No.

IN THE

Supreme Court of the United States

MICROSOFT CORPORATION,

Petitioner,

v.

I4I LIMITED PARTNERSHIP AND INFRASTRUCTURES FOR INFORMATION INC.,

Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The Patent Act provides that "[a] patent shall be presumed valid" and that "[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. The Federal Circuit held below that Microsoft was required to prove its defense of invalidity under 35 U.S.C. § 102(b) by "clear and convincing evidence," even though 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. The question presented is:

Whether the court of appeals erred in holding that Microsoft's invalidity defense must be proved by clear and convincing evidence.

RULE 29.6 STATEMENT

Pursuant to this Court's Rule 29.6, undersigned counsel state that Microsoft Corporation has no parent company and that no other publicly held company owns 10% or more of its stock.

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PETITION FOR A WRIT OF CERTIORARI

Microsoft Corporation respectfully submits this petition for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-57a) is reported at 598 F.3d 831. An earlier opinion of the court of appeals (App., *infra*, 58a-111a) is reported at 589 F.3d 1246 but was withdrawn by the court. The opinion of the district court (App., *infra*, 112a-188a) is reported at 670 F. Supp. 2d 568.

JURISDICTION

The judgment of the court of appeals was initially entered on December 22, 2009. In response to Microsoft's petition for panel rehearing and rehearing en banc, the panel on March 10, 2010, withdrew its opinion, issued a revised opinion, and referred Microsoft's petition for rehearing en banc to the en banc court. App., *infra*, 191a-192a. The court of appeals denied the petition for rehearing en banc on April 1, 2010. *Id.* at 189a-190a. Justice Stevens extended the time in which to file a petition for a writ of certiorari to and including August 27, 2010. *See* No. 09A1195. The jurisdiction of this Court rests on 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

Section 102 of the Patent Act, 35 U.S.C. § 102, provides, in relevant part:

> A person shall be entitled to a patent unless . . . (b) the invention was . . . on sale in this country, more than one year prior to the date

> of the application for patent in the United States . . . .

Section 282 of the Patent Act, 35 U.S.C. § 282, provides, in relevant part:

> 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.

STATEMENT

For over a quarter-century, the Federal Circuit has interpreted the presumption of validity codified in 35 U.S.C. § 282, which specifies no particular standard of proof, to require that a person challenging the validity of a patent prove invalidity by clear and convincing evidence rather than by a preponderance of the evidence. *See*, *e.g.*, *Am. Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984). The Federal Circuit adheres to this view even when the invalidity defense is based on prior-art evidence that was never presented to or considered by the Patent and Trademark Office ("PTO") in issuing the patent. *See Uniroyal, Inc.* v. *Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988); *see also*, *e.g.*, App., *infra*, 23a.

In *KSR International Co.* v. *Teleflex Inc.*, 550 U.S. 398 (2007), however, this Court expressed a far more pragmatic view of the statutory presumption of validity. There, the Court "th[ought] it appropriate to note that the rationale underlying the presumption—that the PTO, in its expertise, has approved the claim—seems much diminished" where an invalidity defense rests on evidence that the PTO never had an opportunity to consider. *Id.* at 426. That observation was in accord with the conclusion reached

by *all twelve* regional circuits before the Federal Circuit assumed jurisdiction of most patent matters in 1982. *See*, *e.g.*, *Futorian Mfg. Corp.* v. *Dual Mfg. & Eng'g, Inc.*, 528 F.2d 941, 943 (1st Cir. 1976) (affirming an instruction that the jury could find invalidity by a preponderance of the evidence because "to the extent patent office attention has not been directed to relevant instances of prior art the presumption of validity arising from the issuance of a patent is eroded").

The Federal Circuit has repeatedly disregarded *KSR*'s invitation to reconsider its heightened evidentiary standard. Instead, it has clung to its pre-*KSR* caselaw and continued to apply the clear-and-convincing-evidence standard even to invalidity defenses based on prior-art evidence that the PTO never considered. App., *infra*, 23a.

The consequences of the Federal Circuit's rigidity are dramatic, as this case—the largest patent infringement verdict ever to be affirmed on appeal—well illustrates. Respondents i4i Limited Partnership and Infrastructures for Information Inc. (collectively, "i4i") alleged that certain versions of Microsoft's word-processing software, Microsoft *Word*, infringed i4i's patent. App., *infra*, 3a. At trial, Microsoft contended that i4i's patent is invalid because the disclosed invention had been embodied in a software product sold in the United States more than a year before the patent application was filed, *id.* at 19a-22a, thus rendering the invention unpatentable under the "on-sale bar" of 35 U.S.C. § 102(b). That prior-art software was never considered by the PTO during prosecution of the patent. App., *infra*, 184a. Yet because i4i had destroyed the source code for its early software before filing its action against Microsoft, i4i's technical expert and counsel were able to

stress to the jury repeatedly that Microsoft could not prove *by clear and convincing evidence* that the software embodied the patented invention. Ultimately, the jury concluded that Microsoft had failed to sustain this heightened standard of proof, and the district court subsequently entered a permanent injunction and a money judgment against Microsoft in excess of $290 million. C.A. J.A. 1-4. This case thus places in stark relief the distortive consequences of the Federal Circuit's clear-and-convincing-evidence standard.

