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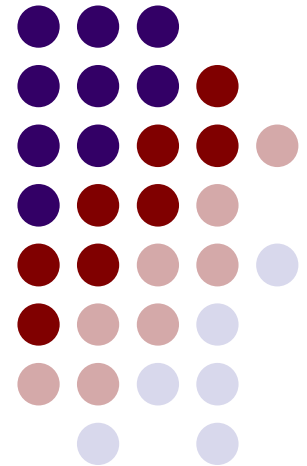
Microsoft v. i4i Ltd.

Awaiting a Burdensome Decision by the Supreme Court

Presented By

Garth M. Dahlen, Ph.D., Esq.

June 8, 2011



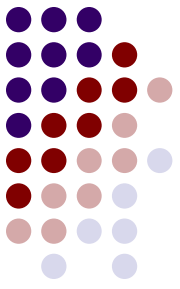
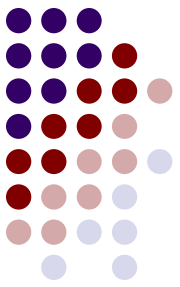


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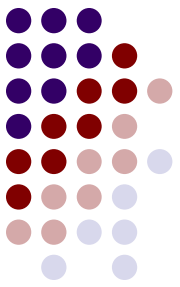
1. Statute and Question before the Supreme Court
2. Current law for establishing invalidity
3. History of the Case
4. Possible outcomes
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Statute at Issue

- 35 USC 282 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.”

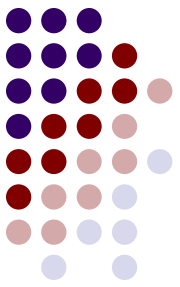
Current Law for Establishing Invalidity



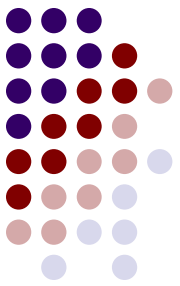
● Federal Circuit

- 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).
- Same standard - 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.

Question before the Supreme Court (Microsoft's Petition for Writ of Certiorari)



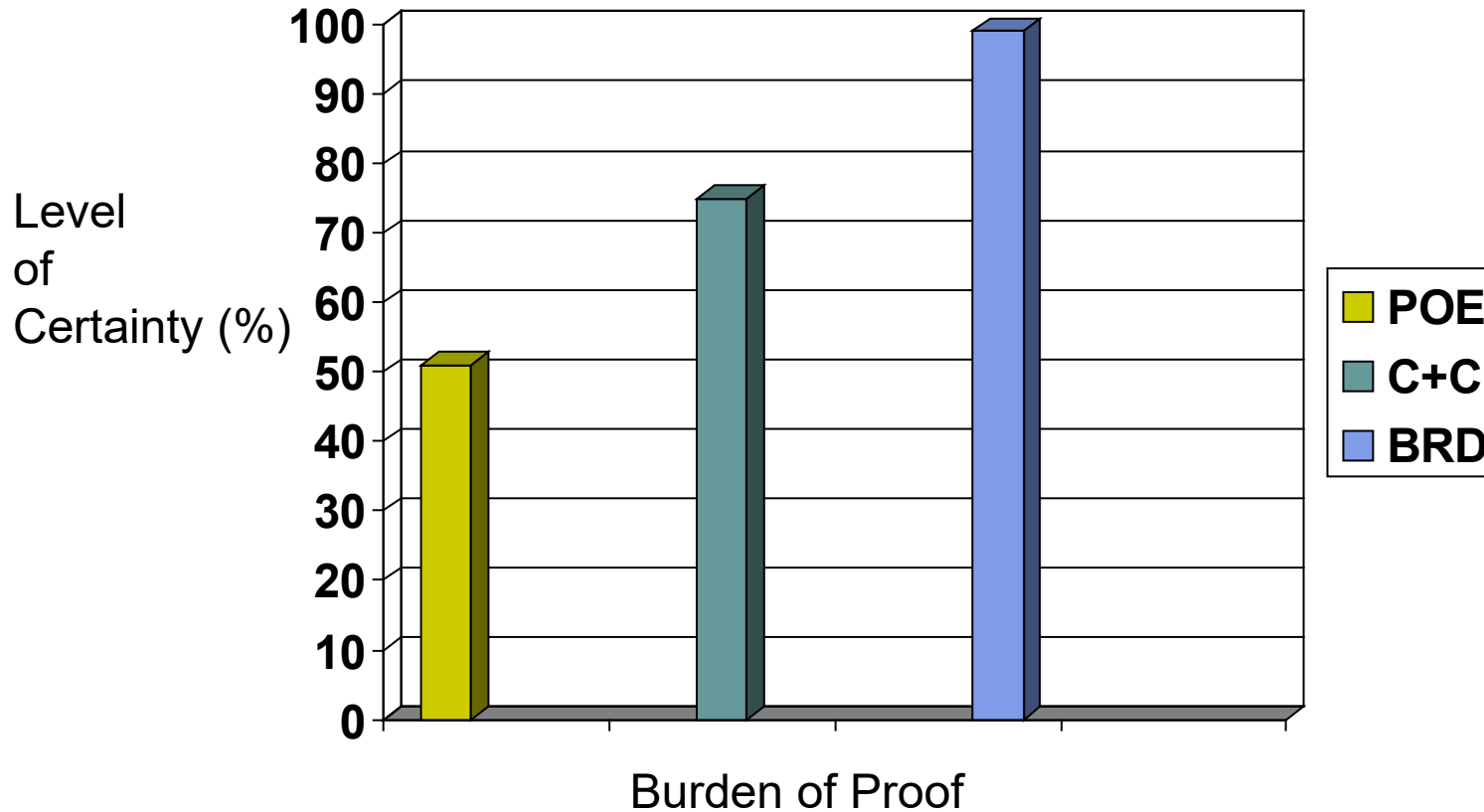
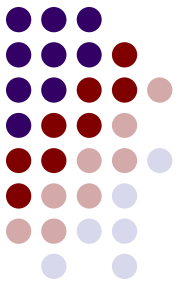
- The Federal Circuit held below that Microsoft was required to prove its defense of invalidity under 35 U.S.C. § 102(b) by “clear and convincing evidence,” even though the prior art on which the invalidity defense rests was not considered by the Patent and Trademark Office prior to the issuance of the 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.

