

## Supreme Court Weighs Major Shift On Invalidity

By **Ryan Davis**

Law360, New York (December 10, 2010) -- The U.S. Supreme Court's decision to hear Microsoft Corp.'s appeal of a \$290 million patent infringement judgment against it has the potential to reshape the law on patent invalidity and upend decades of legal precedent, lawyers say.

If the justices agree with Microsoft's position that there should be a lower evidentiary standard for proving invalidity when certain prior art was not considered by the patent examiner during prosecution, it could become easier to invalidate patents and increase the workload of already-harried examiners, according to attorneys.

"I don't think you can overstate the significance of the case," said Eric M. Hutchins of Townsend and Townsend and Crew LLP.

Toronto-based i4i LP sued Microsoft in the U.S. District Court for the Eastern District of Texas in March 2007, claiming that Microsoft's Word software infringed one of its patents. The jury found that Microsoft had infringed, and the company was ordered to pay \$290 million and halt sales of some versions of Word.

The jury rejected Microsoft's claim that the patent was invalid due to prior art that had not been considered by the patent examiner. The U.S. Court of Appeals for the Federal Circuit later affirmed the ruling and declined to rehear the case en banc.

In its petition for a writ of certiorari filed in August, Microsoft asks the high court to reconsider a standard established in a 1984 Federal Circuit decision that requires a party seeking to invalidate a patent to prove invalidity by "clear and convincing" evidence, even when there is prior art that was never considered by the patent examiner.

The software giant argues that when the examiner fails to look at some prior art, the standard for proving invalidity should be lowered to a simple preponderance of the evidence. According to Microsoft, the current standard presumes that the U.S. Patent and Trademark Office has done its job, but that cannot be true when it never considered relevant evidence.

But i4i maintains there is no reason to overturn 26 years of settled law, especially since Congress has given its tacit approval for the "clear and convincing" standard because it has never intervened to revise it.

Loudon Owen, i4i's chairman, said when the high court took the case on Nov. 29 that Microsoft's proposed standard "would deal a devastating blow to any U.S. patent holder, large or small," by making it easier for accusing infringers to mount invalidity defenses.

The fact that the justices agreed to hear the case likely means they have a problem with the current standard and are considering overruling the Federal Circuit's long-established position, attorneys say.

"The question I have is, why did the Supreme Court take the case if they didn't want to do something?" said Frederick L. Whitmer, a partner at Kilpatrick Stockton LLP. "This standard has been around forever."

Nevertheless, "Microsoft has a tough row to hoe in a lot of respects," Hutchins said, given the long history of the standard and the lack of action by Congress.

Microsoft is pinning its hopes on the Supreme Court's related decision in *KSR International Co. v. Teleflex Inc.* in 2007, in which the court noted that the presumption of validity "seems much diminished" when invalidity claims are based on evidence that was not before the USPTO.

However, that ruling did not directly address the standard of proof required in such situations, and the Federal Circuit has continued to hold that KSR did not change the clear and convincing standard.

According to Microsoft, the clear and convincing standard cannot be reconciled with KSR and is the same type of inflexible rule that the high court criticized in that ruling when it wrote that "helpful insights ... need not become rigid and mandatory formulas."

Microsoft also argues that when regional circuit courts heard patent cases prior to the creation of the Federal Circuit in 1982, each rejected the heightened evidentiary standard in cases in which prior art was not considered by the patent office.

Jeffrey W. Sarles, a partner at Mayer Brown LLP, said that the high court's decision to take the case reflected its continuing concern about rigid Federal Circuit rules that it viewed as overly protective of patent holders.

While the current standard is unambiguously spelled out, it has "led to distorted results and has probably given an undue advantage to patent holders," he said. "It's given them the ability to resist even legitimate invalidity challenges."

According to Whitmer, the Supreme Court now stands poised to resolve a "raging controversy" about the standard for proving invalidity in instances when the patent office didn't consider some prior art, but will face challenges in articulating a new standard.

"This issue has a lot of thorns to it. It's not a simple policy issue," he said.

The situation in this case, in which prior art is not considered by the examiner during prosecution of a patent, is a common occurrence, but current rules don't require examiners to keep track of every piece of prior art they view, according to Hutchins.

For instance, if an examiner's research turns up 30 pieces of prior art, she is not required to list all 30 in the prosecution history, only those that are deemed relevant to rejecting the patent.

The parties therefore have no way of knowing what prior art the examiner may have seen and considered irrelevant, Hutchins said. It may be difficult to enforce the standard that Microsoft is proposing, which depends on showing that certain prior art was not considered by the patent office.

"That's the big problem with drawing the line lower," he said. "What do you mean by 'considered by the examiner'?"

Attorneys say the high court must consider both how its ruling in the case will impact the patent office and how any new standard for proving invalidity will be implemented.

The standard proposed by Microsoft could lead patent applicants to give the examiner every possible piece of prior art, even those of marginal significance, to avoid the risk that something will not be considered, defeating the clear and convincing standard, they say.

That could add to the burden on the patent office, which is already famously overworked and saddled with a long backlog of applications.

"I would think the last thing the Supreme Court would want to do would be to create an incentive for the applicants to do a document dump on examiners," Whitmer said.

There is also the issue of whether, under the standard proposed by Microsoft, a single piece of prior art that was not considered by the examiner would be enough to lower the evidentiary standard, he said.

"The question I would have is, how do you possibly figure out what the standard is if you have one piece of prior art that wasn't considered and 12 that were," he said. "Are you going to say if you have one piece that wasn't considered, you don't have the clear and convincing standard?"

However, Sarles argued that the amount of prior art that was not considered shouldn't have any impact on the standard, but would instead come into play when determining whether to invalidate the patent.

Whitmer said that while it remained to be seen how the justices would address the issues in the case, "my own view is that it's really difficult to craft a different standard for invalidity other than clear and convincing."

The patent-in-suit is U.S. Patent Number 5,787,449.

Microsoft is represented by Matthew Powers of Weil Gotshal & Manges LLP, Gibson Dunn & Crutcher LLP and in-house counsel.

I4i is represented by Finnegan Henderson Farabow Garrett & Dunner LLP, [WilmerHale](#) and [McKool Smith PC](#).

The case is Microsoft Corp. v. i4i LP, case number 10-290, in the U.S. Supreme Court.