

Litigation Alert

The U.S. Supreme Court Upholds a Clear and Convincing Evidentiary Standard for Patent Invalidity Under 35 U.S.C. §282.

Microsoft Corp. v. i4i LP et al., No. 10-290, Argued April 18, 2011 – Decided June 9, 2011.

DAVID D. SCHUMANN, RYAN J. MARTON AND SAMAR K. SHAH

FENWICK & WEST LLP
Fenwick

Summary

On Thursday June 9, 2011, the Supreme Court, by an 8-0 decision, held that a party challenging validity of a patent must prove invalidity by clear and convincing evidence rather than by a preponderance of evidence under 35 U.S.C. §282. The Court's holding refused Microsoft's proposal to establish a lower evidentiary standard for invalidating a patent based on prior art that an examiner did not review during prosecution of the patent-in-suit.

Background of the Case

In *Microsoft*, the plaintiffs ("i4i") asserted U.S. Patent No. 5,787,449 ("the '449 patent"), relating to editing mark-up language documents, such as those created using extensible mark-up language or XML, against Microsoft's Word products. Specifically, i4i alleged that Microsoft Word® users infringe the '449 patent when they use the application to open files containing custom XML.

At trial, Microsoft alleged that the '449 patent was invalid because the technology claimed in the patent was practiced by an S4 software product, a product undisputedly sold by i4i more than a year before the patent application was filed, and not considered by the USPTO during the prosecution of the '449 patent. However, the parties disagreed over whether the software actually included the invention claimed in i4i's patent. Since i4i had destroyed the S4 source code in normal course of business nine years prior to any litigation, Microsoft used other evidence to support its contention that S4 embodied the invention claimed in the '449 patent, namely statements made by the inventors of the '449 patent that the claimed technology was packaged in the S4 product. i4i disputed whether this evidence was clear and convincing and dismissed Microsoft's reliance on an S4 user manual by claiming that the manual did not

provide the requisite level of detail necessary to determine what was practiced by the S4 product.

Unable to prove invalidity by a clear and convincing standard, Microsoft proposed jury instructions providing that Microsoft's burden of proof with respect to invalidity based on the S4 product should be preponderance of evidence since the USPTO did not consider the S4 product when issuing the '449 patent. Microsoft cited *KSR Int'l Co v. Teleflex Inc.*, 550 U.S. 398 (2007) wherein the Court noted that it was "appropriate to note that the rationale underlying the presumption – that the PTO, in its expertise, has approved the claim – seems much diminished" in that case. However, the US District Court for the Eastern District of Texas agreed with i4i and instructed the jury that Microsoft had the burden of proving invalidity by clear and convincing evidence. Thereafter, the jury found the '449 patent valid and infringed and awarded i4i about \$290 million.

The Federal Circuit affirmed the District Court's judgment by concluding that the jury instructions were correct in light of Federal Circuit precedence. The court explained that its decisions in *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301-1311-16 (Fed. Cir. 2009), and *Tech. Licensing Corp. v. Videotek, Inc.*, 545 F.3d 1316, 1327 (Fed. Cir. 2008) make clear that the Supreme Court's decision in *KSR* did not change the burden of proving invalidity by clear and convincing evidence.

The United State Supreme Court's Decision

In *Microsoft*, the Supreme Court first determined whether 35 U.S.C. §282 prescribed a standard of proof with which a challenger must prove invalidity. 35 U.S.C. §282 provides that "[a] patent shall be presumed valid...[t]he burden of establishing

invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” The Court posited that “although the statute explicitly specifies the burden of proof, it includes no express articulation of the standard of proof.” Slip. Op. at 6.

Since the statute does not provide a definition of the term “presumed valid,” the Court interpreted the term based on its common law meaning as articulated in *RCA*, 293 U.S. 1 (1934), wherein Justice Cardozo wrote for a unanimous Court that “there is a presumption of validity, a presumption not to be overturned except by clear and cogent evidence.” *RCA*, 293 U.S. at 2. The Court held that “by the time Congress enacted §282 and declared that a patent is ‘presumed valid,’ the presumption of patent validity had long been a fixture of the common law.” Slip. Op. at 8.

The Court did not find Microsoft’s arguments convincing, that prior to 1952’s enactment of §282, the Court applied a clear and convincing standard of proof in two limited circumstances. Additionally, the Court did not find that *KSR*’s language required a lower burden of proof. The Court observed that numerous Courts of Appeal have held that the “the presumption of validity is ‘weakened’ or ‘dissipated’ in the circumstances that the evidence in an infringement action was never considered by the PTO.” *Id.* at 16. But the Court refused to read the cases “to hold or even to suggest that a preponderance standard would apply in such circumstances.” *Id.* The Court cites Judge Rich’s opinion in *American Hoist*, 725 F.2d, at 1360 that “[w]hen new evidence touching validity of the patent not considered by the PTO is relied on, the tribunal considering it is not faced with having to disagree with the PTO or with deferring to its judgment or with taking its expertise into account. The evidence may, therefore, carry more weight and go further toward sustaining the attacker’s unchanging burden.”

Finally, the Court refused to judge “the comparative force” of policy arguments of whether a heightened standard of proof ought to apply in patent validity actions.

Since the common law definition of “presumed valid” had a well settled meaning of requiring a clear and convincing standard of proof to invalidate a patent, the court held that the District Court properly interpreted 35 U.S.C. §282 by requiring the defendant to prove invalidity by clear and convincing evidence.

Implications

Microsoft clarifies that patent invalidity under 35 U.S.C. §282 must be proven by clear and convincing evidence regardless of whether the prior art in question was reviewed by the examiner or not.

For further information, please contact:

David D. Schumann, Partner, Litigation Group
dschumann@fenwick.com, 415.875.2321

Ryan J. Marton, Associate, Litigation Group
rmarton@fenwick.com, 415.875.2332

Samar K. Shah, Associate, Intellectual Property Group
sshah@fenwick.com, 650.335.7147

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