

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Case Nos. 2008-1485, -1487, -1495

LUCENT TECHNOLOGIES, INC.,

Plaintiff/Counterclaim Defendant-Cross Appellant,

and

LUCENT TECHNOLOGIES GUARDIAN I LLC,

Counterclaim Defendant,

and

MULTIMEDIA PATENT TRUST,

Plaintiff/Counterclaim Defendant,

v.

GATEWAY, INC., GATEWAY COUNTRY STORES LLC,
GATEWAY COMPANIES, INC., COWABUNGA ENTERPRISES, INC.,
and GATEWAY MANUFACTURING LLC,

Defendants/Counterclaimants,

and

DELL INC.,

Defendant/Counterclaimant-Appellant,

and

MICROSOFT CORPORATION,

Defendant/Counterclaimant-Appellant.

Appeals from the United States District Court for the Southern District of California
in Case No. 07-CV-2000, Honorable Marilyn L. Huff

PETITION FOR REHEARING EN BANC

John E. Gartman
John W. Thornburgh
FISH & RICHARDSON P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070

Carter G. Phillips
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

Constantine L. Trela, Jr.
Robert N. Hochman
Tacy F. Flint
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000

Counsel for Defendant/Counterclaimant-Appellant

CERTIFICATE OF INTEREST

Counsel for Defendant/Counterclaimant-Appellant Microsoft Corporation certifies the following:

1. The full name of every party or *amicus curiae* represented by me is:

Microsoft Corporation.

2. The name of the real party in interest (if the parties named in the caption are not the real parties in interest) represented by me is:

Same as stated in paragraph 1.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or *amicus curiae* represented by me are:

None.

4. There is no such corporation as listed in paragraph 3.

5. The names of all law firms and the partners or associates that appeared for the party or *amicus curiae* now represented by me in the trial court or agency or are expected to appear in this Court are:

FISH & RICHARDSON P.C.

Frank J. Albert
Alan D. Albright
Justin M. Barnes
Juanita R. Brooks
John M. Bustamante
Roger A. Denning
John A. Dragseth
John E. Gartman
Lara S. Garner
Kurt L. Glitzenstein
Kelly C. Hunsaker
Jonathan Q. Lamberson
Gregory A. Madera
Chris S. Marchese

Thomas M. Melsheimer
Thomas A. Millikan
Jaime K. Olin
Cathy Reese
Joseph P. Reid
Owais Siddiqui
John M. Skenyon
Renee Skinner
John W. Thornburgh
Shekhar Vyas

SIDLEY AUSTIN LLP

Richard A. Cederoth
Tacy F. Flint
Robert N. Hochman
Carter G. Phillips
Constantine L. Trela, Jr.

GIBSON, DUNN & CRUTCHER LLP

Mathew D. McGill
Theodore B. Olson
Mark A. Perry

Dated: October 13, 2009.

Respectfully submitted,



Constantine L. Trela, Jr.

TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	iv
STATEMENT OF COUNSEL	1
PRELIMINARY STATEMENT	1
REASONS FOR GRANTING THE PETITION.....	4
WHERE THE EXAMINER DID NOT CONSIDER THE ASSERTED PRIOR ART, THE STANDARD OF PROOF FOR ESTABLISHING INVALIDITY SHOULD BE A PREPONDERANCE OF THE EVIDENCE.....	4
A. The Standard of Proof Question Is Squarely Presented in This Case.	4
B. This Court Should Overrule Its Precedents Requiring Clear and Convincing Evidence of Invalidity When the PTO Did Not Consider the Asserted Prior Art.	8
CONCLUSION.....	15

