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No. 10-290

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**

## REPLY BRIEF FOR PETITIONER

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## RULE 29.6 STATEMENT

The corporate disclosure statement included in the petition for a writ of certiorari remains accurate.

## TABLE OF CONTENTS

**Page**

REPLY BRIEF FOR PETITIONER ..... 1

I. THE FEDERAL CIRCUIT'S DECISION CANNOT BE RECONCILED WITH *KSR* ..... 2

II. THE FEDERAL CIRCUIT'S DECISION CONFLICTS WITH THE UNANIMOUS VIEW OF THE REGIONAL COURTS OF APPEALS ..... 7

III. THIS CASE IS AN IDEAL VEHICLE TO RESOLVE THE QUESTION PRESENTED. ..... 9

CONCLUSION ..... 12

## TABLE OF AUTHORITIES

**Page(s)**

**CASES**

*Am. Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*,
725 F.2d 1350 (Fed. Cir. 1984) ..... 3, 6

*The Barbed Wire Patent*,
143 U.S. 275 (1892) ..... 5

*Cardinal Chem. Co.* v. *Morton Int'l, Inc.*,
508 U.S. 83 (1993) ..... 7

*Herman & MacLean* v. *Huddleston*,
459 U.S. 375 (1983) ..... 6

*Holmes Group, Inc.* v. *Vornado Air Circulation Sys., Inc.*,
535 U.S. 826 (2002) ..... 8

*KSR Int'l Co.* v. *Teleflex Inc.*,
550 U.S. 398 (2007) ..... *passim*

*Lucent Techs., Inc.* v. *Gateway, Inc.*,
580 F.3d 1301 (Fed. Cir. 2009) ..... 9, 10

*Pfaff* v. *Wells Elecs., Inc.*,
525 U.S. 55 (1998) ..... 8

*Radio Corp. of Am.* v. *Radio Eng'g Labs., Inc.*,
293 U.S. 1 (1934) ..... 6

*T.H. Symington Co.* v. *Nat'l Malleable Casting Co.*,
250 U.S. 383 (1919) ..... 5

*Uniroyal, Inc.* v. *Rudkin-Wiley Corp.*,
837 F.2d 1044 (Fed. Cir. 1988) ..... 3

*z4 Techs., Inc.* v. *Microsoft Corp.*,
507 F.3d 1340 (Fed. Cir. 2007) ..... 4, 9

**STATUTES**

35 U.S.C. § 282 ..... 6

35 U.S.C. § 301 ..... 11

**OTHER AUTHORITIES**

Clarence J. Fleming, *Should the Clear and Convincing Evidence Standard for Rebutting the Presumption of Validity Apply When the Challenger Raises a Substantial New Question of Patentability?*, 80 J. Pat. & Trademark Off. Soc'y 146 (1998) ..... 3

H.F. Hamann, Note, *The New Patent Act and the Presumption of Validity*, 21 Geo. Wash. L. Rev. 575 (1953) ..... 6

H.R. Rep. No. 82-1923 (1952) ..... 6

Patent Quality Assistance Act of 2004, H.R. 5299, 108th Cong. ..... 11

Patent Reform Act of 2009, H.R. 1260, 111th Cong. ..... 11

## REPLY BRIEF FOR PETITIONER

The Federal Circuit's unwavering application of a clear-and-convincing-evidence standard for proving patent invalidity, even when the relevant prior-art evidence was not before the PTO, raises a recurring and exceptionally important issue that this Court specifically identified in *KSR International Co.* v. *Teleflex Inc.*, 550 U.S. 398, 426 (2007). The 11 *amicus* briefs filed in support of the petition—by 36 professors, leading companies from Apple to Wal-Mart, the entire financial-services industry, and the open-source community—amply demonstrate that this Court's review is warranted.