As the Federal Trade Commission has recognized, litigation over the validity of patents advances our patent system by "weeding out . . . those patents that should not have been granted." U.S. Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 5, at 28 (2003) ("FTC Report") (noting that "there is no persuasive reason why the level of th[e] burden should be clear and convincing evidence"), *available at* http://www.ftc.gov/os/2003/10/innovationrpt.pdf. If the standard of proof in such litigation is not calibrated carefully, it will "stifle, rather than promote, the progress of useful arts." *KSR*, 550 U.S. at 427 (citing U.S. Const., art. I, § 8, cl. 8). The question presented is thus important not only to every person and company affected by the erroneous grant of an invalid U.S. patent, but also to the effective functioning of our patent system.

1. The patent at issue in this litigation—U.S. Patent No. 5,787,449 (the "'449 Patent")—relates to a technology called markup languages. At its most basic level, a markup language is a way of indicating how text should be displayed—which words are in boldface, for example, or what should be centered, or where line breaks should appear. App., *infra*, at 5a.

In general, a markup language inserts "tags" that indicate how the text between those tags should look on a computer screen. *Ibid.* For example, <Para> is a computer markup code that indicates the start of a paragraph, and </Para> indicates the end of a paragraph. Using so-called "custom XML," users can create and define their own markup codes. *Ibid.* The '449 Patent refers to markup codes as "metacodes." *Ibid.*

Markup languages for computers have existed and, indeed, have been standardized for decades. C.A. J.A. 5367, 5527. Computer programs for creating and editing these markup languages also have existed for decades, including one—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. App., *infra*, at 20a, 137a. S4 was not before the PTO when the '449 Patent was prosecuted. *See id.* at 184a ("There is . . . no dispute that the S4 system was not specifically disclosed in the ']449 patent application and that it is prior art."); C.A. J.A. 239 (listing prior-art references before the PTO); *see also id.* at 862-64, 2072.

The invention claimed by the '449 Patent is an improved method for editing markup-language documents by storing the document's content separately from its metacodes. App., *infra*, 5a. The patent teaches that the metacodes are stored in a "metacode map," which permits the user to determine where each metacode belongs in the stream of content. *Ibid.* This allows the user to edit the structure of the document (*i.e.*, the metacodes) by accessing only the metacode map, without ever needing to access (or have access to) the content. *Id.* at 6a.

2. Since 2003, Microsoft *Word* has allowed users to edit documents containing custom XML. App., *infra*, at 6a. In 2007, i4i sued Microsoft in the United States District Court for the Eastern District of Texas, alleging that *Word* users infringe the '449 Patent when they use *Word* to open files of certain formats—.xml, .docx, or .docm—that contain custom XML. *Id.* at 6a, 167a. i4i asserted that, when used in this manner, *Word* separates the custom XML metacodes from content and stores them in the manner claimed by the '449 Patent. *Id.* at 28a.

a. 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. App., *infra*, 19a-20a, 184a. The only dispute between the parties with respect to Microsoft's on-sale-bar defense was whether S4 practiced the invention disclosed in the '449 Patent. *Id.* at 20a.

Microsoft presented considerable evidence to support its contention that S4 did, indeed, practice i4i's patented invention. Shortly after i4i filed its patent application, Michel Vulpe—one of the named inventors and i4i's founder—touted the pending patent in a funding application to the Canadian government, noting that "[t]he initial implementation [of the '449 Patent] is embedded into [i4i's] S4 product" and that the '449 Patent's "single metacode model" was "implemented in i4i flagship product S4." C.A. J.A. 3759, 3770, *quoted in* App., *infra*, 187a. This is consistent with what Vulpe told potential investors in a letter explaining, before the patent application was filed, that he was "currently exploring the patenting of some fundamental ideas used in the [i4i] technology" and that "[t]he basis of the patent . . .

precedes [i4i]." *Id.* at 2882, *quoted in* App., *infra*, 187a. Vulpe admitted at trial that, because i4i was founded contemporaneously with the development of S4, his letter informed these potential investors that the basis for the '449 Patent dated back to when S4 was being developed. *Id.* at 1695-99.

That S4 practiced the invention of the '449 Patent was also confirmed by a former employee of both SEMI and i4i, Scott Young. Young testified that Vulpe told him the '449 Patent application was filed to cover the S4 program. C.A. J.A. 1977-81. Young also testified that, after he left SEMI to join i4i, he and Vulpe touted the patenting of the S4 software in attempting to obtain funding for i4i's business. *Id.* at 1979-81, 1983-85.

