



# The Supreme Court Decision in *Microsoft v. i4i*: Implications for Innovation Policy

**John R. Thomas**  
Visiting Scholar

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## Summary

The June 9, 2011, decision of the United States Supreme Court in *Microsoft Corp. v. i4i Limited Partnership et al.* rained current legal standards by holding that patents must be proved invalid by “clear and convincing evidence.” The Court explicitly rejected the argument that the “preponderance of the evidence” standard, which would have made patents more vulnerable to challenge, applied in this situation. The decision arguably holds a number of potential implications for U.S. innovation policy, including incentives to innovate, invest, and assert patents, and leaves the question of the appropriate presumption of validity for patents squarely before Congress.

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## Introduction

Congressional interest in the patent system has been evidenced by the recent passage of patent reform legislation by both houses of the 112<sup>th</sup> Congress.<sup>1</sup> Among the topics of legislative debate has been the presumption of validity enjoyed by issued patents. In this respect the June 9, 2011, decision of the United States Supreme Court in *Microsoft Corp. v. i4i Limited Partnership et al.* is notable.<sup>2</sup> In that decision, the Court retained current legal standards by holding that patents must be proved invalid by “clear and convincing evidence.” The Court explicitly rejected the argument that the “preponderance of the evidence” standard, which would have made patents more vulnerable to challenge, applied in this situation. This report reviews the *Microsoft v. i4i* decision and its implications for innovation policy in the United States.

## Patent System Fundamentals

The Patent Act of 1952<sup>3</sup> authorizes the U.S. Patent and Trademark Office (USPTO) to review patent applications and to approve them where “the applicant is entitled to a patent under the law.”<sup>4</sup> Congress has established a number of patentability requirements—including novelty<sup>5</sup> and nonobviousness<sup>6</sup>—that USPTO examiners must evaluate in determining whether a patent should issue.

To be considered novel, the invention must not be wholly anticipated by the so-called “prior art,” or public domain materials such as publications and other patents. The nonobviousness requirement is met if the invention is beyond the ordinary abilities of a person of ordinary skill in the art in the appropriate field. To assess whether a particular invention meets these requirements, examiners will conduct a search of the prior art to look for relevant treatises, journal articles, and other patents.

Once a patent issues, its owner gains the right to exclude others from using the claimed invention.<sup>7</sup> This right can be enforced by bring a civil action for infringement in federal court.<sup>8</sup>

Congress provided the accused infringer with several defenses. Among them is that the patent is invalid; in other words, the USPTO should not have allowed the patent to issue at all. The patent statute provides that a “patent shall be presumed valid” and that the “burden of establishing invalidity ... rest[s] on the party asserting such invalidity.”<sup>9</sup> However, the patent statute does not specify how persuasive the evidence of invalidity must be in order for the judge, jury, or other finder of fact to rule in favor of the accused infringer.

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<sup>1</sup> H.R. 1249, S. 23.

<sup>2</sup> \_\_\_ U.S. \_\_\_ (June 9, 2011). Citations to the Supreme Court’s decision are to the slip opinion.

<sup>3</sup> Act of July 19, 1952, c. 950, 66 Stat. 792, codified as Title 35 of the United States Code.

<sup>4</sup> 35 U.S.C. § 131.

<sup>5</sup> 35 U.S.C. § 102.

<sup>6</sup> 35 U.S.C. § 103.

<sup>7</sup> 35 U.S.C. § 271.

<sup>8</sup> 35 U.S.C. § 281.

<sup>9</sup> 35 U.S.C. § 282.