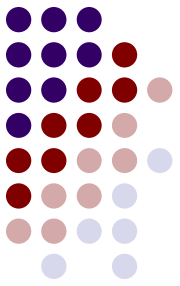


Burden of Proof

- “The function of a standard of proof is to instruct the factfinder concerning the degree of confidence our society thinks he should have in the correctness of factual conclusions for a particular type of adjudication.” *Addington v. Texas*, 441 U.S. 418, 423 (1979).
- That is to say, burdens of proof “like preponderance of the evidence, or clear and convincing evidence,” control “how certain a fact finder must be to decide an issue in the first instance.” See 1 Steven A. Childress & Martha S. Davis, FEDERAL STANDARD OF REVIEW § 3.06 (3d 2008).

Burden of Proof





Interested Parties

Improperly issued
Patents cannot be
invalidated with
C+C



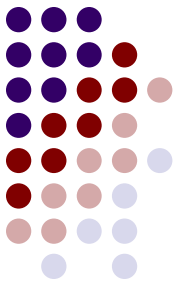
Microsoft



Properly issued
Patents invalidated
with POE

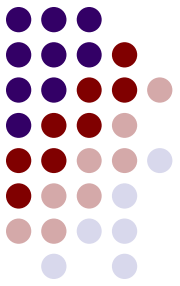


i4i



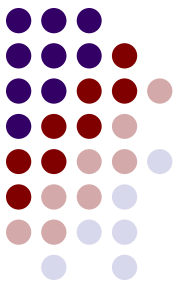
History of the Case

- In March 2007, i4i sued Microsoft for infringement in US District Court for the Eastern District of Texas. Microsoft counterclaimed that i4i's asserted patent was invalid.
- In 2009, there was an award of ~\$290 million for willful infringement and a permanent injunction ordering Microsoft to stop selling Word Products that infringed i4i's patent.
- On appeal, the Federal Circuit affirmed.