Young confirmed that the S4 software provided a mapping between the content and tags (*i.e.*, metacodes) of a document opened by a user of the SEMI system, as claimed in the '449 Patent. C.A. J.A. 1971-74. Consistent with Young's testimony, the S4 user guide showed that the software was—just as the system described and claimed in the '449 Patent—a system for creating, opening, editing, and storing documents containing metacodes, and that it allowed the metacodes to be manipulated separately from the content. *See*, *e.g.*, *id.* at 3472-74, 3572-73, 3578-82. In fact, the same hardware platform described in the S4 manual is the very hardware platform described in the '449 Patent as the preferred embodiment. *Id.* at 251, 829-31, 3480.

The inventors insisted, however, that the prior-art S4 software did not practice the invention of the '449 Patent because they had not yet conceived of that invention at the time the software was sold. *See* App., *infra*, 20a; *see also* C.A. J.A. 839, 1682-84. Ac-

knowledging that this conception testimony was inconsistent with the contemporaneous documentary record, including Vulpe's own pre-litigation letter to prospective investors in i4i stating that "[t]he basis of the patent" dated back to when S4 was being developed, Vulpe claimed that he had simply lied in that letter to further his financial interests. *Id.* at 1697 ("It's an exaggeration, and as I said, it could be said to be a lie."); *see also* App., *infra*, 187a ("Mr. Vulpe admitted on the stand that he lied to investors about the creation date of the ['449 patent.").

b. Microsoft's ability to rebut the inventors' testimony was hampered by the fact that i4i had "discarded" the S4 source code before this litigation began. C.A. J.A. 1771-72; *see also* App., *infra*, 20a (noting that "the S4 source code was destroyed"). The standard of proof for Microsoft's invalidity defense thus assumed critical importance.

Microsoft had 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 preponderance of the evidence." Revised Joint Proposed Final Jury Instructions, D.E. 301-2, at 7 n.8; *see also id.* at 37 n.56; Joint Proposed Final Jury Instructions, D.E. 284-2, at 9, 42. In support of this instruction, Microsoft invoked *KSR* to argue that "the heightened burden does not apply as to prior art not considered by the Patent Office." Revised Joint Proposed Final Jury Instructions, D.E. 301-2, at 7 n.8; *see also id.* at 37 n.56; Joint Proposed Final Jury Instructions, D.E. 284-2, at 8 n.8, 9 n.9, 39 n.58, 40 n.61.

i4i objected to Microsoft's proposed instruction as an "inaccurate statement of the law" under Federal

Circuit precedent. Joint Proposed Final Jury Instructions, D.E. 284-2, at 9 n.10. Over Microsoft's objection (C.A. J.A. 2264), the district court agreed with i4i and instructed the jury that "Microsoft has the burden of proving invalidity by clear and convincing evidence." App., *infra*, 195a; *see also id.* at 195a-196a ("Microsoft must prove that a patent claim is invalid by clear and convincing evidence."); *id.* at 195a (instructing the jury that "the clear and convincing evidence standard requires a greater degree of persuasion than is necessary for the preponderance of the evidence standard").

Seizing on this heightened evidentiary standard, i4i argued that the destruction of the S4 source code precluded Microsoft from carrying its burden. Its technical expert, for instance, 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." C.A. J.A. 2301. During closing argument, i4i's counsel similarly emphasized the clear-and-convincing-evidence standard, arguing that the jury should reject Microsoft's invalidity defense "if you believe that Microsoft has failed to prove by clear and convincing evidence the patent is invalid." *Id.* at 2447-48.

The jury concluded that Microsoft had infringed the '449 Patent and that Microsoft had failed to prove by clear and convincing evidence that the patent was invalid. App., *infra*, 7a. The jury awarded $200 million in damages to i4i. *Ibid.*[1]

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[1] The jury's damages calculation was based on 46 responses to a telephone survey of 988 businesses. App., *infra*, 38a. Only

[Footnote continued on next page]

c. Microsoft moved for a new trial, arguing that the district court "improperly instructed the jury that Microsoft bore the burden of proving invalidity in light of the SEMI S4 system by clear and convincing evidence." Motion for New Trial, D.E. 359, at 21. Microsoft argued that, "[b]ecause the SEMI S4 system was never disclosed to the patent office, the appropriate standard should have been proof by the preponderance of the evidence." *Ibid.* "This instruction was clearly prejudicial," Microsoft urged, "particularly in view of i4i's heavy reliance on the supposed lack of evidence concerning how the SEMI S4 system worked." *Ibid.*

The district court denied Microsoft's motion. Because "the *KSR* Court did not specifically hold that the clear and convincing standard was inapplicable when the PTO did not consider the particularly relevant prior art," the court instead relied on Federal Circuit precedent requiring the defendant to "prove

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[Footnote continued from previous page]

19 of the responses reported any use of *Word*'s custom XML functionality, but i4i's damages expert nonetheless extrapolated that, at the time of trial, 2.1 million installations of *Word 2003* and *Word 2007* had been used to open and save custom XML documents in the relevant file formats. *Id.* at 38a-39a & n.4. To determine a "reasonable royalty," the damages expert applied Microsoft's profit margin to the $499 list price of a specialized third-party XML editor, XMetaL, and concluded that Microsoft would have been willing to pay i4i $98 per user—25% of the hypothetical profits it might have earned if it had charged $499 for *Word* (*i.e.*, roughly three times the retail price of most versions of *Word*). *Id.* at 33a. Thus, i4i's damages expert claimed that, in a hypothetical negotiation, Microsoft would have agreed to pay i4i approximately 60% of the retail price of the professional edition of *Word 2007*.

invalidity by clear and convincing evidence." App., *infra*, 146a.

