

## **Microsoft v. i4i – Awaiting a Burdensome Decision by the Supreme Court**

In the pending case of *Microsoft v. i4i*, the Supreme Court must decide whether the Federal Circuit's requirement of clear and convincing evidence is proper for an invalidity defense, even though the prior art relied upon by the Defendant was not considered by the Patent and Trademark Office (PTO).

The oral arguments were heard April 18, 2011. Prior to the oral arguments, the smart money was on Microsoft<sup>1</sup>, but based on comments by the Justices during oral arguments, it is not clear that Microsoft has an advantage going forward.

### **General discussion of the case**

The statute at issue is 35 U.S.C. §282 which states:

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.

Since its formation in 1982, the Federal Circuit has consistently required that invalidity be proven by clear and convincing evidence (C+C). Microsoft, relying in part on *dictum* in *KSR*,<sup>2</sup> has asked the Court to reduce the evidentiary standard to preponderance of evidence (POE) at least in situations where the PTO has not considered the prior art now being asserted against the patent claims.

Since the outcome of this case will directly affect the value of all patents (by making it easier for them to be invalidated), this case has received a lot of attention with many amici lined up in support of Microsoft as well as i4i.<sup>3</sup> Early in the Court calendar, the weight of the briefs appeared to favor Microsoft, but by the close of the opportunity for briefing, the weight of the briefs became more evenly balanced. It is not surprising to note that companies supporting Microsoft include generic pharmaceuticals who generally

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<sup>1</sup> Prominent people including retired Chief Judge Michel of the Federal Circuit who has spent many years requiring the clear and convincing standard expressed that Microsoft would likely win their case and that the burden would be lowered to the preponderance of evidence standard across the board. (January 11, 2011 webinar sponsored by the Intellectual Property Owners Association (IPO) and hosted by Ms. Pamela Sherrid).

<sup>2</sup> *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398, 426 (2007).

<sup>3</sup> The court documents can be found at <http://www.i4ilp.com/papers.php>.

do not seek patent protection along with software vendors who assert that prior art is difficult to find or is nonexistent in their field leading to invalid patents. On the other hand, companies supporting i4i heavily rely on patent protection, and include originating pharmaceutical companies as well as start-ups.

Since Microsoft began as a start-up company, it has risen to be within the top 50 of America's largest corporations<sup>4</sup> by taking calculated risks. Since Microsoft is in the top 10 of U.S. patent recipients, the question arises as to why would Microsoft ask the Court to lower the evidentiary burden thereby devaluing their large patent portfolio? In other words, what factors are unique to Microsoft that puts them in a better position despite the decrease in value of their patent portfolio? It is likely that Microsoft believes that it has leverage with its marketing of Windows® software packages in new PCs. Also, having such big pockets means that plaintiff companies will be less likely to settle with Microsoft, and juries will be more likely to give out high awards to the plaintiffs.

To characterize this case, this suit pits parties (Microsoft and their supporters) who believe that improperly issued patents cannot be invalidated with C+C evidence, against parties (i4i and their supporters) who believe that properly issued patents could be invalidated with a POE standard. The briefs supporting Microsoft painted a picture of the patent landscape as being overrun with invalid patents. A primary focus of the arguments contained in these briefs was on the limitations of the PTO. One brief<sup>5</sup> actually stated that “the claimed PTO expertise is revealed as a Potemkin village.” Although most briefs did not go this far, what the reader is left with is a picture of the Examiner as being overwhelmed with his case load, having very little time to adequately review each application, working in a system that rewards allowances rather than rejections, who is limited in the issues he can raise, and who is limited in the types of prior art he can search.

It was comments like this which motivated the filing of briefs such as the one signed by former Commissioners of the PTO, including Mr. Nicholas Godici.<sup>6</sup> This brief provided a more balanced perspective of the PTO’s operations with cogent arguments that Examiners are experts in the law as well as technology.

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<sup>4</sup> [http://money.cnn.com/magazines/fortune/fortune500/2010/full\\_list/](http://money.cnn.com/magazines/fortune/fortune500/2010/full_list/)

<sup>5</sup> Internet Retailers amicus brief at page 15 (February 3, 2011).

