



JONES DAY
COMMENTARY

***MICROSOFT v. i4i*: THE SUPREME COURT AFFIRMS THAT VALIDITY CHALLENGES MUST BE PROVED BY CLEAR AND CONVINCING EVIDENCE**

On June 9, 2011, the Supreme Court issued its long-awaited decision in *Microsoft Corp. v. i4i Limited Partnership*, affirming, 8-0 (Chief Justice Roberts was recused), that a patent challenger must prove a patent's invalidity by clear and convincing evidence. The Court summarized the issue, and its holding, as follows:

Under § 282 of the Patent Act of 1952, “[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.” 35 U. S. C. § 282. We consider whether § 282 requires an invalidity defense to be proved by clear and convincing evidence. We hold that it does.

THE CLEAR AND CONVINCING STANDARD OF PROOF AND THE STATUTORY PRESUMPTION OF VALIDITY

In 1952, Congress enacted 35 U.S.C. § 282, which starts: “A patent shall be presumed valid.” Section 282 goes on to allocate the burden of persuasion to the challenger: “The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” Since the 1982 creation of the Federal Circuit, the court has uniformly held that patent challengers bear the burden of proving patent invalidity by clear and convincing evidence, a term understood to mean something more than a mere preponderance of the evidence (though less than the “beyond a reasonable doubt” standard of the criminal law). Application of the clear-and-convincing-evidence standard of proof to questions of patent validity can trace its roots back to at least the 1934 decision of the United States Supreme Court in *Radio*

Corp. of Am. v. Radio Engineering Laboratories (“RCA”), in which Justice Cardozo’s opinion for the Court stated, “[T]here is a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence.”

In the last decade, however, legal commentators began questioning whether the presumption of validity justified imposing the clear and convincing standard of proof for validity challenges. Some critics advocated changing the standard because of the large numbers of patent filings and because statistics from the United States Patent and Trademark Office called into question whether patent examiners had the time and resources to examine patents thoroughly. These commentators argued that the policy goals behind the Patent Act would be better served if the standard of proof were lowered to a preponderance of the evidence standard. In 2003, the Federal Trade Commission added its voice to this movement by recommending that Congress should “enact legislation to specify that challenges to the validity of a patent are to be determined based on a ‘preponderance of the evidence.’”

The debate over the proper standard of proof has provoked commentary from many and varied sources. When Microsoft sought certiorari in this case, 11 separate *amicus* briefs were filed urging the Court to take up the case. After certiorari was granted, 48 *amicus* briefs were filed on the merits—five in favor of neither party, 19 in favor of Microsoft, and 24 in favor of i4i.

FACTUAL AND PROCEDURAL BACKGROUND

i4i Limited Partnership owns U.S. Patent 5,787,449 (“the ‘449 patent”), which claims an invention for editing custom XML, a computer language. The invention involves storing an electronic document’s markup language or metacode separately from its content, which allows users to edit one or the other exclusively, an improvement from earlier technologies.

In 2007, i4i sued Microsoft in federal district court in the Eastern District of Texas, alleging that certain versions of Microsoft Word infringed the ‘449 patent. In its defense, Microsoft contended that i4i had sold the claimed invention

in a program known as S4 more than a year before filing the patent application that led to the ‘449 patent. Microsoft argued that this sale rendered the ‘449 patent invalid under the on-sale bar of 35 U.S.C. § 102(b). There was no dispute that the S4 software was on sale more than year before the filing of the ‘449 patent application, and there was no dispute that the S4 software constituted prior art. The dispute at trial centered on whether the S4 software embodied the invention claimed in the ‘449 patent. Because the source code for S4 had been destroyed years before, this factual dispute turned largely on the testimony of the inventors of S4, who were also named inventors of the ‘449 patent. Both inventors testified that S4 did not practice certain elements of the invention disclosed in the ‘449 patent.

At the close of evidence, the trial court repeatedly instructed the jury that it was Microsoft’s burden to prove that the ‘449 patent was invalid by clear and convincing evidence. The jury found that Microsoft willfully infringed all claims asserted by i4i, and that Microsoft had failed to prove that i4i’s patent was invalid. The jury awarded \$200 million in damages. The district court granted i4i’s motion for a permanent injunction and also awarded \$40 million in enhanced damages.