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Baumstimler v. Rankin</i> , 677 F.2d 1061 (5th Cir. 1982).....	9
<i>Cont'l Can Co. v. Old Dominion Box Co.</i> , 393 F.2d 321 (2d Cir. 1968).....	10
<i>In re Etter</i> , 756 F.2d 852 (Fed. Cir. 1985) (<i>en banc</i>).....	3, 10
<i>Futorian Mfg. Corp. v. Dual Mfg. & Eng'g, Inc.</i> , 528 F.2d 941 (1st Cir. 1976).....	10
<i>Graham v. John Deere Co. of Kansas City</i> , 383 U.S. 1 (1966).....	14
<i>Henry Mfg. Co. v. Commercial Filters Corp.</i> , 489 F.2d 1008 (7th Cir. 1972).....	10
<i>KSR Int'l Co. v. Teleflex, Inc.</i> , 550 U.S. 398 (2007).....	passim
<i>Manufacturing Research Corp. v. Greybar Electric Co.</i> , 679 F.2d 1355 (11th Cir. 1982).....	9
<i>Marston v. J.C. Penney Co.</i> , 353 F.2d 976 (4th Cir. 1965).....	10
<i>Penn Int'l Indus., Inc. v. New World Mfg. Inc.</i> , 691 F.2d 1297 (9th Cir. 1982).....	8
<i>Plastic Container Corp. v. Cont'l Plastics of Okla., Inc.</i> , 708 F.2d 1554 (10th Cir. 1983).....	10
<i>Preformed Line Prods. Co. v. Fanner Mfg. Co.</i> , 328 F.2d 265 (6th Cir. 1964).....	10

<i>Ralston Purina Co. v. Gen. Foods Corp.</i> , 442 F.2d 389 (8th Cir. 1971)	10
<i>Superior Fireplace Co. v. Majestic Products Co.</i> , 270 F.3d 1358 (Fed. Cir. 2001)	8
<i>Turzillo v. P. & Z. Mergentime</i> , 532 F.2d 1393 (D.C. Cir. 1976).....	10
<i>U.S. Expansion Bolt Co. v. Jordan Indus., Inc.</i> , 488 F.2d 566 (3d Cir. 1973)	10
<i>z4 Techs., Inc. v. Microsoft Corp.</i> , 507 F.3d 1340 (Fed. Cir. 2007), <i>cert. dismissed</i> , 128 S. Ct. 2107 (2008)	8

STATUTES AND RULES

35 U.S.C. § 282.....	13
35 U.S.C. § 305.....	10
FRAP 35(a)(2)	3

OTHER AUTHORITIES

Jennifer K. Bush, John E. Gartman & Elizabeth I. Rogers, <i>Six Patent Law Puzzlers</i> , 13 Tex. Intell. Pty. L. J. 1 (Fall 2004).....	12
B.D. Daniel, <i>Heightened Standards of Proof in Patent Infringement Litigation: A Critique</i> , 36 AIPLA Q. J. 369 (Fall 2008)	11
Alan Devlin, <i>Revisiting the Presumption of Patent Validity</i> , 37 S.W. U. L. Rev. 323 (2008).....	11
F. Scott Kieff, <i>The Case for Preferring Patent-Validity Litigation over Second-Window Review and Gold-Plated Patents: When One Size Doesn't Fit All, How Could Two Do the Trick</i> , 157 U. Penn. L. Rev. 1937 (2009).....	12
Doug Lichtman & Mark A. Lemley, <i>Rethinking Patent Law's Presumption of Validity</i> , 60 Stan. L. Rev. 45 (2007).....	11, 13

Charles E. Phipps, *The Presumption of Administrative Correctness: The Proper Basis for the Clear and Convincing Evidence Standard*, 10 Fed. Cir. B. J. 143 (2000) 12, 13

U.S. Fed. Trade Comm'n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003), online at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>..... 11, 13

STATEMENT OF COUNSEL

Based on my professional judgment, I believe this appeal requires an answer to the following precedent-setting question of exceptional importance:

Where the validity of a patent is challenged on the basis of prior art that was not considered in the original prosecution, should the standard of proof for a finding of invalidity be a preponderance of the evidence?