<sup>6</sup> Mr. Nicholas P. Godici is currently an Executive Advisor at BSKB, LLP.

## **History of case**

Since the issue of this case is one of statutory interpretation, the facts regarding the lower courts' decisions for validity are only tangentially relevant. However, a brief discussion of the history of this case is important to understand how the parties got to this point.

i4i sued Microsoft for infringement of U.S.P. 5,787,449 ("the '449 Patent"). Microsoft counterclaimed for invalidity alleging that the claimed invention was embedded in a system called "S4" that the inventors of the '449 Patent developed and sold to SEMI, a client of i4i's predecessor, over a year before applying for the '449 Patent.

Thus, in addition to denying infringement, Microsoft argued that the '449 Patent was invalid because the S4 system, which both parties agreed had been sold to SEMI **more than a year before the patent application was filed**, embodied the claimed invention. Unfortunately for Microsoft, i4i destroyed the S4 source code in the normal course of business 9 years prior to any possible litigation.

There is no dispute that the S4 system was not cited to the Examiner in the '449 patent application and that it is prior art. The only dispute between the parties with respect to Microsoft's on-sale-bar defense is whether S4 practiced the invention disclosed in the '449 Patent.

Microsoft asserts in its briefs before the Supreme Court, that i4i was able to stress to the jury repeatedly that Microsoft could not prove by C+C evidence that S4 embodied the claimed invention. For instance, the technical expert of i4i dismissed Microsoft's reliance on the S4 user manual by claiming that the manual "does not provide the level of detail necessary to form a clear and convincing opinion about what's actually being done by the SEMI system when its software is executed."<sup>7</sup> Thus, Microsoft had trouble meeting the C+C evidentiary burden of proof for invalidity.

While still at the District Court, Microsoft proposed an instruction to the jury that Microsoft's burden of proof with regard to its defense of invalidity based on prior art that the examiner did not review during the prosecution of the patent-in-suit is by POE. The

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<sup>7</sup> See Microsoft's brief at page 7 (filed January 26, 2011).

District Court denied this motion. The Federal Circuit affirmed the District Court's decision, and now the Supreme Court has taken on the case.

### **Possible outcomes**

So, what are some possible outcomes of the Supreme Court's ruling?

Microsoft wants a lower standard (POE) at least in situations where the "prior art on which the invalidity defense rests was not considered by the Patent and Trademark Office prior to the issuance of the asserted patent." As such, the Supreme Court may –

- (1) Affirm the Federal Circuit's decision and keep the C+C standard for all art with deference to PTO decision-making;
- (2) Reverse the Federal Circuit's decision and lower the standard to POE for all art with deference to PTO decision-making; or
- (3) Reverse the Federal Circuit's decision and create a *binary standard* where POE is used when asserted prior art has not been considered by the PTO and C+C is used when asserted prior art has been considered by the PTO.

There is fear in the patent community that the Court will adopt the binary standard, because such a standard will be fraught with practical problems. A preliminary issue that will need to be litigated (thereby taking up district courts' valuable time) will be whether the prior art that is being asserted in an invalidity challenge has been "considered" by the Examiner since this would require the defense to prove invalidity by the higher C+C standard. An argument could be made that the prior art has not been considered by the Examiner unless the Examiner explicitly states on the record why the claimed invention is patentable over the prior art. Another argument is that the Examiner has considered the prior art if it is listed on the front cover of the patent.

However, statements such as the following one from MPEP 609 would cloud up the issue:

"Consideration by the Examiner of the information submitted in an IDS means nothing more than considering the documents in the same manner as other documents in Office search files are considered by the examiner while conducting a search of the prior art in a proper field of search."

Further murking up the waters are cases such as a *Du Pont* case which states that considered art extends to all patents classified in the searched classes.<sup>8</sup>

It would naturally follow that if the *burden of proof standard* for proving invalidity changes depending upon whether the references have been considered by the Examiner, then it would be incumbent on Prosecutors to cite as much relevant art as possible.