As these *amici* explain, "the Federal Circuit has taken an extreme position that unduly skews the patent system in favor of claimants," Acushnet Br. 4, "causes courts and juries to sustain invalid patents," and does so "without any basis in the text of the patent statute," Google Br. 1-2. "The effects of the clear-and-convincing-evidence standard on the patent system are undesirable as well as important," CTIA Br. 15, "creat[e] a powerful incentive for patent applicants to conceal potentially invalidating prior art," Teva Br. 3, and cause "substantial" harm to "innovative businesses and the public," Facebook Br. 4. To avoid such "pernicious effect[s]," EFF Br. 4, "[t]his Court should grant the petition for certiorari to do what the Federal Circuit will not—apply a legal standard for the presumption of validity that reflects the realities of the modern patent system," Professors Br. 2.

Confronted with such overwhelming support for this Court's review, i4i tellingly devotes the great majority of its brief in opposition to a merits defense

of the Federal Circuit's wooden rule. Once this Court grants review, Microsoft can and will answer those arguments in detail and demonstrate why the clear-and-convincing-evidence standard is neither required by nor consistent with this Court's precedents or the Patent Act. The question now before the Court, however, is *whether* to grant review, and on that question i4i has almost nothing to say.

i4i's bottom-line argument against certiorari is that this Court's review would be premature. *See* Opp. 31-33. This is an odd ground for opposing review of a heightened evidentiary standard that the Federal Circuit has applied—incorrectly—for over a quarter-century. It is especially remarkable since the Federal Circuit has refused ample opportunities to revisit the issue after *KSR*, including in this case—the largest patent infringement verdict ever affirmed on appeal.

There is no basis for this Court to delay review. The overwhelming majority of patent cases involve invalidity defenses, and the standard-of-proof issue is presented in every such case. As a result, defendants in infringement cases will continue challenging the heightened standard of proof until the issue is settled by this Court. *See, e.g.*, *L-3 Commc'ns Corp.* v. *Honeywell Int'l Inc.*, No. 10-491. i4i has offered no legitimate reason why the Court should not do so now.

## I. THE FEDERAL CIRCUIT'S DECISION CANNOT BE RECONCILED WITH *KSR*.

This Court "th[ought] it appropriate to note" in *KSR* "that the rationale underlying the presumption" of patent validity "seems much diminished" when an invalidity defense rests on evidence that the PTO never considered. 550 U.S. at 426. That presump-

tion provides the supposed basis for the Federal Circuit's heightened standard of proof. *See Am. Hoist & Derrick Co.* v. *Sowa & Sons, Inc.*, 725 F.2d 1350, 1359 (Fed. Cir. 1984). Thus, application of the clear-and-convincing-evidence standard even "when prior art is presented to the court which was not considered by the PTO," *Uniroyal, Inc.* v. *Rudkin-Wiley Corp.*, 837 F.2d 1044, 1050 (Fed. Cir. 1988), cannot be reconciled with *KSR*.

1. i4i argues that *KSR* is consistent with Federal Circuit cases "holding that the clear-and-convincing burden may be carried more easily with prior art that the PTO did not consider." Opp. 23. That purported "holding," however, is merely an observation about presumed litigation realities, not a lowered legal burden. As the court explained in *American Hoist*, evidence that was not before the PTO may "partially, if not wholly, *discharg[e]* the attacker's burden," but it "neither shift[s] nor lighten[s] [that burden] or chang[es] the standard of proof." 725 F.2d at 1360. That is, "the evidence may . . . carry more weight and go further toward sustaining the attacker's *unchanging burden*." *Ibid.* (emphasis added). Because the clear-and-convincing-evidence standard is "unchanging" in the Federal Circuit, any observation about when it might be "more easily carried" cannot possibly reconcile that standard with *KSR*.[1]

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[1] As one commentator noted, "the only way to give practical effect to the 'more easily carried' factor is to say that the standard of proof is lowered from the clear and convincing standard to the preponderance of the evidence standard." Clarence J. Fleming, *Should the Clear and Convincing Evidence Standard for Rebutting the Presumption of Validity Apply When the Challenger Raises a Substantial New Question of Patentability?*, 80

[Footnote continued on next page]