Constantine L. Trela, Jr., Counsel for Microsoft Corporation

PRELIMINARY STATEMENT

The patent at issue in this case, U.S. Patent, No. 4,763,356 (the “Day patent”), concerns “a method of entering information into fields on a computer screen without using a keyboard.” (Slip op. 3.) Specifically, the claims asserted against Microsoft, claims 19 and 21, claim a method for entering information into fields on computer-based forms by using predefined onscreen tools. (A1116, 17:27-18:14; *see* slip op. 7.) Microsoft argued that the claims would have been obvious in light of an article that appeared in the national magazine *Datamation* in 1984, almost three years before the inventors applied for their patent. That article, like the patent, describes a computer-based system in which onscreen tools are used to supply information needed to complete an onscreen form. (A12196-99.) Microsoft presented evidence that every limitation of the asserted claims was disclosed in or obvious from the *Datamation* article. And Microsoft argued to the

district court that, because the *Datamation* article had not been presented to the PTO during prosecution of the Day patent, the jury should be instructed that it could find the claims invalid based on a preponderance of the evidence.

The district court refused Microsoft's request for a preponderance instruction, and the jury found that Microsoft had not proven the asserted claims invalid by clear and convincing evidence. The jury went on to find that sales of three Microsoft software products contributed to or induced infringement of the claimed method and awarded more than \$357,000,000 in damages.

On appeal, Microsoft challenged the invalidity, infringement, and damages findings. With respect to invalidity, Microsoft argued that the prior art not considered by the PTO when it issued the patent—the *Datamation* article—rendered the asserted claims obvious as a matter of law. Microsoft also argued that, in any event, the jury had been improperly instructed to apply the clear and convincing evidence standard and that, in accordance with the suggestion in *KSR Int'l Co. v. Teleflex, Inc.*, 550 U.S. 398, 426 (2007), a preponderance instruction should have been given instead. Microsoft also noted that the PTO, in a reexamination proceeding, had finally rejected claims 19 and 21 as obvious in light of the *Datamation* article.

The panel affirmed the jury's findings as to invalidity and infringement, but vacated the judgment and remanded for further proceedings on damages. As to

invalidity, the panel held that the jury could reasonably have concluded that Microsoft had not satisfied the clear and convincing evidence standard. (Slip op. 17.) Although the standard of proof was central to the panel’s ruling, the panel did not address the question, fully briefed by both parties, whether the preponderance standard should apply where, as here, the prior art had not been submitted to the PTO during prosecution.

That question should be decided by the *en banc* Court. The Supreme Court, the Federal Trade Commission, and numerous scholars have questioned this Court’s precedents holding that invalidity must always be shown by clear and convincing evidence, demonstrating that the issue is of “exceptional importance.” *See* FRAP 35(a)(2); *see also KSR Int’l Co.*, 550 U.S. at 426. Moreover, requiring a heightened standard of proof when new prior art is presented in litigation makes little sense given that when the PTO reexamines a patent based on information not originally considered, it does not presume its earlier grant of the patent was correct, much less require clear and convincing evidence to overturn it. *See In re Etter*, 756 F.2d 852, 856 (Fed. Cir. 1985) (*en banc*).

The question is starkly presented here. The panel relied on the elevated standard of proof in affirming the judgment as to invalidity, holding that “the evidence reasonably permitted the jury to have decided that Microsoft did not prove by clear and convincing evidence” that the asserted claims would have been

obvious. (Slip op. 16-17.) Additionally, when the PTO finally considered the *Datamation* article on reexamination, it declared the asserted claims invalid. See Reexam. No. 90/008,625 (Final Office Action, Mar. 26, 2009; Advisory Action denying reconsideration, June 22, 2009). Finally, Microsoft expressly requested that the jury be instructed that it could find the asserted claims invalid as obvious based on a preponderance of the evidence (A8035; A88040), a request the district court denied based on this Court's precedents. The *en banc* Court should reverse this Court's precedents requiring clear and convincing evidence of invalidity even where the PTO did not consider the asserted prior art and direct that the remand proceedings ordered by the panel include, in addition to damages, a retrial of Microsoft's obviousness claim under the correct, preponderance standard.