The PTO is already being inundated with an increase in IDS submissions to avoid the perception of withholding a material document in view of certain cases.<sup>9</sup> This increase in IDS submissions is putting added stress on an already burdened system. For example, Commissioner Kappos recently discussed an IDS which was 1000 pages long.<sup>10</sup>

### **Jury considerations**

An important factor that the Court is considering is whether juries will understand instructions under the binary standard system. Under such a system, it is possible that the juries will need to apply the C+C standard for one set of prior art and will need to apply the POE standard for another set of prior art.

However, during oral arguments Justice Scalia and Justice Sotomayor correctly pointed out that both sets of instructions, the binary standard system as well as the current Federal Circuit construct,<sup>11</sup> require that the jury give added weight depending upon whether the Patent Office has considered the asserted prior art. In response, Mr. Waxman (the attorney for i4i) noted that juries appear to comprehend the current Federal Circuit construct in the following statement:

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<sup>8</sup> *E. I. Du Pont de Nemours & Co. v. Berkley & Co.*, 620 F.2d 1247, 1267 (8th Cir. 1980).

<sup>9</sup> See for example, *Larson Manufacturing Co. of South Dakota Inc. v. Aluminart Products Ltd.*, 90 USPQ2d 1257 (Fed. Cir. 2009); *Dayco Products, Inc. v. Total Containment, Inc.*, 329 F.3d 1358 [66 USPQ2d 1801] (Fed. Cir. 2003); and *McKesson Information Solutions Inc. v. Bridge Medical Inc.*, 82 USPQ2d 1865 (Fed. Cir. 2007).

<sup>10</sup> "A 1000 Page IDS? What's At Stake in Microsoft v. i4i Case", Gene Quinn, Feb. 16, 2011, [www.Ipwatchdog.com](http://www.Ipwatchdog.com)

<sup>11</sup> When no prior art other than that which was considered by the 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. *American Hoist & Derrick Company v. Sowa & Sons, Inc.*, 220 USPQ 763, 771 (Fed. Cir. 1984).

[A]s the Allison and Lemley article points out, the statistics bear out the common sense, which is that juries are, in fact, very influenced by the fact that there was art going to or questioning validity that was not considered by the PTO.

In other words, the instruction, whether the instruction is necessary or not, juries get it, and juries apply it.

Mr. Waxman then went on to highlight the added complexity of the binary standard system:

What they're not required to do is apply two different standards of proof following all sorts of predicate determinations that they would have to make.<sup>12</sup>

### **Clarification of Microsoft's request**

Justice Scalia pushed Mr. Hungar (the attorney for Microsoft) to choose whether Microsoft is asking for the binary standard approach or for the POE standard in all cases. Justice Scalia likened this reliance on both options as being like riding horses in two different directions. Justice Scalia stated "You can't ride both horses. They're going in different directions."<sup>13</sup> In response, Mr. Hungar stated that the statute does not specify a heightened standard; therefore preponderance, the default standard, applies.<sup>13</sup>

As such, it appears that Mr. Hungar clarified that Microsoft was not seeking the binary standard approach. Hopefully, the Justices will take this remark into consideration despite the fact that Microsoft's briefs are not clear.

### **Supreme Court precedent**

One of the cases that has been given a lot of attention in briefs for both sides is the RCA case.<sup>14</sup> This is a Supreme Court case in which Justice Cardozo made broad statements about the burden of proof in patent cases. Justice Cardozo's opinion for a

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<sup>12</sup> Transcripts of Oral Arguments at page 32.

<sup>13</sup> Transcripts of Oral Arguments at page 4.

<sup>14</sup> *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, 293 US 1 (1934).

unanimous Court stated categorically that “[e]ven for the purpose of a controversy between strangers, there is a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence. Through all the verbal variances, however,” the Court continued, “there runs this common core of thought and truth, that one otherwise an infringer which 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.”

During oral arguments, and in Microsoft’s briefs, Microsoft tried to limit the holding of *RCA* to relate only to oral testimony to substantiate priority of invention claims and that this argument had already been disputed at the PTO (a case of *stare decisis*). Nevertheless, Justice Kagan took a more pragmatic view of this case as exemplified in the following statement:

...it seems to me that *RCA* would matter, even under your view of the world, because if you think that Congress did not codify the existing state of the law as to the standard of proof and you think that Congress --- that – that section 282 was essentially silent as to the standard of proof, then the question is, what do we do? And one answer to that question is we go with our prior precedent, which is *RCA*.