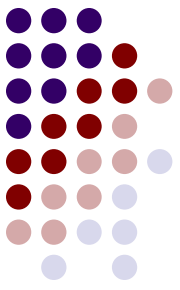
Microsoft - Unhappy

- On August 27, 2010 Microsoft files a petition for a Writ of Certiorari
- On November 29, 2010 Supreme Court Grants Certiorari
- On April 18, 2011, Oral arguments were heard



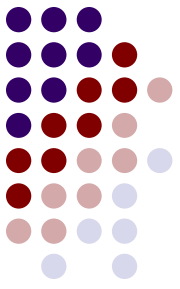
Background - Microsoft v. i4i

- i4i owns USP 5,787,449 – filed 1994, issued 1998, relates to a technology called markup languages (XML), more specifically “custom XML”.
- A markup language is a way of indicating how text should be displayed - which words are in italic, boldface, for example, or what should be centered, or where line breaks should appear, etc.



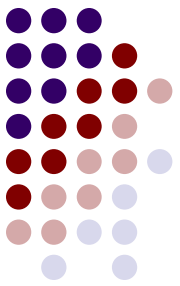
Background - Microsoft v. i4i (Cont.)

- 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 mark-up language or “metacodes.”
- The patent teaches that the metacodes are stored in a “metacode map,” which allows the user to edit the structure of the document (i.e., the metacodes) without ever needing to access (or have access to) the content.



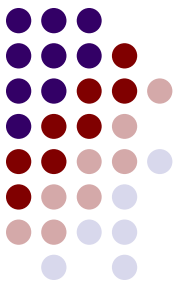
Background - Microsoft v. i4i (Cont.)

- In the lawsuit, i4i alleged 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.
- 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.



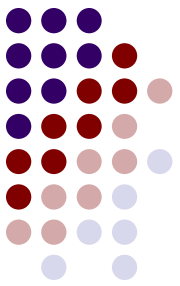
Background - Microsoft v. i4i (Cont.)

- Microsoft alleged 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.



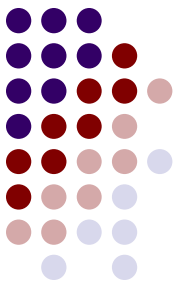
Background - Microsoft v. i4i (Cont.)

- 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 was whether **S4 practiced the invention disclosed in the '449 Patent**.
- i4i destroyed the S4 source code in the normal course of business 9 years prior to any possible litigation.



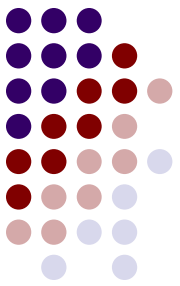
Background - Microsoft v. i4i (Cont.)

- 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.”



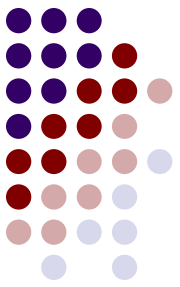
Background - Microsoft v. i4i (Cont.)

- Vulpe told potential investors 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].”
- A former employee of both SEMI and i4i, Scott Young, testified that Vulpe told him the '449 Patent application was filed to cover the S4 program.



Background - Microsoft v. i4i (Cont.)

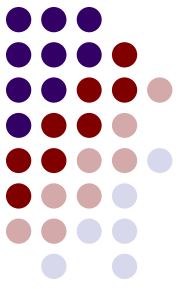
- At trial, the inventors insisted, however, that the prior-art S4 software did not practice the invention of the '449 Patent because they had not yet conceived of that invention at the time the software was sold.
- Vulpe claimed that he had simply lied to further his financial interests.



Background - Microsoft v. i4i (Cont.)

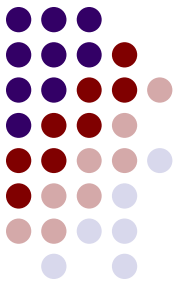
- Technical expert, for instance, dismissed Microsoft's reliance on the S4 user manual by claiming that the manual "does not provide the level of detail necessary to form a clear and convincing opinion about what's actually being done by the SEMI system when its software is executed."
- Thus, Microsoft had trouble meeting the C+C evidentiary burden of proof for invalidity.

