invalidity."

The Court conceded that the latter phrase is superfluous, but held that the canon against superfluity does not apply because neither of Microsoft's alternative interpretations of the statute would give effect "to every clause and word of a statute."<sup>4</sup>

The Court similarly rejected Microsoft's more limited argument that a preponderance of the evidence standard should, at a minimum, apply where the evidence before the factfinder was not before the PTO. The Court agreed that "the rationale underlying the presumption [of validity] — that the PTO, in its expertise, has approved the claim — seems much diminished."<sup>5</sup> Nonetheless, the Court explained that other rationales may animate the presumption in these circumstances. For instance, that the patent holder was the first to publish his invention and thus doubts as to the inventor should be resolved in his favor, and that the heightened standard protects the patent holder's reliance interests in the disclosure of his invention to the public. Moreover, the Court reiterated that Congress specified the applicable standard of proof that must be applied in § 282. Nothing in § 282 indicates an intent to depart from the common law to enact a hybrid standard of proof that would vary based on the facts of a particular case, the Court reasoned. Rather, if Congress had intended such a departure, "it would have said so expressly."<sup>6</sup>

Still, the Court noted that where evidence was never considered by the PTO, a "challenger's burden to persuade the jury of its invalidity defense by clear and convincing evidence may be easier to sustain" because that evidence may carry more weight.<sup>7</sup> Under those circumstances, a jury instruction on the effect of new evidence not previously considered by the PTO "can, and when requested, most often should be given."<sup>8</sup> Microsoft, it noted, had not requested such a charge below.

The Court disclaimed reliance on policy considerations, though both Microsoft and *i4i* (supported by the United States as *amicus curiae*) had presented the Court with numerous policy-based arguments as to the wisdom of the clear-and-convincing standard. Microsoft argued that the heightened standard of proof dampens innovation by "insulating 'bad' patents from invalidity challenges."<sup>9</sup> *i4i* contended that the patent issuance rate is not above the optimal level, and that the heightened standard of proof reflects proper deference to the judgment of an expert agency.

Justice Breyer, joined by Justices Scalia and Alito, issued a separate concurrence (though he also joined the Court's opinion in full). That opinion simply notes that the evidentiary standard of proof at issue applies to questions of fact, and not to questions of law. Those Justices urged the courts properly to limit the application of the "clear and convincing" standard to factual issues by using instructions or special interrogatories to help make clear which factual findings underlie the jury's conclusions.

Justice Thomas issued a separate opinion concurring only in the judgment. He would have held *Radio Corp.* controlling as a matter of common law, rather than finding congressional ratification of its holding, as the Court's opinion does.

## Implications

This decision had the potential to effect a significant change in the law by making it easier to prove patent invalidity. Indeed, many Court observers expected the Court to make some change in existing law, once it granted certiorari in the case. Instead, the decision largely maintains the status quo. By affirming the status quo, the Court left intact a complex body of law that balances many competing interests.

Any fundamental change in this area of the law would have impacted competitive incentives and may well have resulted in a number of unintended consequences.

The decision does have implications for those asserting invalidity defenses. The Court stated that an instruction explaining to the jury that it should evaluate whether the evidence before it is materially new, and if so, consider that fact when determining whether an invalidity defense has been proved by clear and convincing evidence, is generally appropriate. This is consistent with the Federal Circuit's jurisprudence, including its decision in *American Hoist Derrick Co. v. Sowa & Sons, Inc.*, which held that where a defendant attacking patent validity "produces prior art or other evidence not considered in the PTO, there is ... no reason to defer to the PTO so far as its effect on validity is concerned. Indeed, new prior art not before the PTO may so clearly invalidate a patent that the burden is fully sustained merely by proving its existence and applying the proper law."<sup>10</sup>

Patent defendants would be wise to request such an "*Am. Hoist*" instruction, as some have, in cases where the defense is based on prior art that had not been considered by the PTO. The decision may also encourage defendants to request interrogatories along the lines suggested by Justice Breyer's concurring opinion, which were endorsed by Justices Scalia and Alito. As those Justices explained, "[b]y isolating the facts ... courts can thereby assure the proper interpretation or application of the correct legal standard (without use of the 'clear and convincing' standard). By preventing the 'clear and convincing' standard from roaming outside its fact-related reservation, courts can increase the likelihood that discoveries or inventions will not receive legal protection where none is due."<sup>11</sup>

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**Endnotes**

- <sup>1</sup> Slip op. at 7 (internal citation omitted).
- <sup>2</sup> 293 U.S. 1, 2 (1934).
- <sup>3</sup> Slip op. at 8.
- <sup>4</sup> Slip op. at 12 (quoting *Duncan v. Walker*, 533 U.S. 167, 174 (2001)).
- <sup>5</sup> Slip op. at 14 (quoting *KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007)).
- <sup>6</sup> Slip op. at 16.
- <sup>7</sup> Slip op. at 17.
- <sup>8</sup> Slip op. at 17.
- <sup>9</sup> Slip op. at 18.
- <sup>10</sup> *American Hoist Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1359-60 (Fed. Cir. 1984).
- <sup>11</sup> Breyer op. at 2.

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