Under case law developed by the courts, the accused infringer must overcome the presumption of validity by persuading the factfinder of the patent's invalidity by "clear and convincing evidence."<sup>10</sup> The standard of clear and convincing evidence is satisfied if the factfinder believes that a particular proposition is substantially more likely to be true than not. Stated differently, the trier of fact must have a firm belief in the factuality of that proposition.<sup>11</sup> Most civil litigation proceeds under the more readily satisfied "preponderance of the evidence" standard. Under the preponderance of the evidence standard, the factfinder must only be persuaded that the something is more likely so than not so.<sup>12</sup>

## **The *Microsoft v. i4i* Litigation**

Patent holder i4i filed an infringement suit against Microsoft in 2007. According to i4i, Microsoft Word infringed its patent to an improved method of editing computer documents. Microsoft denied infringement and counterclaimed for a declaration of invalidity and unenforceability. With regard to its invalidity defense, Microsoft contended that i4i's sales of software known as "S4" rendered the asserted patent invalid for lack of novelty. At trial, Microsoft objected to i4i's proposed instruction that Microsoft was required to prove invalidity by clear and convincing evidence because the USPTO had not been aware of the S4 software when it approved i4i's patent application. Microsoft requested that the following instruction be read to the jury:

Microsoft's burden of proving invalidity and unenforceability is by clear and convincing evidence. However, 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.<sup>13</sup>

The District Court rejected this proposal and instead instructed the jury that "Microsoft has the burden of proving invalidity by clear and convincing evidence."<sup>14</sup> The jury found that Microsoft failed to prove invalidity and that Microsoft had willfully infringed the i4i patent. This holding was affirmed on appeal.

Microsoft then petitioned the Supreme Court for review of the case. According to Microsoft, the proper standard for proving invalidity should be the preponderance of the evidence. Alternatively, Microsoft asserted that the preponderance of the evidence standard should apply when an invalidity defense rests on evidence that was not considered by the USPTO during examination of the asserted patent.<sup>15</sup>

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<sup>10</sup> See *American Hoist & Derrick Co. v. Sowa & Sons, Inc.* 725 F.2d 1350 (Fed. Cir. 1984).

<sup>11</sup> See, e.g., *Halcomb v. Woods*, 767 F.Supp.2d 123, 137 (D.D.C. 2011).

<sup>12</sup> See, e.g., *United States v. Tsosie*, 639 F.3d 1213, 1222 (9<sup>th</sup> Cir. 2011).

<sup>13</sup> Slip op. at 5.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 5-6.

## The Supreme Court Opinion

The Supreme Court affirmed the holdings of the lower courts. Each of the eight Justices who considered the case agreed that accused infringers must prove invalidity by clear and convincing evidence. Chief Justice Roberts was recused from the case.

Writing for the Court, Justice Sotomayor observed that section 282 of the Patent Act of 1952 establishes a presumption that a patent is valid and imposes the burden of proving invalidity on a patent's challenger, but "includes no express articulation of the standard of proof."<sup>16</sup> However, judicial opinions issued prior to 1952 established that patents enjoyed "a presumption of validity, a presumption not to be overthrown except by clear and cogent evidence."<sup>17</sup> Justice Sotomayor therefore understood that by the time Congress enacted the 1952 Patent Act, "the presumption of patent validity had long been a fixture of the common law."<sup>18</sup> The Court was therefore unable to "conclude that Congress intended to 'drop' the heightened standard of proof from the presumption simply because § 282 fails to reiterate it expressly."<sup>19</sup>

The Court next addressed Microsoft's argument that a preponderance of the evidence standard should apply where the evidence was not before the USPTO during the examination process. Justice Sotomayor responded that "pre-1952 cases never adopted or endorsed the kind of fluctuating standard of proof that Microsoft envisions."<sup>20</sup> Justice Sotomayor further took note of the "impracticalities" of a dual standard of proof, observing that because an examiner has no duty to cite every reference considered, whether an examiner has considered a particular reference will often be "a question without a clear answer."<sup>21</sup>

Justice Breyer joined the Court's opinion but also wrote a separate, concurring opinion that was joined by Justices Scalia and Alito. He "emphasiz[ed] that in this area of law as in others the evidentiary standard of proof applies to questions of fact and not to questions of law."<sup>22</sup> He added that "[w]here the ultimate question of patent validity turns on the correct answer to legal questions—what these subsidiary legal standards mean or how they apply to the facts as given—today's strict standard of proof has no application."<sup>23</sup>

Justice Thomas also concurred in the Court's conclusion. He also believed that § 282 did not alter the judicially developed "heightened standard of proof ... which has never been overruled by this Court or modified by Congress."<sup>24</sup>

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<sup>16</sup> *Id.* at 6.