Microsoft Proposes a New Standard

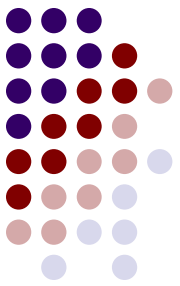


- Microsoft proposed an instruction to the jury that “Microsoft’s burden of proof with regard to its defense of invalidity based on prior art that the examiner did not review during the prosecution of the patent-in-suit is by preponderance of the evidence.”
- In support of this instruction, Microsoft invoked *KSR International Co. v. Teleflex Inc.*, 550 U.S. 398 (2007)
 - 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.

i4i Objects and District Ct agrees with i4i

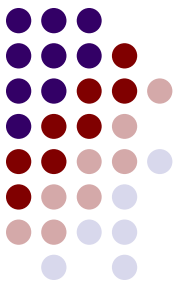


- i4i objected to Microsoft's proposed instruction as an "inaccurate statement of the law" under Federal Circuit precedent.
- The district court agreed with i4i and instructed the jury that "Microsoft has the burden of proving invalidity by clear and convincing evidence."



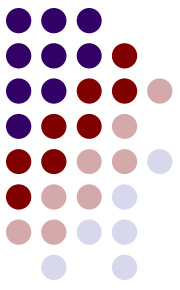
District Court Rules in Favor of i4i

- KSR does not apply
 - “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 invalidity by “clear and convincing evidence”.



Federal Circuit

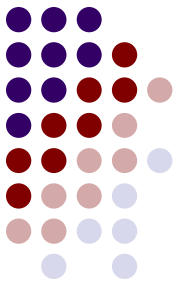
- Affirms district court's judgment
 - “We conclude that the jury instructions were correct in light of this court’s precedent, which requires the challenger to prove invalidity by clear and convincing evidence.”
 - The court explained that its decisions “make clear that the Supreme Court’s decision in *KSR* ... did not change the burden of proving invalidity by clear and convincing evidence.” (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)).



Possible Outcomes

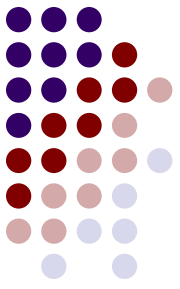
- Microsoft wants a lower standard (POE) at least in situations where the “prior art on which the invalidity defense rests was not considered by the Patent and Trademark Office prior to the issuance of the asserted patent.”
- i4i asks that the Fed. Cir. decision using the C+C standard be upheld.
- Supreme Ct may –
 - (1) Keep C+C standard for all art with deference to PTO decision-making
 - (2) Lower standard to POE for all art with deference to PTO decision-making
 - (3) Create binary standard where POE is used when asserted prior art not been considered by the PTO and C+C is used when asserted prior art has been considered by the PTO.

Binary Standard Comes with Practical Problems



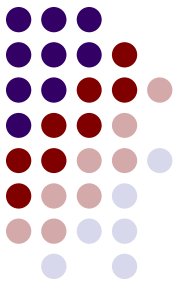
- If Binary Standard is adopted, then when has prior art been “considered” by the Examiner?
 - If the prior art is listed on the front cover of the patent.
 - “Consideration by the examiner of the information submitted in an IDS means nothing more than considering the documents in the same manner as 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.” MPEP 609
 - i4i cites to a *Du Pont* case which states that considered art extends to all patents classified in the searched classes.

Binary Standard Comes with Practical Problems



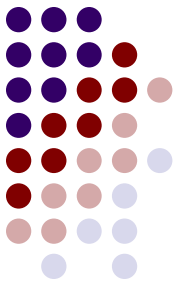
- If the *burden of proof standard* for proving invalidity changes depending upon whether the references have been considered by the Examiner, then it would be incumbent on Prosecutors to cite as much relevant art as possible.

Binary Standard Comes with Practical Problems



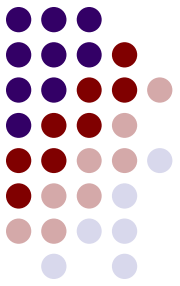
- The PTO has recently been inundated with an increase in IDS submissions (see Julie Burke's June 1, 2010 lecture and Mercedes Meyer's December 8, 2010 lecture) to avoid the perception of withholding a material document.
- Commissioner Kappos recently discussed an IDS which was 1000 pages long.