Separately, the district court awarded $40 million in "enhance[d] damages" under 35 U.S.C. § 284 based on the jury's finding of willful infringement. App., *infra*, 163a. The district court entered judgment against Microsoft for $290 million, including interest and post-verdict damages. C.A. J.A. 1-2. The district court also permanently enjoined Microsoft from selling any *Word* products that can open .xml, .docx, or .docm files containing custom XML—which is to say, all versions of *Word* that were available at the time of judgment. *Id.* at 3-4; *see also* App., *infra*, 175a.

3. On appeal, Microsoft argued 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 evidence that was not before the PTO. Microsoft C.A. Br. 45-46.

The Federal Circuit "conclude[d] 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." App., *infra*, 23a (citing *Zenith Elecs. Corp.* v. *PDI Commc'n Sys., Inc.*, 522 F.3d 1348, 1363-64 (Fed. Cir. 2008)). The court explained that its decisions "make clear that the Supreme Court's decision in *KSR International Co.* v. *Teleflex Inc.* did not change the burden of proving invalidity by clear and convincing evidence." *Ibid.* (citation omitted) (citing *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)). Thus, "based

on [Federal Circuit] precedent," the court could not "discern any error in the jury instructions." *Ibid.*[2]

REASONS FOR GRANTING THE PETITION

In *KSR International Co.* v. *Teleflex, Inc.*, this Court found it "appropriate to note" that the rationale for the presumption of patent validity—on which the Federal Circuit bases its deferential clear-and-convincing-evidence standard—"seems much diminished" when an invalidity defense rests on evidence that the PTO never considered. 550 U.S. 398, 426 (2007). Yet despite having numerous opportunities to revisit its entrenched rule that "[t]he burden of proof is not reduced when prior art . . . was not considered by the PTO," *Uniroyal, Inc.* v. *Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988), the Federal Circuit has instead declined to accept *KSR*'s invitation to reconsider this standard, *see* App., *infra*, 23a (finding no error "based on our [*i.e.*, Federal Circuit] precedent"); *see also*, *e.g.*, Order Denying Rehearing En Banc, *Lucent Techs., Inc.* v. *Gateway, Inc.*, No. 2008-1485 (Fed. Cir. Nov. 23, 2009); Order Denying Rehearing En Banc, *z4 Techs., Inc.* v. *Microsoft Corp.*, No. 2006-1638 (Fed. Cir. Jan. 30, 2008). If the Federal Circuit's failure to accept this Court's broad hint in *KSR* were not enough to warrant certiorari, the decision below also conflicts with

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[2] The citations in this paragraph refer to the Federal Circuit's amended opinion. In response to a petition for panel rehearing, the court withdrew and replaced its original opinion "for the limited purpose of revising portions of the discussion of willfulness." App., *infra*, 192a. The Federal Circuit's discussion of the clear-and-convincing-evidence standard is identical in both the original and amended opinions. *Compare id.* at 80a *with id.* at 23a.

pre-1982 decisions of all twelve regional courts of appeals.

The question presented is undeniably important. Studies undertaken by the Federal Trade Commission and leading scholars confirm that, by greatly diminishing the ability of patent litigants to cull the "patent thicket" of invalid patents, the standard of proof applied by the Federal Circuit stifles, rather than promotes, the progress of the useful arts. *KSR*, 550 U.S. at 427. The categorical rule applied by the courts below has been the law of the Federal Circuit since 1984 and thus is ripe—indeed, overdue—for this Court's review. This case, which comes to the Court on final judgment from the largest patent infringement verdict ever affirmed on appeal, presents an ideal vehicle for that review. The petition should be granted.

I. THE FEDERAL CIRCUIT'S DECISION BELOW DISREGARDS THIS COURT'S DECISION IN *KSR* AND CONFLICTS WITH DECISIONS OF ALL TWELVE REGIONAL CIRCUITS.

A. THE DECISION BELOW CONFLICTS WITH THE UNAMBIGUOUS TEACHING OF *KSR*.

In *KSR*, this Court held (unanimously) that claim 4 of respondent Teleflex's patent (the Engelgau patent) recited subject matter that was "obvious," and thus not patentable, in light of an earlier patent (the Asano patent) that Teleflex had never presented to the PTO during the prosecution of the Engelgau patent. *See* 550 U.S. at 426.