<sup>17</sup> *Radio Corp. of America v. Radio Eng'g Labs., Inc.*, 293 U.S. 1, 2 (1934).

<sup>18</sup> Slip op. at 8.

<sup>19</sup> *Id.* at 9.

<sup>20</sup> *Id.* at 15.

<sup>21</sup> *Id.* at 16, n.10.

<sup>22</sup> Concurring opinion of Justice Breyer at 1.

<sup>23</sup> *Id.*

<sup>24</sup> Concurring opinion of Justice Thomas at 2.

## Innovation Policy Issues

The distinction between “clear and convincing evidence” and a “preponderance of the evidence” may seem to be a subtle one. That interested observers from a variety of innovative industries filed numerous *amicus curiae* (friend of the court) briefs with the Supreme Court suggests the significance of the presumption of validity, however. Many observers believe that the heightened “clear and convincing evidence” does not account for the nature of the patent acquisition process, promotes costly litigation, and encourages “patent assertion entities.” Others argued that switching to a “preponderance of the evidence” standard would discount the nature of the patent litigation process, discourage investment in R&D, and ultimately discourage innovation. This report briefly reviews some of these positions.

The Federal Trade Commission (FTC) and other observers have supported a shift to the more easily satisfied “preponderance of the evidence” standard for a number of reasons.<sup>25</sup> First, many observers believe that modern patent examination involves “little actual assessment of whether a patent should issue.”<sup>26</sup> Patent examination is conducted on an *ex parte* basis—that is to say, there is no adversary to present arguments to the examiner that the application should not be approved. Applicants must report the relevant prior art of which they are aware to the USPTO, but need not conduct a “due diligence” search of the literature prior to filing.<sup>27</sup> The examiner is reportedly allotted approximately 18 hours to review the application.<sup>28</sup> Under these circumstances, some believe that the USPTO issues many patents that would have been rejected had the agency possessed a better understanding of the prior art. In their view, the higher “clear and convincing evidence” standard is inappropriate in view of these compact acquisition proceedings.

Second, some commentators believe that the current standard promotes charges of patent infringement. The Honorable William Alsup, District Judge for the Northern District of California, wrote that the “clear and convincing evidence” standard provides

a huge advantage for the patent holder—and it is often an unfair advantage, given the ease with which applicants and their agents can sneak undeserving claims through the PTO. Because of the burnish of this presumption, patentees can use a weak, arguably invalid patent, to force an accused infringer through years of litigation. This is more than just a nuisance. Legal defense costs run, at the low end, about three million dollars per case, and range well over ten million dollars in some actions. In the United States, the number of patent infringement suits filed annually nearly doubled between 1994 and 2004. According to the Phoenix Center for Advanced Legal and Economic Public Policy Studies, patent litigation costs the economy 4.5 billion dollars annually.<sup>29</sup>

Finally, some believe the “clear and convincing evidence” standard promotes so-called “patent assertion entities,” sometimes termed “patent trolls.” The FTC has defined “patent assertion entities” as “firms whose business model primarily focuses on purchasing and asserting patents”

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<sup>25</sup> FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (Oct. 2003), 28.

<sup>26</sup> Mark A. Lemely, “Rational Ignorance at the Patent Office,” 95 *Northwestern University Law Review* 1495, 1499 (2001).

<sup>27</sup> *Bruno Independent Living Aids, Inc. v. Acorn Mobility Servs., Ltd.*, 394 F.3d 1348, 1351 n.4 (Fed. Cir. 2005).

<sup>28</sup> See Michael J. Burstein, “Rules for Patents,” 52 *William & Mary Law Review* 1747, 1756 (2011).

<sup>29</sup> William Alsup, “A District Court Judge’s Proposal for Patent Reform,” 24 *Berkeley Technology Law Journal* (2009), 1647.

as compared to using patent in support of manufacturing or the provision of services.<sup>30</sup> Some observers believe that the “clear and convincing evidence” standard encourages aggressive licensing and litigation tactics by patent assertion entities because an accused infringer “faces an uphill battle in defending itself.”<sup>31</sup> In their view, the increased vulnerability of asserted patents would discourage “patent trolling.”