The Federal Circuit's "more easily carried" caselaw is irrelevant, in any event, because that court has made clear that juries should not be instructed about it. i4i begrudgingly describes the Federal Circuit's position as concluding that "it is not an abuse of discretion for a district court not to instruct the jury regarding this aspect of Federal Circuit law." Opp. 7 n.4 (citing *z4 Techs., Inc.* v. *Microsoft Corp.*, 507 F.3d 1340, 1354-55 (Fed. Cir. 2007)). In reality, the Federal Circuit's reasoning in *z4* categorically precludes such instructions. The Federal Circuit explained that such instructions "might lead the jury to believe that the burden of proof is less than clear and convincing when prior art was not considered by the PTO," which would be contrary to circuit law that "[t]he burden of proof is not reduced when prior art is presented to the court which was not considered by the PTO." 507 F.3d at 1354-55 (citations omitted). Because district courts do not intentionally give misleading instructions, *z4* means that juries in patent cases will be instructed *only* about the clear-and-convincing-evidence standard. *See* Apple Br. 24-26. i4i cannot invoke a judicial observation that is *not* reflected in jury instructions to defend a heightened standard that the jury *is* required to apply.

2. i4i is similarly misguided in arguing that review is unwarranted because the Federal Circuit should be left to follow what i4i calls "the Court's actual holdings" rather than "dictum" in *KSR*. Opp. 23. This is a reason for granting—not deny-

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[Footnote continued from previous page]

J. Pat. & Trademark Off. Soc'y 146, 148 (1998). The Federal Circuit has explicitly *declined* to adopt a lower standard, rendering its "more easily carried" caselaw largely nugatory.

ing—review. The parties can address in their merits briefing whether this Court's "actual holdings" are inconsistent with *KSR*. At this stage, the important point is that this Court recently, and sharply, questioned the basis for the Federal Circuit's clear-and-convincing-evidence standard. Because the Federal Circuit has repeatedly refused to reconsider that heightened standard, only this Court can do so.

In any event, i4i is quite wrong that a heightened standard of proof is required by this Court's precedents. As *amici* note, *see*, *e.g.*, Google Br. 22-25, those decisions addressed assertions of invalidity based on "oral testimony . . . in the absence of models, drawings or kindred evidence," *T.H. Symington Co.* v. *Nat'l Malleable Casting Co.*, 250 U.S. 383, 386 (1919). Far from supporting a heightened standard of proof for invalidity defenses, they instead applied a judge-made rule concerning the reliability of certain types of evidence. *See*, *e.g.*, *The Barbed Wire Patent*, 143 U.S. 275, 284 (1892) (noting that, "[i]n view of the unsatisfactory character of [oral] testimony," courts "have required that the proof shall be clear, satisfactory and beyond a reasonable doubt").

Whatever the merits of these decisions, the concerns they addressed are not implicated by Microsoft's invalidity defense. In *The Barbed Wire Patent*, for instance, this Court closely scrutinized the defendants' arguments regarding "certain unpatented devices" because "the existence and use of [those devices] are proven only by oral testimony." 143 U.S. at 284. In this case, by contrast, there was no dispute that the prior-art S4 system had been sold more than a year before the patent application was filed, and Microsoft introduced considerable documentary evidence—including a letter from one of the '449

Patent's named inventors—that S4 practiced i4i's invention. *See* Pet. 6-7.

Because this Court's precedents do not support a rule "requir[ing] challengers to bear a heightened burden of proof," i4i is incorrect that "Congress's adoption of [Section] 282 codified" any such rule. Opp. 6. The statute's text does not impose a heightened standard of proof, and that is sufficient to preclude the courts from inventing one. *See, e.g.*, *Herman & MacLean* v. *Huddleston*, 459 U.S. 375, 389-90 (1983); *see also* Acushnet Br. 4-7. Although i4i quotes legislative history indicating that Section 282 was intended to "'declar[e] the existing presumption of validity,'" Opp. 11 (quoting H.R. Rep. No. 82-1923, at 29 (1952)), those statements are consistent with the more natural reading of Section 282 as placing the burden of proof on the challenger rather than imposing a clear-and-convincing-evidence standard, *see* H.F. Hamann, Note, *The New Patent Act and the Presumption of Validity*, 21 Geo. Wash. L. Rev. 575, 578 (1953) (noting that, before Section 282 was enacted, "some courts [had] require[d] the *patentee* to prove the validity of his patent by a preponderance of the evidence").[2]

