

Special: i4i Update

Editor's Note: The Supreme Court's ultimate decision in Microsoft Corp. v. i4i Limited Partnership has the potential to reshape patent laws regarding invalidity. Given the case's high level of interest and importance, we are departing from our usual APaTS format to provide with you this summary of the oral argument that recently occurred before the Supreme Court.

On April 18, 2011, the United States Supreme Court heard oral argument in *Microsoft Corp. v. i4i Limited Partnership*. At issue is the appropriate burden of proving invalidity—clear and convincing or a preponderance of evidence. The following note summarizes the oral argument.

I. Background

The specific issue in front of the Court is the appropriate interpretation of Title 35, Section 282 of the United States Code. Congress enacted Section 282 in 1952. The first two sentences (since amended) are in dispute: “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.” The parties dispute what burden this establishes and what Congress meant.

Also disputed is the import of *Radio Corp. v. Radio Eng'g Labs, Inc.* 293 U. S. 1 (1934). This case involves a prior invention defense. Writing for a unanimous Supreme Court, Justice Cardozo explained that the defendant bore a heightened burden of establishing invalidity by “clear and cogent evidence,” which he emphasized throughout the opinion. The Court's interpretation of this case will play a crucial role in the outcome of the i4i decision.

II. The Arguments

A. Microsoft's Arguments

As the petitioner, Microsoft proceeded first. Its argument consisted of three main points.

1. No reason exists to depart from the default preponderance standard the Court has applied in civil cases because §282 does not specify a heightened burden of proof.
2. Congress did not and could not have codified a heightened burden of proof from the courts in 1952 because the courts were in disunity on this issue. Microsoft identified numerous lower court cases that fluctuated in applying the burden of proof for invalidity defenses. Microsoft also argued the clear and convincing standard advanced in *Radio Corp.*, or “the *RCA* case,” was limited to prior invention defenses and definitely could not be applied in this case where the PTO had not considered the prior art at issue.
3. Invalid patents stifle rather than promote the progress of liberal arts. Microsoft referenced and relied on the Court’s dicta in *KSR* on this point.

B. i4i’s Arguments

i4i responded that the correct burden of proof is clear and convincing evidence for three reasons (plus four more).

1. The proper statutory interpretation shows Congress codified the Supreme Court’s “clear and cogent evidence” standard. Not only was Congress relying on the Court’s *RCA* decision when it enacted §282, but Congress has since manifested an “active acquiescence” to this burden of proof. Since 1980, for instance, Congress has actively addressed the issue of low-quality patents (e.g., reexamination, amendments to §282 itself, inter partes reexamination, and now considering post-grant review), but has never changed the burden of proof to a preponderance of evidence, even though the Federal Circuit has always applied the clear and convincing evidence standard.
2. Stare decisis, particularly in this field which requires stability, controls this issue. The *RCA* case, specifically, controls.

3. i4i also identified four “first principles,” which justify the clear and convincing standard regardless of what art the PTO considered.
 - a. An infringer’s validity challenge is a collateral attack on a government decision that has already been made, which bestows property rights by written instrument.
 - b. The harm from an erroneous determination is asymmetrical. A single finding of invalidity vitiates the patent and all reliance by the inventor, investors, licenses, etc., ex ante.
 - c. The grant of property rights not only induces reliance in exchange for the inventor’s honoring her half of the patent bargain – the public disclosure of her intellectual property for the public’s benefit – but also the commitment of capital by investors and licensees that’s necessary to bring into fruition the invention for the public benefit.
 - d. Changing the long-standing standard would marginalize the PTO.

C. The Solicitor General’s Arguments

The Solicitor General’s Office appeared on behalf of the government, asking for the standard of proof ordinarily applied when a litigant asks a court to set aside an administrative decision. The deputy solicitor general made the following three arguments to support the clear and convincing standard irrespective of whether the PTO considered the art at issue.

1. The grant of a patent historically has been understood as a *quid pro quo* between the applicant and government. The applicant’s part is to disclose what was otherwise a trade secret. The government gives a period of exclusivity.
2. In light of the uncertainties along the way of getting a patent, the patentee should have reasonable confidence that it won’t be overturned unless the evidence is clear.