REASONS FOR GRANTING THE PETITION

WHERE THE EXAMINER DID NOT CONSIDER THE ASSERTED PRIOR ART, THE STANDARD OF PROOF FOR ESTABLISHING INVALIDITY SHOULD BE A PREPONDERANCE OF THE EVIDENCE.

A. The Standard of Proof Question Is Squarely Presented in This Case.

The Day patent issued on August 9, 1988. (A1090.) Asserted claims 19 and 21 disclose a method for entering information into fields on computer-based forms by using predefined onscreen tools. (A1108, 1:25-32.) As the panel explained, “[t]he patent is generally directed to a method of entering information into fields on a computer screen without using a keyboard. A user fills in the displayed fields

by choosing concurrently displayed, predefined tools adapted to facilitate the inputting of the information in a particular field, wherein the predefined tools include an on-screen graphical keyboard, a menu, and a calculator. The system may display menus of information for filling in a particular field....” (Slip op. 3.) Lucent conceded at trial that the Day inventors invented neither computerized forms nor onscreen tools. (A7422; A7514.) The purported innovation was instead the use of onscreen tools to fill in fields, supposedly saving time “over the manual method of filling in a form ... when a user ... is not proficient in using a computer keyboard.” (A1108, 1:19-22; A7422.)

At trial and on appeal, Microsoft argued that this invention was invalid as obvious in light of an article in the magazine *Datamation*. (Slip op. 8.) Published nearly three years before the inventors applied for the Day patent, the *Datamation* article discloses a system that used onscreen tools to complete computer-based forms. (A12191-98.) Chemical Bank had created the system, called the Foreign Exchange Front End (“FXFE”), to support the completion of such forms by traders who “do not have the time to use a keyboard accurately.” (A12197.) The article reported in detail how the system worked, and included a photograph of the system in operation. (See A12196-99.)

The *Datamation* article, like the Day patent, describes a computer-based form system with multiple fields into which information may be inserted using

onscreen tools rather than a physical keyboard. (A12196.) As described in the article, the FXFE system identifies, for each field, what information is to be entered (*e.g.*, “broker”). (*See slip op.* 9-10.) When the user touches a particular field or “cell” on the touch-screen, “a list of potentially valid entries or a numeric keypad appears” on the screen so that the user can either select an entry from the list or compose an entry using the onscreen keypad. (*Id.* (*quoting* A12196).) For some fields, an onscreen alphabetic keyboard appears, allowing the user to compose information not included in the menu of alternatives. (*Id.*) Despite the similarities between the system described in the *Datamation* article and the Day invention, the jury rejected Microsoft’s invalidity defense, and the district court denied JMOL as to invalidity. (*Id.* at 4.)

A jury’s review of evidence is necessarily shaped by the district court’s instruction on how the evidence should be assessed. Here, the court instructed the jury that it could find the claims invalid only if Microsoft presented “clear and convincing evidence” of invalidity. (A110.) Microsoft had requested a preponderance-of-the-evidence instruction because the PTO had not considered the *Datamation* article during the original prosecution. (A8035; A88040.)

In its review of the district court’s decision, the panel expressly rested its conclusions on whether the jury was “within its charge” in finding the patent not invalid or “could reasonably have viewed” the article as not disclosing claim

elements. (Slip op. at 12-16.) In sum, the panel stated that “the evidence reasonably permitted the jury to have decided that Microsoft did not prove by clear and convincing evidence that claim 19 would have been obvious.” (*Id.* at 17.) The panel pointed only to this “permitted” finding to hold that “[a]ccordingly, the district court did not err when it denied Microsoft’s motion for judgment as a matter of law.” (*Id.*; *see also id.* at 18.)