Surprisingly, Mr. Waxman (the attorney for i4i) agreed that the discussion by Justice Cardozo relating to the burden of proof was *dicta* in the sense that the case itself involved a priority issue. However, Mr. Waxman also referred to other cases by the Supreme Court<sup>15</sup> in which the heightened burden was explicitly used in a context not involving *stare decisis*.

Microsoft also cites to the case of *Grogan*<sup>16</sup> asserting that the Court has a longstanding presumption that, “in the absence of a constitutional or congressional command to the contrary, civil cases are governed by a preponderance standard.”<sup>17</sup> In response, i4i argues that: “In *Grogan* there was no line of precedent from this Court that Congress could have intended to codify. Furthermore, the Court there adopted a

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<sup>15</sup> *Mumm v. Jacob E. Decker & Sons*, 301 U.S. 168 (1937); *Smith v. Hall*, 301 U.S. 216 (1937).

<sup>16</sup> *Grogan v. Garner*, 498 U.S. 279 (1991).

<sup>17</sup> Microsoft’s brief at page 13 (filed January 26, 2011).

preponderance standard only after finding that neither the relevant statute nor the legislative history spoke to the standard of proof.”<sup>18</sup>

### **Risk of harm**

One of the arguments set forth in the briefs supporting Microsoft is that a POE standard is appropriate in civil cases since this standard does not favor one party over the other. However, i4i counters that the C+C standard is appropriate since the **risk of harm** resulting from a wrong decision is greater for patentee. Every time patentee asserts the patent, they risk it being found invalid. It takes just one ruling of invalidity to result in unenforceable claims/patent. Also, the inventor has already taken the risk of disclosing his invention to the public thereby satisfying his part of the bargain.<sup>19</sup>

### **Reexaminations**

In a separate topic, the reexamination proceedings have also been given discussion in briefs for both sides. In the briefs supporting Microsoft, the data for reexaminations has been cited as evidence that there are many invalid patents. Apparently, 95 percent of patents have claims cancelled or changed in *inter parte* reexaminations, and 75 percent of patents have claims cancelled or changed in *ex parte* reexaminations.<sup>20</sup> However, briefs supporting i4i state that the reexamination proceedings are evidence that Congress understands that a lower burden is appropriate for patentability determinations by experts at the PTO whereas the C+C is appropriate for lay juries.

Also, briefs supporting Microsoft argue that there should not be settled expectations with the higher C+C burden, since the patent could be invalidated with the POE standard used by Examiners during a reexamination proceeding. However, briefs supporting i4i counter by pointing out that the reexamination proceeding is not a win-lose proposition such as found in a court proceeding, since patentee has the ability to amend claims during a reexamination proceeding.

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<sup>18</sup> See i4i's brief at page 17 (filed March 14, 2011).

<sup>19</sup> For a discussion of the "bargain," see i4i's brief at page 34 (filed March 14, 2011).

<sup>20</sup> See *amicus* brief for The Public Patent Foundation at pages 5-6.



### **Administrative Procedure Act (APA)**

One interesting thing to note from the oral arguments is that the Supreme Court justices did not discuss the APA, since briefs supporting Microsoft brought up that the APA has bearing on this decision. For example, the brief of SAP America et al. argues for the POE standard by making the following points:

- First, the APA does not use elevated standards of proof as a mechanism for giving weight or respect to an agency's action; and
- Second, under the APA's approach, agency action is entitled only to the degree of respect that is justified by the agency's reasoning, which in turn is a function of the evidence that was presented to the agency.<sup>21</sup>

### **Conclusion**

In conclusion, the Court's decision is expected by the end of June 2011. It is important to note that Chief Justice Roberts has recused himself of the case. As such, with an 8 member court rendering the decision, there will need to be a 5-3 decision for the holding to be precedential. Otherwise, the decision would be binding just upon the parties.

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<sup>21</sup> Brief for SAP America at page 13.