Keeping single standard with deference given to PTO decision making



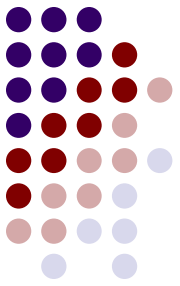
- Even under the current C+C standard, there is some **deference** given to PTO.
 - Art reviewed by PTO
 - When no prior art other than that which was considered by the PTO examiner is relied on by the attacker, he has the added burden of overcoming the deference that is due to a qualified government 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. *Am. Hoist & Derrick Co.*

Keeping single standard with deference given to PTO decision making



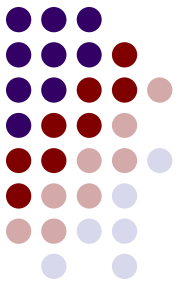
- Even under the current C+C standard, there is some ***deference*** given to PTO.
 - Art not reviewed by PTO
 - When prior art other than that which was considered by the PTO examiner is relied on by the attacker, the burden of meeting the clear and convincing standard is more easily met.

Keeping single standard with deference given to PTO decision making (Cont.)



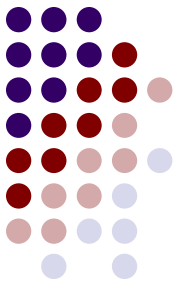
- Currently, Prosecutors are not pressed to make references of record due to the ***deference*** given to PTO's decision making.

Keeping single standard with deference given to PTO decision making (Cont.)



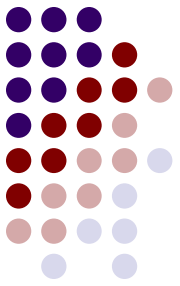
- During oral arguments, Justice Scalia and Justice Sotomayor correctly pointed out that both sets of instructions (the binary standard system as well as the current Federal Circuit construct) require that the jury gives added weight depending upon whether the Patent Office has considered the asserted prior art.

Keeping single standard with deference given to PTO decision making (Cont.)



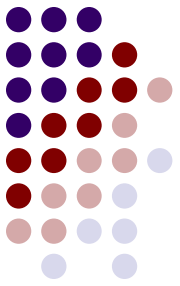
- Mr. Waxman (i4i's attorney) responds:
 - [A]s the Allison and Lemley article points out, the statistics bear out the common sense, which is that juries are, in fact, very influenced by the fact that there was art going to or questioning validity that was not considered by the PTO.
 - In other words, the instruction, whether the instruction is necessary or not, juries get it, and juries apply it.
 - 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.

Keeping single standard with deference given to PTO decision making (Cont.)



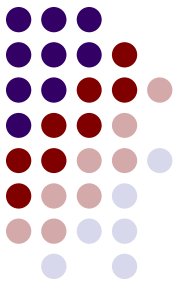
- Justice Scalia pushed Mr. Hungar (the attorney for Microsoft) to choose whether Microsoft is asking for the binary standard approach or for the POE standard in all cases. Justice Scalia stated “You can’t ride both horses. They’re going in different directions.”
- In response, Mr. Hungar stated that the statute does not specify a heightened standard; therefore preponderance, the default standard, applies.

Arguments in Briefs - Precedent



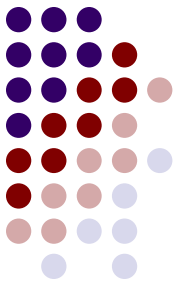
- Regional Circuits were inconsistent
 - Microsoft
 - Eleventh Circuit (1982) - reached a similar conclusion in *Manufacturing Research Corp. v. Graybar Electric Co.*, holding that “[W]hen pertinent prior art was not considered by the Patent Office, the burden upon the challenging party is lessened, so that he need only introduce a preponderance of the evidence to invalidate a patent.” (“Graybar is only obligated to show invalidity by a preponderance of the evidence”).

Arguments in Briefs - Precedent



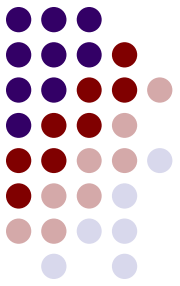
- Regional Circuits were inconsistent
 - i4i
 - Before the Federal Circuit’s creation, the vast majority of regional circuits required C+C. “Indeed, by 1970 two circuits had labeled the clear-and-convincing standard “elementary patent law.” *Mercantile Nat’l Bank v. Quest, Inc.*, (7th Cir. 1970)

Arguments in Briefs - Precedent



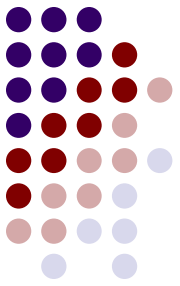
- Supreme Court precedent
 - *Radio Corp. of America v. Radio Engineering Laboratories, Inc.*, 293 U.S. 1 (1934) (“RCA”)
 - Justice Cardozo’s opinion for a unanimous Court stated categorically that “[e]ven for the purpose of a controversy between strangers, there *is* a presumption of validity, a presumption 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 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.”