3. Even when the defendant advances art not considered by the PTO, there is a chance that that art will be substantially equivalent to art that was considered by the PTO.

III. Reactions from the Justices

While it is also difficult to discern the justices' views about the case from their questions, the following notes were apparent.

A. Justices Ginsberg and Scalia, as well as Justice Kagan, aggressively questioned Microsoft about its narrow interpretation of *RCA*. No justice questioned i4i about its interpretation.

B. Neither side has clear support for its statutory interpretation.

1. Microsoft, for instance, suggests the statute invokes the normal burden of proof in civil cases—a preponderance of evidence. But Justice Alito, in particular, pointed out that challengers always bore the burden of proving invalidity even before Congress enacted §282; so, Congress must have had something else in mind when it added the first sentence “patents are presumed valid.” Otherwise, §282 adds nothing because the second sentence notes that the infringer bears the burden of proof, which was already the case.

2. i4i's position is infirm because if Congress intended to apply this heightened burden, then why did it not just say so in §282 (also from Justice Alito).

C. The justices were split about whether juries should be instructed on art not considered by the PTO.

1. Justice Sotomayor suggested that this instruction is likely to confuse the jury. And she added that if the jury is allowed to give more weight to art not considered by the PTO, the burden of proof is not really clear and convincing burden but some other standard of proof. Microsoft argued that this approach would be confusing.

2. Others advanced the view that courts, including the Federal Circuit, have consistently adopted and approved of this approach. i4i agreed with this approach at the hearing.¹

¹ Notably, i4i has advanced a waiver argument on this issue. Microsoft objected to the clear-and-convincing evidence standard at trial, but only requested a preponderance of

3. Justice Scalia observed that this approach still raises the problem—much like Microsoft’s position—over how to decide what was actually considered by the PTO (e.g. what is equivalent art).

D. The justices virtually avoided Microsoft’s policy arguments about invalid patents stifling innovation, and its reliance on the *KSR* excerpt.

Justice Breyer, who previously critiqued non-practicing entities in his *eBay* concurrence, was the only justice to inject questions on this issue.

In response to i4i’s policy arguments, for instance, he raised what “I think the other side will say,” explaining “In today’s world ... a worse disaster for the country is to have protection given to things that don’t deserve it because they act as a block on trade, they act as monopolies, and they will tie the country up in individual monopolies that will raise prices to consumers, etc.”

Justice Breyer, nonetheless, queried why other checks in the system do not address the risk of low-quality patents. Justice Breyer suggested the jury strictly decide facts and then the trial judge decide obviousness and novelty. For instance, “I want you to find if this metal container is leak proof.” If the jury says yes, then it’s up to the trial judge to decide obviousness. Even Microsoft concluded this approach would be “extremely difficult.”

IV. Additional notes

Justice Scalia presided over the Court because Chief Justice Roberts recused himself (as he apparently does for all Microsoft cases). The Court, therefore, could split on this issue (4-4), which would result in an affirmance for i4i.

Reports suggest that when the Solicitor General appears as amici, the Court follows the Solicitor General around 75% of the time.

evidence instruction. i4i argued that if the Court were to affirm the clear and convincing standard and indicate that juries may be instructed on art not considered by the PTO, then no retrial is necessary because Microsoft waived that objection.

Most anticipated the oral argument to be a rematch from the *Microsoft v. AT&T* decision, which pitted former solicitor generals Seth Waxman and Ted Olson against each other. While Seth Waxman from WilmerHale appeared for i4i, Thomas Hungar from Gibson Dunn appeared in Olson's place for Microsoft.

Conclusion

If oral argument is a fair barometer for the Court's views on an issue, then the Court seemed resistant to Microsoft's arguments. A reasonable conclusion would be that an opinion may ultimately affirm the clear and convincing standard, following the *RCA* precedent. It remains to be seen whether the Court will allow juries to give more weight to art not considered by the PTO. We would imagine, nonetheless, there to be multiple concurrences and dissents. One thing is for sure, we can expect the opinion no later than the end of June.

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