Because claim 4 of the Engelgau patent was obvious as a matter of law, this Court did not need to reach the question "whether the failure to disclose Asano during [Teleflex's] prosecution of Engelgau

voids the presumption of validity given to issued patents." 550 U.S. at 426. "[N]everthless," this Court "th[ought] it appropriate to note that the rationale underlying the presumption—that the PTO, in its expertise, has approved the claim—seems much diminished" when a defense of invalidity rests on evidence that was never considered by the PTO during the prosecution of an asserted patent. *Ibid.*

The Federal Circuit's longstanding rule that a challenger must prove its invalidity defense by clear and convincing evidence even "when prior art is presented to the court which was not considered by the PTO," *Uniroyal*, 837 F.2d at 1050—which is to say, *whether or not* the PTO was aware of the prior-art evidence when it issued the patent—cannot sensibly be reconciled with this Court's statement that the "rationale underlying the presumption . . . seems much diminished" when a defense of invalidity is based on evidence that the PTO never considered, *KSR*, 550 U.S. at 426. Nor can the Federal Circuit's rule be reconciled with the many other cases in which this Court has resolved questions of patent validity without applying—or even mentioning—a clear-and-convincing-evidence standard of proof. *See*, *e.g.*, *Leggett* v. *Standard Oil Co.*, 149 U.S. 287, 297 (1893) (invalidating patent based on evidence that the claimed process of lining oil barrels with glue had been used previously by other manufacturers); *see also Grogan* v. *Garner*, 498 U.S. 279, 286 (1991) (noting that where the statute at issue "does not prescribe the standard of proof," "[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof").

The Court should grant certiorari so that it may now hold expressly what it has held impliedly in so many of its past patent-law precedents, and what the

Court strongly indicated in *KSR*: When a defense of invalidity under Section 282 rests on prior-art evidence that was not considered by the PTO before the patent issued, the statutory presumption of validity cannot rightly be interpreted as requiring alleged infringers to establish invalidity by "clear and convincing" evidence.

B. THE DECISION BELOW CONFLICTS WITH THE UNANIMOUS PRE-1982 DECISIONS OF THE REGIONAL COURTS OF APPEALS.

The Federal Circuit's rule that a challenger must prove invalidity by clear and convincing evidence even when the relevant prior-art evidence was not presented to or considered by the PTO conflicts directly with the pre-1982 decisions of all twelve regional circuits. While the Federal Circuit now (post-1982) has exclusive jurisdiction over most patent appeals, regional circuits continue to have jurisdiction over cases in which patent claims and issues are raised only in a defendant's counterclaim. *See Holmes Group, Inc.* v. *Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). Regional circuit decisions on matters of patent law "provide an antidote to the risk that the specialized court may develop an institutional bias," and are useful, to the extent the Federal Circuit departs from them, in identifying patent cases that "merit this Court's attention." *Id.* at 839 (Stevens, J., concurring). Against the backdrop of the Federal Circuit's indifference to this Court's teaching in *KSR*, the Federal Circuit's break from the uniform view of the regional circuits presents a compelling case for this Court's review.

As in *KSR*, each of the regional courts of appeals to have addressed the question presented has rejected application of a heightened evidentiary stan-

dard for invalidity claims based on prior art that was not before the PTO. These cases correctly recognize that, when the PTO has not considered the prior-art evidence on which an invalidity defense rests, there is no factual determination with respect to patentability that warrants deference in the form of a clear-and-convincing-evidence standard.

The Fifth Circuit, for example, emphasized that, "[w]here the validity of a patent is challenged for failure to consider prior art, the bases for the presumption of validity, the acknowledged experience and expertise of the Patent Office personnel and the recognition that patent approval is a species of administrative determination supported by evidence, no longer exist." *Baumstimler* v. *Rankin*, 677 F.2d 1061, 1066 (5th Cir. 1982) (citation omitted). "[T]hus," the court held, "the challenger of the validity of the patent need no longer bear the heavy burden of establishing invalidity either 'beyond a reasonable doubt' or 'by clear and convincing evidence.'" *Ibid.* Accordingly, the Fifth Circuit concluded that the jury charge, which instructed that the defendant needed to prove invalidity "'by clear and convincing evidence,'" was "erroneous," and remanded the case for a new trial. *Id.* at 1068-69.

In *Manufacturing Research Corp.* v. *Graybar Electric Co.*, the Eleventh Circuit reached a similar conclusion, holding that the district court, presented with prior-art evidence that had not been considered by the examiner, "erred in instructing the jury to apply a clear and convincing evidence standard to the defense of invalidity," and remanded for a new trial. 679 F.2d 1355, 1364 (11th Cir. 1982). "[W]hen pertinent prior art was not considered by the Patent Office," the court explained, "the burden upon the challenging party is lessened, so that he need only intro-

duce a preponderance of the evidence to invalidate a patent." *Id.* at 1360-61; *see also id.* at 1364 ("Graybar is only obligated to show invalidity by a preponderance of the evidence").