On the other hand, others support the conclusion of the Supreme Court in *Microsoft v. i4i* that patents must be proven invalid by “clear and convincing evidence.” First, some believe that the “clear and convincing evidence” standard reflects realities of the litigation process. Patent cases are tried before federal courts of general jurisdiction and often involve juries consisting of lay persons. Many commentators believe that the “clear and convincing evidence” standard appropriately causes these decision makers to defer to a specialized agency, the USPTO, in patent matters.<sup>32</sup>

Some observers also believe that inventors put themselves in a vulnerable position when they patent their inventions. Whether courts ultimately uphold their patents or not, their inventions have already been disclosed to the public. As attorney Albert Walker explained in his early treatise on patent law:

It is easy for a few bad or mistaken men to testify, that in some remote or unfrequented place, they used or knew a thing substantially like the thing covered by the patent, and did so before the thing was invented by the patentee. In such a case it may happen that the plaintiff can produce nothing but negative testimony in reply: testimony of persons who were conversant with the place in question, at the time in question, and did not see or know the thing alleged to have been there at that time. If mere preponderance of evidence were to control the issue, the affirmative testimony of a few persons, that they did see or know or use a particular thing at a particular time and place, would outweigh the negative testimony of many persons, that they did not see or know or use any such thing.<sup>33</sup>

Under this view, the presumption of validity should be a robust one so as to encourage inventors to seek patent protection.

Finally, some observers believe that strong, enforceable patents are necessary to support investment in high-technology innovation. The development of cutting-edge inventions, such as new medicines, electronics, and biotechnologies, often involves considerable expense and risk. An innovative firm may be less likely to engage in such endeavors if its entire patent portfolio would become more vulnerable to challenge by competitors. These observers believe that the “clear and convincing evidence” standard promotes innovation while still allowing room for accused infringers to contest the validity of improvidently granted patents.<sup>34</sup>

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<sup>30</sup> FTC, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* (Mar. 2011), 8.

<sup>31</sup> Alan Devlin, “Revisiting the Presumption of Validity,” 37 *Southwestern University Law Review* (2008), 349.

<sup>32</sup> See Devlin, *supra* (noting this position).

<sup>33</sup> Albert Walker, *Text-Book of the Patent Laws of the United States of America* (L.K Strouse, 1<sup>st</sup> ed. 1883).

<sup>34</sup> See Doug Lichtman & Mark A. Lemley, “Rethinking Patent Law’s Presumption of Validity,” 60 *Stanford Law Review* (2007), 45 (noting this position).



## Congressional Issues and Options

In the *Microsoft v. i4i* opinion, the Supreme Court concluded:

Congress specified the applicable standard of proof in 1952 when it codified the common-law presumption of patent validity. Since then, it has allowed the Federal Circuit’s correct interpretation of § 282 to stand. Any recalibration of the standard of proof remains in its hands.<sup>35</sup>

This passage plainly provides the Court’s deference to Congress on this issue. If the current “clear and convincing evidence” is deemed appropriate, then no change need be made. Alternatively, straightforward amendments to § 282 could change the standard to the “preponderance of the evidence” standard.

The presumption of validity also arises in other contexts. For example, patent reform legislation in the 112<sup>th</sup> Congress stipulates that in both post-grant and *inter partes* review proceedings before the USPTO, “the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.”<sup>36</sup> The decreased evidentiary showing required before the USPTO may reflect increased legislative confidence in the patent expertise of that agency as compared to the federal courts.

## Concluding Observations

Although the *Microsoft v. i4i* opinion addressed a seemingly technical point of patent law, the implications of a shift from a “clear and convincing evidence” standard to a “preponderance of the evidence” standard were potentially significant for the nation’s environment for innovation and investment. The Supreme Court’s ruling leaves any possible change to patent law’s presumption of validity squarely within the purview of Congress.

## Author Contact Information

John R. Thomas  
Visiting Scholar  
jrthomas@crs.loc.gov, 7-0975

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<sup>35</sup> Slip op. at 20.

<sup>36</sup> See H.R. 1249, § 6; S. 23, § 5.