Arguments in Briefs - Precedent



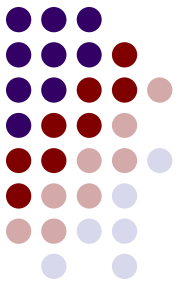
- Supreme Court precedent
 - *RCA*
 - Microsoft argues that the discussion on burden is *dicta* and/or that the case is distinguished on the facts (limited to priority issues or *stare decisis*)

Arguments in Briefs - Precedent



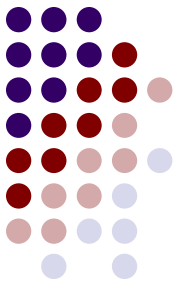
- Supreme Court precedent - *RCA*
 - Justice Kagan took a pragmatic view of this case as exemplified in the following statement:
 - ...it seems to me that *RCA* would matter, even under your view of the world, because if you think that Congress did not codify the existing state of the law as to the standard 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*.

Arguments in Briefs - Precedent



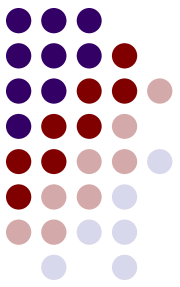
- Supreme Court precedent - *RCA*
 - Surprisingly, Mr. Waxman (the attorney for i4i) agreed that the discussion by Justice Cardozo relating to the burden of proof was *dicta* in the sense that the case itself involved a priority issue. However, Mr. Waxman also referred to other cases by the Supreme Court in which the heightened burden was explicitly used in a context not involving *stare decisis*.
 - *Mumm v. Jacob E. Decker & Sons*, 301 U.S. 168 (1937); *Smith v. Hall*, 301 U.S. 216 (1937).

Arguments in Briefs - Precedent

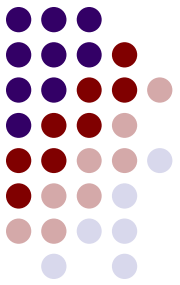


- Supreme Court precedent -
 - Microsoft –
 - *Grogan v. Garner*, 498 U.S. 279, 286 (1991) (noting that where the statute at issue “does not prescribe the standard of proof,” “[t]his silence is inconsistent with the view that Congress intended to require a special, heightened standard of proof”).

Arguments in Briefs – Purpose of §282



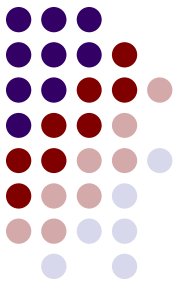
- Microsoft –
 - Prior to 1952, there were several courts holding that patentee had the burden to prove the patent is valid.
 - Section 282 was promulgated in 1952 to overturn these cases by making clear that the burden rests with the party challenging validity.
 - There is no language in Section 282 indicating that there is a heightened burden.



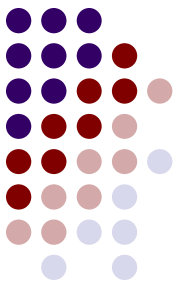
i4i's Briefs

- Reasons to keep C+C standard:
 - Settled expectations
 - Reality is that patents are invalidated approximately half the time in litigation even with a C+C standard.

Arguments in Briefs



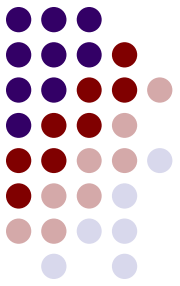
- Reexamination proceedings
 - For Microsoft
 - 95% of patents have claims canceled or changed in *Inter Partes* Reexaminations
 - 75% of patents have claims canceled or changed in *Ex Parte* Reexaminations
 - For i4i
 - Reexam proceedings are evidence that congress understands that a lower burden is appropriate for patentability determinations by experts at the PTO, whereas C+C is appropriate for lay juries.
 - Patentee can amend claims, if necessary.