Presented with the converse situation—a patent holder arguing that the district court erred in instructing the jury that it could find invalidity by a preponderance of the evidence—the First Circuit affirmed the preponderance instruction. *See Futorian Mfg. Corp.* v. *Dual Mfg. & Eng'g, Inc.*, 528 F.2d 941, 943 (1st Cir. 1976). The First Circuit explained that, "to the extent patent office attention has not been directed to relevant instances of prior art the presumption of validity arising from the issuance of a patent is eroded." *Ibid.* "The presumption of validity having been [thus] weakened, it follows that while [the] burden still remain[s] on the challenger, it would, as a practical matter, be less than the burden embodied in the 'clear and convincing' standard." *Ibid.*

The other nine regional circuits are substantially in accord, holding that when the evidence of invalidity adduced by the challenger has not been considered by the PTO, the statutory presumption of validity is "weakened," *U.S. Expansion Bolt Co.* v. *Jordan Indus., Inc.*, 488 F.2d 566, 569 (3d Cir. 1973); *Preformed Line Prods. Co.* v. *Fanner Mfg. Co.*, 328 F.2d 265, 271 (6th Cir. 1964), "substantially weakened," *Cont'l Can Co.* v. *Old Dominion Box Co.*, 393 F.2d 321, 326 n.8 (2d Cir. 1968), "weakened or destroyed," *Marston* v. *J.C. Penney Co.*, 353 F.2d 976, 982 (4th Cir. 1965), "weakened, if not completely destroyed," *Ralston Purina Co.* v. *Gen. Foods Corp.*, 442 F.2d 389, 390 (8th Cir. 1971), "largely dissipated," *Jaybee Mfg. Corp.* v. *Ajax Hardware Mfg. Corp.*, 287 F.2d 228, 229 (9th Cir. 1961), or diminished to the point that it "does not apply," *Turzillo* v. *P. & Z. Mergen-*

time, 532 F.2d 1393, 1399 (D.C. Cir. 1976), "does not exist," *Henry Mfg. Co.* v. *Comm. Filters Corp.*, 489 F.2d 1008, 1013 (7th Cir. 1972), or simply "vanishes," *Plastic Container Corp.* v. *Cont'l Plastics of Okla., Inc.*, 708 F.2d 1554, 1558 (10th Cir. 1983).[3]

Though all twelve regional circuits had held that, when the PTO has issued a patent without considering prior-art evidence pertinent to patentability, the presumption of patent validity is (at a minimum) "weakened," and accordingly incapable of supporting a heightened standard of proof, the Federal Circuit nonetheless adheres to a rule that a challenger must carry a clear-and-convincing-evidence standard in all cases, repeatedly declining invitations to reconsider the issue en banc. That deliberate departure from the uniform pre-1982 practice of the regional circuits warrants this Court's review.

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[3] Panels of several courts of appeals also held that "a preponderance of evidence is sufficient to establish invalidity" in the "usual" patent case where an invalidity defense rests on documentary or physical evidence. *Dickstein* v. *Seventy Corp.*, 522 F.2d 1294, 1297 (6th Cir. 1975); *see also Rains* v. *Niaqua, Inc.*, 406 F.2d 275, 278 (2d Cir. 1969) (noting that "in the usual case a preponderance of the evidence determines the issue"). Although this rule was not followed by every circuit, *see Campbell* v. *Spectrum Automation Co.*, 513 F.2d 932, 937 (6th Cir. 1975) (collecting cases), it is strongly supported by the text of Section 282, which does not require any particular standard of proof: Section 282's "silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof," *Grogan*, 498 U.S. at 286.

II. THE SELECTION OF AN APPROPRIATE STANDARD OF PROOF FOR INVALIDITY IS ESSENTIAL TO AVOID DISTORTING THE PATENT SYSTEM.

It is beyond serious dispute that invalid patents "stifle, rather than promote, the progress of useful arts." *KSR*, 550 U.S. at 427. Invalid patents confer market power "without consumer benefit," encourage litigation, raise "transaction costs," and create uncertainty that "may deter investment in innovation and/or distort its direction." Nat'l Research Council, *A Patent System for the 21st Century* 95 (2004), *available at* http://www.nap.edu/html/patentsystem/0309089107.pdf.

The PTO, however, faces unprecedented challenges in attempting to ensure that only valid patents are granted. The recent surge of patent applications—last year, the PTO received almost twice as many patent applications (485,500) as it did just ten years ago (278,268), and three times as many as 20 years ago (163,306), *see* USPTO Performance and Accountability Report 113 tbl. 2 (2009)—has overwhelmed the resources of the PTO's examiners. *See* Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law's Presumption of Validity*, 60 Stan. L. Rev. 45, 46, 54 (2007). A patent examiner is able to spend, on average, just 18 hours on each application. *See* Mark A. Lemley & Bhaven N. Sampat, *Examiner Characteristics and the Patent Grant Rate* 5-6 (Stanford Law & Econ. Olin Working Paper No. 369, 2009), *available at* http://www-siepr.stanford.edu/programs/SST_Seminars/Examiner_Characteristics.pdf; *see also*, *e.g.*, Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. Econ. Persp. 75, 79 (2005) (same).