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[2] It would be particularly odd to interpret Section 282 as codifying decisions of this Court that explicitly "were not defining a standard in terms of scientific accuracy or literal precision, but were offering counsel and suggestion to guide the course of judgment." *Radio Corp. of Am.* v. *Radio Eng'g Labs., Inc.*, 293 U.S. 1, 8 (1934). Indeed, even the Federal Circuit has acknowledged that "in 1952 the case law was far from consistent—even contradictory—about the presumption." *Am. Hoist*, 725 F.2d at 1360; *see also, e.g.*, Hamann, *supra*, at 580 ("The Supreme Court majority opinions since 1937 . . . have not affirmatively attributed any weight to the presumption arising from the grant of a patent." (footnote omitted)).

* * *

*KSR* demonstrates that there is no justification for requiring proof of invalidity by clear and convincing evidence when the invalidity defense rests on prior-art evidence that was never considered by the PTO. Neither i4i's invocation of an inapposite observation by the Federal Circuit nor its attempted merits defense of the Federal Circuit's heightened standard can obscure that critical fact. Since the Federal Circuit has repeatedly declined to revisit the issue in the aftermath of *KSR*, this Court should grant review to address the obvious implication of its decision.

## II. THE FEDERAL CIRCUIT'S DECISION CONFLICTS WITH THE UNANIMOUS VIEW OF THE REGIONAL COURTS OF APPEALS.

This Court's review is also warranted because the Federal Circuit's imposition of the clear-and-convincing-evidence standard even when the relevant prior art was not before the PTO is contrary to the unanimous view shared by the regional circuits before the Federal Circuit was created. Indeed, it was precisely this conflict that prompted the government to raise the standard-of-proof issue in *KSR*. *See* U.S. Br. 27 n.13 (No. 04-1350) (noting that "[t]he lower courts have taken different approaches" to the question presented here).

1. i4i attempts to dismiss the tide of contrary authority as "decades old," Opp. 25, but that hardly matters. Because the Federal Circuit has exclusive jurisdiction over almost all patent appeals, its patent holdings are "matter[s] of special importance to the entire Nation" that can warrant review even in the absence of *any* conflicting decisions from other circuits. *Cardinal Chem. Co.* v. *Morton Int'l, Inc.*, 508

U.S. 83, 89 (1993). When the Federal Circuit interprets the patent laws in a manner that conflicts with the pre-1982 views of the regional circuits, as it has done here, the conflict simply highlights that the issue "merit[s] this Court's attention." *Holmes Group, Inc.* v. *Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 839 (2002) (Stevens, J., concurring).

In *Pfaff* v. *Wells Electronics, Inc.*, for instance, this Court explained that review was warranted in part because the Federal Circuit had disagreed with a handful of pre-1982 patent cases from the regional circuits. 525 U.S. 55, 60 (1998). (The other basis for certiorari in *Pfaff*—that the statutory text did not support the Federal Circuit's rule—is likewise present here. *See supra* at 6.) This case is *Pfaff* on steroids: The Federal Circuit's disagreement with an overwhelming amount of contrary authority provides a compelling basis for review.

2. i4i is also mistaken in claiming that Microsoft has miscounted the number of circuits rejecting the Federal Circuit's approach. According to i4i, "only three circuits" have held that the standard of proof "changed" when the PTO did not consider the relevant prior art. Opp. 25. Conceding that the Federal Circuit has disagreed with three other courts of appeals is a strange way of suggesting that this case is unworthy of the Court's review. But i4i is incorrect, in any event, that the split involves "only" those three circuits.

As i4i concedes, "other circuits" held that "the presumption [of validity] was weakened or eliminated" with respect to prior art not before the PTO. Opp. 25-26. Although i4i claims that these decisions are "in substance no different than the Federal Circuit's longstanding rule that the challenger's burden

may be carried more easily with prior art that the PTO did not consider," *id.* at 26, that is incorrect for the reasons explained above, *see supra* at 3-4. Because the Federal Circuit's "more easily carried" observation does not announce any rule of law, and in any event cannot be incorporated in jury instructions, it is not remotely equivalent—"in substance" or otherwise—to the numerous decisions from regional circuits concluding that the presumption of validity is (at a minimum) "weakened" when the challenger presents prior-art evidence that was not before the PTO. Pet. 17-18.