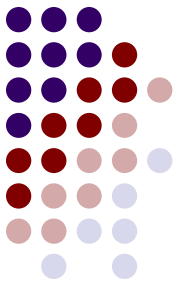
Arguments in Briefs

- POE v C+C
 - For Microsoft
 - POE is appropriate in civil cases, since does not favor one party over another
 - For i4i
 - C+C is appropriate since the **risk of harm** resulting from wrong decision is greater for patentee
 - 1 ruling of invalidity results in unenforceable claims/patent
 - Already disclosed invention to public

Arguments in Briefs

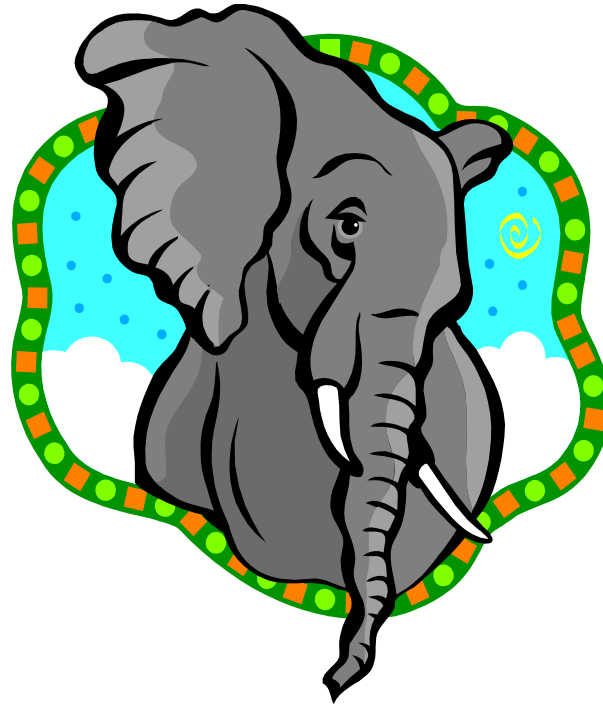


- Silence by Congress
 - Microsoft has taken the position that silence by Congress does not equate to a rubber stamp of Federal Circuit practice
 - i4i notes that Congress has not been “silent” but rather has been very busy in the patent field, with addition of laws for reexam proceedings and minor amendments to 282 since the start of the CAFC.

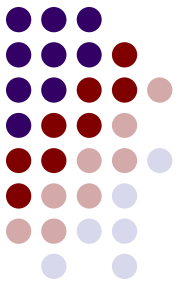


Arguments in Briefs

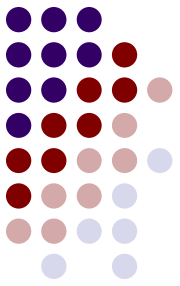
- *Administrative Procedure Act*
 - Discussed in Briefs but not in Oral Arguments at SCt



Arguments in Briefs

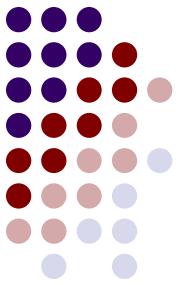


- Brief of SAP America *et al.* – argues for POE
 - First, the APA does not use elevated standards of proof as a mechanism for giving weight or respect to an agency’s action.
 - Second, under the APA’s approach, agency action is entitled only to the degree of respect that is justified by the agency’s reasoning, which in turn is a function of the evidence that was presented to the agency.



Conclusion

- Chief Justice Roberts recused himself
- Need a 5-3 decision for the holding to be precedential
- Decision expected by end of June 2011



Thank You

- Thanks to Ali Imam for help with slide preparation
- <http://patentlawcenter.pli.edu/2011/05/17/microsoft-v-i4i-%e2%80%93-awaiting-a-burdensome-decision-by-the-supreme-court/>
- Garth M. Dahlen, Ph.D., Esq.
Birch, Stewart, Kolasch & Birch, LLP
P.O. Box 747
Falls Church, Virginia 22040-0747 USA
phone: 703-205-8000 (main), 703-205-8030 (direct)
fax: 703-205-8050
email: mailroom@bskb.com, gmd@bskb.com
(direct)