Notably, when the PTO considered the *Datamation* article on reexamination—without the restriction of the clear and convincing evidence standard—that agency found that the asserted claims should never have issued in the first place. Put simply, two factfinders (a jury and the PTO) reviewed the *Datamation* article and reached opposite conclusions concerning validity. The PTO, operating under a lower standard of proof, found the claims invalid. The jury, operating under a higher standard, did not. Because the jury returned a general verdict on invalidity, there is no way to know which claim limitations it found had not been shown, by clear and convincing evidence, to be disclosed by or obvious from *Datamation*. And, it is entirely possible that the jury found, by a preponderance of the evidence, that all limitations were taught by the article. Only a new trial, under the correct standard, can resolve this question.

B. This Court Should Overrule Its Precedents Requiring Clear and Convincing Evidence of Invalidity When the PTO Did Not Consider the Asserted Prior Art.

The jury instruction in this case was consistent with this Court's precedents.

See, e.g., z4 Techs., Inc. v. Microsoft Corp., 507 F.3d 1340, 1354-55 (Fed. Cir. 2007), *cert. dismissed*, 128 S. Ct. 2107 (2008). As the Supreme Court noted in *KSR*, however, “the rationale underlying the presumption [of validity]—that the PTO, in its expertise, has approved the claim—seems much diminished” where the claim of obviousness is based on prior art that was never before the PTO. 550 U.S. at 426. *See also Penn Int'l Indus., Inc. v. New World Mfg. Inc.*, 691 F.2d 1297, 1300-01 (9th Cir. 1982) (“The basis for the presumption—that the Patent Office has compared the claim of the patent with the prior art and used its expertise to determine validity—can no longer exist when substantial evidence of prior art not considered by the Patent Office is placed in evidence at trial.”). As the Supreme Court cogently observed, the force of the statutory presumption—which stems from the conclusion that the PTO has done “its job properly,” *see Superior Fireplace Co. v. Majestic Products Co.*, 270 F.3d 1358, 1367 & n.1 (Fed. Cir. 2001)—dissipates when the PTO lacked essential evidence.

The Supreme Court in *KSR* echoed a conclusion that had been reached by the regional courts of appeals prior to the creation of this Court. Those courts rejected unqualified application of a heightened standard of proof where the PTO

had not considered the evidence on which a claim of invalidity rested. The courts recognized that in such cases there is no agency determination with respect to patentability that warrants the deference of a heightened standard.

The Fifth Circuit, for example, emphasized that “[w]here the validity of a patent is challenged for failure to consider prior art, the bases for the presumption of validity, the acknowledged experience and expertise of the Patent Office personnel and the recognition that patent approval is a species of administrative determination supported by evidence, no longer exist.” *Baumstimler v. Rankin*, 677 F.2d 1061, 1066 (5th Cir. 1982). “[T]hus,” the court held, “the challenger of the validity of the patent need no longer bear the heavy burden of establishing invalidity either ‘beyond a reasonable doubt’ or ‘by clear and convincing evidence.’” *Id.* The Fifth Circuit concluded that a jury instruction that required proof of invalidity “‘by clear and convincing evidence’” was “erroneous,” and remanded for a new trial. *Id.* at 1068, 1069. The Eleventh Circuit reached the same conclusion in *Manufacturing Research Corp. v. Greybar Electric Co.*, 679 F.2d 1355, 1364 (11th Cir. 1982). “[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.” *Id.* at 1360-61. Other regional circuits uniformly agreed that the presumption is, at a

minimum, greatly diminished when the examiner had no opportunity to review the asserted prior art.¹

As these courts recognized, if the heightened clear-and-convincing standard derives from the deference the PTO is owed, then it should apply only to those matters the PTO has actually considered. There is no reason for a jury's review to be cabined in deference to a PTO judgment that was never rendered. Application of the clear-and-convincing evidence standard in the circumstances of this case is particularly illogical because here the PTO's expert judgment is that *Datamation* invalidates the patent. When the PTO reexamined this patent "on the basis of new information about pre-existing technology which ... escaped review at the time of the initial examination," it did not require clear and convincing evidence to find it invalid. *In re Etter*, 756 F.2d at 856; *see also* 35 U.S.C. § 305.