THE FEDERAL CIRCUIT’S DECISION

Microsoft appealed. Before the Federal Circuit, Microsoft argued that it had established invalidity by anticipation by the sale of the prior art S4 software. The Federal Circuit recognized that there was no dispute that the S4 software was prior art under 35 U.S.C. § 102(b), but that the dispute centered upon whether Microsoft had proved that S4 practiced the “metacode map” limitation of the ‘449 patent. Because the S4 source code had been destroyed years before the litigation began, the dispute turned largely on the credibility of S4’s creators.

Microsoft argued that it had established a *prima facie* case of anticipation, and that i4i could not rebut it by relying on the inventors’ testimony alone, absent corroboration. The Federal Circuit rejected that argument and held that there was sufficient evidence for a reasonable jury to conclude that the patent had not been anticipated by S4:

We nonetheless conclude that there was sufficient evidence for a reasonable jury to find that the '449 patent was not anticipated by the sale of S4. At trial, the jury heard conflicting testimony on whether S4 met the "metacode map" limitation. In evaluating the evidence, the jury was free to disbelieve Microsoft's expert, who relied on the S4 user manual, and credit i4i's expert, who opined that it was impossible to know whether the claim limitation was met without looking at S4's source code. Although the absence of the source code is not Microsoft's fault, the burden was still on Microsoft to show by clear and convincing evidence that S4 embodied all of the claim limitations.

Microsoft also argued that the trial court erred when it refused to instruct the jury to apply a lesser burden of proof for prior art that was not before the Patent Office. The Federal Circuit disagreed: "We conclude that the jury instructions were correct in light of this court's precedent, which requires the challenger to prove invalidity by clear and convincing evidence."

THE SUPREME COURT'S DECISION

The Supreme Court granted certiorari to consider this question: "Whether the court of appeals correctly held that Microsoft's invalidity defense must be proved by clear and convincing evidence." The Supreme Court affirmed and concluded that 35 U.S.C. § 282 requires an invalidity defense to be proved by clear and convincing evidence.

The Court's opinion, authored by Justice Sotomayor, contains two important holdings.

1. Section 282 Requires an Invalidity Defense to be Proved by Clear and Convincing Evidence. In reaching this conclusion, the Court approached the issue as a matter of statutory construction. It first looked at the plain language of the statute to determine whether it expressed a standard of proof. The Court recognized that although § 282 of the Patent Act of 1952 expresses who bears the "burden" of proof ("[a] patent shall be presumed valid" and "the burden

of establishing invalidity ... rest[s] on the party asserting such invalidity"), the statute does not articulate a *standard* of proof. Because § 282 does not specifically address Congress' intent with respect to the standard of proof, the Court noted that the common assumption is that the ordinary meaning of the language applies. The Court explained, however, that because Congress used a common-law term, "presumed valid," in the 1952 Act, the Court should assume that Congress intended to apply the common-law meaning and everything that attaches to it.

To determine the common-law meaning of "presumed valid," the Court looked to its 1934 decision in *RCA*, where the Court held that "there is a presumption of validity, a presumption not to be overturned except by clear and cogent evidence." Justice Cardozo further explained that "[o]ne otherwise an 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." In *RCA*, the Court held that overcoming the "presumption of validity" requires clear and convincing evidence and expressly rejected application of a preponderance of the evidence standard.

In addition, the Court also looked to an early decision by the Federal Circuit, *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, in which Judge Rich, a principal drafter of the Patent Act of 1952, explained that "[section] 282 creates a presumption that a patent is valid and imposes the burden of proving invalidity on the attacker. That burden is constant and never changes and is to convince the court of invalidity by clear evidence." The Court also noted that neither *RCA* nor *American Hoist* has ever been rejected by the Supreme Court or Federal Circuit; that there is no pre-1952 case law limiting application of a heightened standard of proof; and that during its nearly 30-year history, the Federal Circuit has never wavered from its interpretation that § 282 requires invalidity to be established by clear and convincing evidence. The Court thus concluded that by the time Congress enacted § 282, it was well established in the common law that the "presumption of validity" was inextricably tied to the clear and convincing standard of proof.

The Court also rejected Microsoft's other statutory construction argument that the clear and convincing standard should be rejected because it creates superfluous language in § 282. The Court explained that under either the clear and convincing standard or the preponderance of the evidence standard, § 282 contains excess language. Indeed, the Court concluded that if § 282 only "'allocates the burden of production' or instead 'shift[s] both the burden of production and the burden of persuasion,' it would be unnecessary in light of § 282's statement that the challenger bears the burden of establishing invalidity." The Court therefore affirmed the Federal Circuit's decision as supported by the common-law meaning of the term as well as long-standing precedent.