## III. THIS CASE IS AN IDEAL VEHICLE TO RESOLVE THE QUESTION PRESENTED.

i4i does not—and cannot—dispute that the question presented is exceedingly important. It claims, however, that this case is "not a good vehicle to address" the issue. Opp. 31 (capitalization omitted). Yet neither argument advanced by i4i identifies *any* vehicle problem with this case. It is undisputed that the question presented has been litigated throughout the case; it was squarely presented to the Federal Circuit and addressed in a published opinion; and it is outcome-determinative on Microsoft's request for a new trial. i4i's arguments instead attempt to convince the Court that review is inappropriate at this time. Neither argument has merit.

1. i4i urges the Court to "await fuller deliberation by the court of appeals" because, in its view, "[n]o Federal Circuit decision has actually analyzed the impact" of *KSR* on the question presented. Opp. 31. That is demonstrably wrong. Microsoft urged below—as it did in both *z4* and *Lucent Technologies, Inc.* v. *Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), and as other litigants have done—that

the Federal Circuit's heightened standard is inconsistent with *KSR*. The Federal Circuit *expressly* rejected this argument, relying on circuit precedent (including *Lucent*) to conclude that *KSR* "did not change the burden of proving invalidity by clear and convincing evidence." Pet. App. 23a. Although i4i complains that the Federal Circuit "engaged in no . . . analysis," Opp. 31, the Federal Circuit's dismissive treatment of *KSR* is hardly a basis for *denying* review.

Nor is it relevant that the en banc Federal Circuit has been asked to address the issue in "only two cases." Opp. 32. The Federal Circuit has had ample opportunity to bring its caselaw into line with *KSR* and the remaining courts of appeals, yet it has declined to do so—both in several panel decisions and in denying at least two petitions for rehearing en banc. This Court routinely grants certiorari where the en banc court of appeals *never* had the opportunity to consider an issue; i4i's suggestion that review is unwarranted because "two cases is not a sufficient opportunity" for the en banc Federal Circuit to set its house in order is risible.[3]

2. i4i asserts that this Court should deny review because the Federal Circuit's longstanding rule has conferred a "settled expectatio[n]," alterable only by Congress, that patent owners will remain "protected

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[3] It is irrelevant that Microsoft did not seek rehearing on the standard-of-proof issue. Opp. 32. There is no requirement that a party seek rehearing before requesting this Court's review, and Microsoft's decision to allocate its limited pages to other issues was fully justified: The en banc Federal Circuit had denied a rehearing petition from Microsoft raising the standard-of-proof issue in *Lucent* only six weeks before Microsoft filed its rehearing petition in this case. *See* Pet. 24.

from invalidation of their patents." Opp. 17. It is difficult to imagine how patent owners could develop a "settled expectatio[n]" regarding the clear-and-convincing-evidence standard, particularly when, as i4i itself notes (at 19-20), a preponderance standard applies in reexamination proceedings. In any event, a purported expectation is no basis for the Court to decline even to *consider* the issue.[4]

Nor is it relevant that Congress is considering a patent-reform bill that would amend a *different* provision of the Patent Act by establishing a "post-grant review" process. Opp. 33. This bill follows unsuccessful reform bills introduced every year since 2005. *See*, *e.g.*, Patent Reform Act of 2009, H.R. 1260, 111th Cong. The proposal for post-grant review, in particular, dates back even further. *See* Patent Quality Assistance Act of 2004, H.R. 5299, 108th Cong. §§ 321 *et seq.* On i4i's reasoning, this Court could never grant review of the question presented without "disrupt[ing]" (Opp. 33) Congress's interminable consideration of patent reform. Delaying review until Congress acts on one of the myriad patent-reform proposals is—as i4i undoubtedly intends—a recipe for ensuring that this Court *never* addresses the question presented.

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[4] i4i misleadingly suggests that the "PTO rejected" Microsoft's on-sale-bar defense in reexamination proceedings. Opp. 19 n.11. That is wrong. The prior sale of S4 was not the subject of reexamination, which is limited to "patents or printed publications." 35 U.S.C. § 301.

## CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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