Indeed, application of the clear-and-convincing standard where the PTO has not considered the prior art cannot be reconciled with the structure of patent

¹ *See U.S. Expansion Bolt Co. v. Jordan Indus., Inc.*, 488 F.2d 566, 569 (3d Cir. 1973); *Preformed Line Prods. Co. v. Fanner Mfg. Co.*, 328 F.2d 265, 271 (6th Cir. 1964); *Cont'l Can Co. v. Old Dominion Box Co.*, 393 F.2d 321, 326 n.8 (2d Cir. 1968); *Marston v. J.C. Penney Co.*, 353 F.2d 976, 982 (4th Cir. 1965); *Ralston Purina Co. v. Gen. Foods Corp.*, 442 F.2d 389, 390 (8th Cir. 1971); *Turzillo v. P. & Z. Mergentime*, 532 F.2d 1393, 1399 (D.C. Cir. 1976); *Henry Mfg. Co. v. Commercial Filters Corp.*, 489 F.2d 1008, 1013 (7th Cir. 1972); *Plastic Container Corp. v. Cont'l Plastics of Okla., Inc.*, 708 F.2d 1554, 1558 (10th Cir. 1983); *Futorian Mfg. Corp. v. Dual Mfg. & Eng'g, Inc.*, 528 F.2d 941, 943 (1st Cir. 1976).

review. Patent examiners reviewing an application for the first time are faced with limited information, time, and resources. “Patent applications are evaluated early in the life of a claimed technology, and thus at the time of patent review there is typically no publicly available information” useful for the determination of validity. Doug Lichtman & Mark A. Lemley, *Rethinking Patent Law’s Presumption of Validity*, 60 Stan. L. Rev. 45, 46 (2007). The patent examiner must make a determination “under tight time constraints and on an *ex parte* basis allowing minimal opportunity to hear a third party’s opposing views.” U.S. Fed. Trade Comm’n, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, ch. 5, at 28 (2003) (“FTC Report”), online at <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>. As the FTC has observed, “these factors state a compelling case against imposing a heightened evidentiary standard on those challenging patent validity” in any case. *Id.* Where, as here, these factors are exacerbated by the PTO’s inability to consider the pertinent prior art because that art has not been called to its attention, any possible basis for a heightened standard evaporates.²

² A number of commentators have argued against the clear-and-convincing standard in this context. See, e.g., Alan Devlin, *Revisiting the Presumption of Patent Validity*, 37 S.W. U. L. Rev. 323, 333-38 (2008) (listing grounds for the conclusion that “[e]ither the Federal Circuit or Supreme Court should hold that one seeking to invalidate a patent face no more than a burden of proof on the balance of probabilities”); B.D. Daniel, *Heightened Standards of Proof in Patent Infringement Litigation: A Critique*, 36 AIPLA Q. J. 369, 412 (Fall 2008) (“The

Some commentators have concluded that the clear-and-convincing standard creates significant harm by permitting the perpetuation of invalid patents and their attendant monopolies. “[T]he presumption disproportionately helps patents for which validity would otherwise be in doubt.” Lichtman & Lemley, 60 *Stan. L. Rev.* at 58. See also F. Scott Kieff, *The Case for Preferring Patent-Validity Litigation over Second-Window Review and Gold-Plated Patents: When One Size Doesn’t Fit All, How Could Two Do the Trick?*, 157 *U. Penn. L. Rev.* 1937, 1950-51 (2009) (“Under the present system, the high costs of junk patents are directly tied to the legal presumption of validity that is applied to all issued patents, under which the litigant challenging validity bears the burden of proving invalidity under a higher standard of proof than that which usually applies in civil cases.”). That is because though “[a] patent that is clearly valid does not much benefit from a presumption of validity, ... [a] patent holder relying on a suspect patent, by