Compounding the strain on agency resources imposed by the volume of patent applications is the difficulty of obtaining reliable information about the claimed technology. As Professors Lichtman and Lemley observed, "[p]atent applications are evaluated early in the life of a claimed technology, and thus at the time of patent review there is typically no publicly available information" from which an examiner could readily determine novelty or nonobviousness. Lichtman & Lemley, *supra*, at 46. "Worse, patent examiners cannot solicit credible outsider opinions" because patent evaluation is at least in part a confidential conversation between an applicant and the examiner. *Ibid.* Indeed, federal law *requires* the PTO to "establish appropriate procedures to ensure that no protest or other form of preissuance opposition to the grant of a patent . . . may be initiated after publication of the application without the express written consent of the applicant." 35 U.S.C. § 122(c); *see also* FTC Report, *supra*, ch. 5, at 28 (detailing "the failings of *ex parte* examination," including "limited examiner time, the limited nature of [the] applicants' disclosure obligations, limited access to potentially vital prior art and third-party expertise").

When coupled with significant information asymmetries, the examiners' limited time predictably and inevitably results in an increasingly large number of mistakes, some of them glaring. *See*, *e.g.*, Sara Schaefer Munoz, *Patent No. 6,004,596: Peanut Butter and Jelly Sandwich,* Wall St. J., Apr. 5, 2005, at B1; *see also Bilski* v. *Kappos*, 130 S. Ct. 3218, 3259 (2010) (Breyer, J., concurring in the judgment) (noting "the granting of patents that 'ranged from the somewhat ridiculous to the truly absurd'" (quoting *In re Bilski*, 545 F.3d 943, 1004 (Fed. Cir. 2008) (Mayer,

J., dissenting))). Particularly in an era when the PTO's gatekeepers are stretched too thin, patent litigation is an important tool for "weeding out . . . those patents that should not have been granted." FTC Report, *supra*, ch. 5, at 28; *see also Lear, Inc.* v. *Adkins*, 395 U.S. 653, 670 (1969) (because the PTO's non-adversarial process is error-prone, without litigation over patent validity "the public m[ight] continually be required to pay tribute to would-be monopolists without need or justification").

In patent litigation, no less than in other arenas, the standard of proof is often outcome-determinative. *See In re Winship*, 397 U.S. 358, 367-68 (1970). Indeed, when the Federal Circuit strengthened the presumption of validity by adopting the clear-and-convincing-evidence standard in the early 1980s, the rate at which patents were held valid increased significantly. Lichtman & Lemley, *supra*, at 69.[4] The standard of proof that courts apply to invalidity defenses thus directly affects whether patent litigants can cull invalid patents from the modern patent thicket and, less directly, whether our patent system is calibrated to promote progress in the useful arts, or to stifle it.

After undertaking a comprehensive review of the Nation's patent system, the FTC concluded that the clear-and-convincing-evidence standard of proof imposed by the Federal Circuit on patent challengers

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[4] *See also*, *e.g.*, Matthew D. Henry & John L. Turner, *The Court of Appeals for the Federal Circuit's Impact on Patent Litigation*, 35 J. Legal Stud. 85 (2006); Glynn S. Lunney, *Patent Law, the Federal Circuit, and the Supreme Court: A Quiet Revolution*, 11 Sup. Ct. Econ. Rev. 1, 1-2 (2004); John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 205-06 (1998).

tended to hinder, rather than promote, progress. By "distort[ing] the litigation process," the clear-and-convincing-evidence standard creates "serious potential for judicially confirming unnecessary, potentially competition-threatening rights to exclude." FTC Report, *supra*, ch. 5, at 28.[5]

If it is true that the Federal Circuit's clear-and-convincing-evidence standard jeopardizes the ability of patent litigants to clear the field of competition-threatening invalid patents, as the FTC has concluded, then the risk is particularly acute in cases in which the pertinent evidence of invalidity was not considered by the patent examiner. It is in those cases—cases where the PTO was not afforded the opportunity "to do its job," *Am. Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984)—that the risk of examiner error is at its zenith, and, as recognized in *KSR*, the justification for the presumption of validity at its nadir.

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[5] Similarly, the clear-and-convincing-evidence standard has been subject to persistent criticism in academic commentary. *See*, *e.g.*, Lichtman & Lemley, *supra*, at 61 ("The illogic of the clear and convincing evidence presumption, the fact that it departs from the prior rule in many other circuits, and the Supreme Court's skepticism might make this issue ripe for Supreme Court review should the Federal Circuit fail to act."); Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 Sw. U. L. Rev. 323, 338 (2008) ("Either the Federal Circuit or Supreme Court should hold that one seeking to invalidate a patent face no more than a burden of proof on the balance of probabilities."); B.D. Daniel, *Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 AIPLA Q.J. 369, 412 (Fall 2008) ("The proper standard of proof for resolving all questions of invalidity . . . should be preponderance of the evidence.").