2. A Different Standard of Proof Does Not Apply When the Prior Art Was Not Considered by the Patent Office.

The Supreme Court then turned to the second argument advanced by Microsoft, namely that even if "clear and convincing evidence" remained the ordinary standard of proof for determining invalidity, the preponderance-of-the-evidence standard should apply when the jury is considering evidence that was not considered by the Patent Office. In support of its argument, Microsoft pointed to the Court's decision in *KSR International Co. v. Teleflex Inc.*, in which the Court explained that when the Patent Office has not had an opportunity to review a piece of prior art, "the rationale underlying the presumption—that the Patent Office, in its expertise, has approved the claim—seems much diminished." On this point, the Court recognized that the challenger's burden to prove invalidity by clear and convincing evidence might be easier when the particular prior art was not considered by the Patent Office and might merit jury instructions on the effect of the new evidence with respect to satisfying the clear-and-convincing standard. The Court, however, declined to go farther and rejected "the kind of fluctuating standard of proof that Microsoft envisions."

Instead, the Court reasoned that if Congress had wanted a different standard of proof to apply based on whether the prior art had been considered by the Patent Office, it would have expressly provided for it. Moreover, the Court pointed out that before the Patent Act of 1952, the courts were applying the clear-and-convincing standard in cases where the prior art had not been considered by the Patent Office, including in *RCA* itself. The Court noted that this issue had already been addressed in *RCA* and stated "that because the heightened standard of proof applied where the evidence before the Court was 'different' from that considered by the Patent Office, it applied even more clearly where the evidence was identical." The Court, therefore, held that the clear-and-convincing standard applies even when the prior art was not considered by the Patent Office.

Four of the eight justices filed or joined concurring opinions. Justice Breyer, joined by Justices Scalia and Alito, emphasized that they were joining the Court's opinion "in full" but wanted to emphasize that the evidentiary issues addressed in the majority opinion apply only to questions of fact, and not to questions of law. Justice Breyer pointed out that invalidity often turns on both questions of fact and law and that to the extent a question of law is at issue, the Court's decision has "no application." These Justices also suggested that the use of jury instructions, interrogatories, and special verdict forms were appropriate procedural mechanisms for making clear which specific factual findings underlie the jury's conclusions.

Justice Thomas also issued an opinion, concurring in the judgment only, not in the Court's opinion. Justice Thomas stated that he was not persuaded that Congress codified the clear and convincing standard with the term "presumed valid" because there was confusion among the courts about application of the presumption of validity. He explained, however, that he reached the same conclusion as the majority because § 282 is silent as to the standard of proof; thus, the common-law rule applies since it was set forth in *RCA* and "has never been overruled by this Court or modified by Congress[.]"

Short of a legislative enactment overruling it, the *i4i* decision seems to settle the long-simmering debate over the standard of proof applied to courtroom invalidity challenges in favor of the status quo. Still, the decision merits some observations about what it leaves for resolution by future cases.

For one, in view of the fact that the Court endorsed the use of specialized jury instructions where the evidence of invalidity presented to a jury is arguably different from the evidence that was before the PTO, what form will those instructions take?

For another, Justice Breyer's concurring opinion contains statements suggesting, at least indirectly, that he and Justices Scalia and Alito may view the question of "Do th[e facts] show that the invention was 'nove[...]' under § 102?" as a legal question whose resolution is dependent upon subsidiary fact-finding. While that is undoubtedly true with respect to certain aspects of § 102, such as the on-sale bar of § 102(b), that statement is not an accurate one with respect to the Federal Circuit's consideration of the core § 102 "novelty" challenge, that of "anticipation by prior art." The Federal Circuit views the question of anticipation as "a question of fact," not one of law, but the Breyer concurrence may steel litigants to urge that the question of anticipation—like the question of obviousness under § 103—should instead be treated as a question of law.

Finally, the *i4i* decision marks the second time over a span of four days that a Federal Circuit patent-law decision was affirmed by the U.S. Supreme Court. Over the past 10 years, the Federal Circuit had consistently been reversed by the Supreme Court in a fairly extensive series of patent cases, a pattern that suggested that the appellate court was out of step with the Supreme Court's view of the calibration of patent law. Do these decisions suggest that the Federal Circuit is beginning to better synchronize itself with the Supreme Court? Only time will tell.

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