proper standard of proof for resolving all questions of invalidity ... should be preponderance of the evidence.”); Jennifer K. Bush, John E. Gartman & Elizabeth I. Rogers, *Six Patent Law Puzzlers*, 13 *Tex. Intell. Pty. L. J.* 1, 18-19 (Fall 2004) (“The presumption currently requires proof of invalidity by clear and convincing evidence, even in cases in which the examiner – had he or she been aware of the prior art cited by the challenger – might not have allowed the patent to issue. ... [W]e would maintain the presumption of validity, but we would allow the presumption to be overcome by a preponderance of the evidence.”); Charles E. Phipps, *The Presumption of Administrative Correctness: The Proper Basis for the Clear and Convincing Evidence Standard*, 10 *Fed. Cir. B. J.* 143, 158-59 (2000) (heightened standard of proof inappropriate where presumption of administrative correctness does not apply because PTO did not consider asserted prior art).

contrast, gains significant ground by virtue of a strong presumption.” Lichtman & Lemley, 60 Stan. L. Rev. at 58. By further bolstering patent protection for non-patentable inventions, the clear-and-convincing standard can wreak economic havoc. As the FTC warned, “[l]itigation is a mechanism for focusing enhanced attention on those patents that are most likely to hold commercial significance and for weeding out from this group those patents that should not have been granted. If these market-selected inquiries cannot be conducted on a level playing field, there is serious potential for judicially confirming unnecessary, potentially competition-threatening rights to exclude.” FTC Report, ch. 5, at 28.

These deleterious effects are especially great when the heightened standard of proof is applied even as to prior art that was not considered by the Patent Office, and this petition asks this Court to consider the propriety of the clear-and-convincing evidence standard only as applied to such prior art. In such cases, a preponderance standard would satisfy the admonition in 35 U.S.C. § 282 that “[t]he burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.” But it would not give undue weight to the examiner’s review of prior art sources when, as here, that review was based on a substantially incomplete record. *See Phipps*, 10 Fed. Cir. B. J. at 159 (best approach is to “limit[] the role of § 282 to the placement of the burden on the patent challenger and not extend[] it to the determination of the weight of that

burden”). When the jury is the first fact-finder to consider “the scope and content of the prior art[,] differences between the prior art and the claims at issue[,] ... and the level of ordinary skill in the pertinent art,” *Graham v. John Deere Co. of Kansas City*, 383 U.S. 1, 17 (1966), its review should not be hamstrung by an unjustifiably elevated standard of proof. The panel’s review, which merely asked whether the jury reasonably concluded that there was no *clear and convincing evidence* of invalidity (slip op. at 17), does not and cannot substitute for an evaluation of the validity of the patent under the appropriate standard.

CONCLUSION

For the foregoing reasons, the petition for rehearing *en banc* should be granted. The finding that the asserted claims are not invalid should be vacated, and the remand proceedings ordered by the panel should include, in addition to damages, a new trial in which obviousness is assessed under the correct, preponderance standard.

Respectfully submitted,



Constantine L. Trela, Jr.
Robert N. Hochman
Tacy F. Flint
SIDLEY AUSTIN LLP
One South Dearborn Street
Chicago, IL 60603
(312) 853-7000

Carter G. Phillips
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, D.C. 20005
(202) 736-8000

John E. Gartman
John W. Thornburgh
FISH & RICHARDSON P.C.
12390 El Camino Real
San Diego, CA 92130
(858) 678-5070

United States Court of Appeals for the Federal Circuit

2008-1485, -1487, -1495

LUCENT TECHNOLOGIES, INC.,

Plaintiff/Counterclaim Defendant-
Cross Appellant,

and

LUCENT TECHNOLOGIES GUARDIAN I LLC,

Counterclaim Defendant,

and

MULTIMEDIA PATENT TRUST,

Plaintiff/Counterclaim Defendant,

v.