For this reason, the Federal Circuit's clear-and-convincing-evidence standard fails even on its own terms. That heightened evidentiary standard supposedly rests on the "basic proposition that a government agency such as the then Patent Office was presumed to do its job." *Am. Hoist & Derrick Co.*, 725 F.2d at 1359. But whatever the implications of this "basic proposition" as a matter of administrative law, the PTO cannot remotely be "presumed to do its job" when the relevant evidence was never before it. *See* Stuart M. Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn from Administrative Law*, 95 Geo. L.J. 269, 319 (2007) (arguing that the clear-and-convincing-evidence standard is unwarranted because, "[u]nder boilerplate administrative law, a court cannot defer to agency factfinding if the agency has not even passed on the factual question—the agency has not considered the factual question, so there is nothing for the court to defer to"). The Federal Circuit's application of the clear-and-convincing-evidence standard even when the supposed rationale for that standard does not apply is thus symptomatic of the same inflexible adherence to judge-made rules that this Court expressly disapproved in *KSR*. 550 U.S. at 419 ("Helpful insights . . . need not become rigid and mandatory formulas . . . ."). As in *KSR*, this Court's review is warranted.

III. THE STANDARD-OF-PROOF ISSUE IS CLEANLY PRESENTED AND RIPE FOR REVIEW BY THIS COURT.

A decade ago, the Federal Circuit considered it already "well established that persons defending against a charge of infringement on the ground of patent invalidity by virtue of prior invention or prior

knowledge must establish this defense by clear and convincing evidence." *Environ Prods., Inc.* v. *Furon Co.*, 215 F.3d 1261, 1265 (Fed. Cir. 2000). And, the uniform view of all twelve regional circuits notwithstanding, it was equally well-established that, as the decision below illustrates, a challenger's burden "is not reduced when prior art is presented to the court which was not considered by the PTO." *Uniroyal*, 837 F.2d at 1050.

This issue will not benefit from further percolation in the circuits. The twelve regional circuits hear patent cases only in extremely rare circumstances, and in any event remain bound by their pre-1982 decisions holding that the statutory presumption of validity and the standard of proof that allegedly flows from it are, at least, "weakened" when validity is challenged based on evidence of invalidity not considered by the PTO. *E.g.*, *Futorian Mfg. Corp.*, 528 F.2d at 943. And the Federal Circuit has exhibited an unwillingness to revisit its interpretation of Section 282 en banc, even when confronted directly by this Court's unanimous statement that the rationale for according patents a presumption of validity "seems much diminished" when the pertinent evidence of invalidity had not been presented to the examiner. *KSR*, 550 U.S. at 426; *see also*, *e.g.*, Order Denying Rehearing En Banc, *Lucent Techs., Inc.* v. *Gateway, Inc.*, No. 2008-1485 (Fed. Cir. Nov. 23, 2009); Order Denying Rehearing En Banc, *z4 Techs., Inc.* v. *Microsoft Corp.*, No. 2006-1638 (Fed. Cir. Jan. 30, 2008). The question presented is ripe for this Court's review.

This case, which comes to the Court on final judgment from the largest patent infringement verdict ever affirmed on appeal, presents an optimal vehicle for that review. Microsoft proposed an instruc-

tion that its "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 preponderance of the evidence," D.E. 301-2, at 7 n.8, and objected to the district court's clear-and-convincing-evidence instruction both during the instruction conference, C.A. J.A. 2264, and in its motion for a new trial, D.E. 359, at 21. Moreover, the court of appeals expressly reaffirmed its clear-and-convincing-evidence standard in response to Microsoft's arguments on appeal. App., *infra*, 23a.

This case thus clearly and cleanly presents the question whether the Federal Circuit's clear-and-convincing-evidence standard for challenges to patent validity is appropriate, even when the challenge is based on prior-art evidence not considered by the examiner. That issue is outcome-determinative in this litigation. As the Federal Circuit recognized, "[b]ecause the S4 source code was destroyed after the project with SEMI was completed," "the dispute turned largely on the credibility of S4's creators . . . , who are also the named inventors on the '449 patent." App., *infra*, 20a. As i4i repeatedly emphasized at trial, Microsoft faced a steep hurdle in seeking to establish invalidity *by clear and convincing evidence* in light of this disputed testimony. *See id.* at 22a ("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."); *see also supra* at 9. If the question presented is resolved in Microsoft's favor, Microsoft—like the defendants in *Baumstimler*, 677 F.2d at 1069, *Manufacturing Research*, 679 F.2d at 1364, and several other cases decided in the

regional circuits before 1982—will be entitled to a new trial.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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