GATEWAY, INC., GATEWAY COUNTRY STORES LLC,
GATEWAY COMPANIES, INC., COWABUNGA ENTERPRISES, INC.,
and GATEWAY MANUFACTURING LLC,

Defendants/Counterclaimants,

and

DELL INC.,

Defendant/Counterclaimant,

and

MICROSOFT CORPORATION,

Defendant/Counterclaimant-Appellant.

John M. Desmarais, Kirkland & Ellis, LLP, of New York, New York, argued for plaintiff/counterclaim defendant-cross appellant Lucent Technologies, Inc. With him on the brief were Paul A. Bondor and Michael P. Stadnick.

Constantine L. Trela, Jr., Sidley Austin LLP, of Chicago, Illinois, argued for defendant/counterclaimant-appellant Microsoft Corporation. With him on the brief were Robert N. Hochman and Tacy F. Flint, and Carter G. Phillips, of Washington, DC. Of counsel on the brief were John E. Gartman and John W. Thornburgh, Fish & Richardson, P.C., of San Diego, California. Of counsel were Juanita Rose Brooks and Joseph P. Reid, Fish & Richardson, P.C. of San Diego, California; and Thomas Andrew Culbert and Stephen P. McGrath, Microsoft Corporation, of Redmond, Washington.

Edward R. Reines, Weil, Gotshal & Manges LLP, of Redwood Shores, California, for amici curiae Apple Inc., et al. With him on the brief was Sonal N. Mehta.

James W. Dabney, Fried, Frank, Harris, Shriver & Jacobson LLP, of New York, New York, for amici curiae Bank of America Corporation, et al.

Donald R. Dunner, Finnegan, Henderson, Farabow, Garrett & Dunner, L.L.P., of Washington, DC, for amici curiae 3M Company, et al. With him on the brief were Don O. Burley and Erik R. Puknys, of Palo Alto, California. Of counsel on the brief were Hansjorg Sauer, Biotechnology Industry Organization, of Washington, DC; Michael J. Biber, Dolby Laboratories, Inc., of San Francisco, California; P. Michael Walker and Barry Estrin, E.I. DuPont de Nemours and Co., of Wilmington, Delaware; Richard F. Phillips, Exxon Mobil Chemical Company, of Houston, Texas; Buckmaster de Wolf, General Electric Company, of Fairfield, Connecticut; Philip S. Johnson, Johnson & Johnson, of New Brunswick, New Jersey; Steven W. Miller, The Procter & Gamble Company, of Cincinnati, Ohio; Alexander H. Rogers, Qualcomm Inc., of San Diego, California; and Taraneh Maghamé, Tessera, Inc., of San Jose, California.

Appealed from: United States District Court for the Southern District of California

Judge Marilyn L. Huff

United States Court of Appeals for the Federal Circuit

2008-1485, -1487, -1495

LUCENT TECHNOLOGIES, INC.,

Plaintiff/Counterclaim Defendant-
Cross Appellant,

and

LUCENT TECHNOLOGIES GUARDIAN I LLC

Counterclaim Defendant,

and

MULTIMEDIA PATENT TRUST,

Plaintiff/Counterclaim Defendant,

v.

GATEWAY, INC., GATEWAY COUNTRY STORES LLC,
GATEWAY COMPANIES, INC., COWABUNGA ENTERPRISES, INC.,
and GATEWAY MANUFACTURING LLC,

Defendants/ Counterclaimants,

and

DELL, INC.,

Defendant/Counterclaimant,

and

MICROSOFT CORPORATION,

Defendant/Counterclaimant-Appellant.

Appeals from the United States District Court for the Southern District of California in
case no. 07-CV-2000, Judge Marilyn L. Huff.

DECIDED: September 11, 2009

Before MICHEL, Chief Judge, NEWMAN and LOURIE, Circuit Judges.

MICHEL, Chief Judge.

Microsoft Corporation appeals the denial of post-trial motions concerning a jury verdict that U.S. Patent No. 4,763,356 (the “Day patent”) was not invalid and that Microsoft indirectly infringed the Day patent. Microsoft also appeals the \$357,693,056.18 jury award to Lucent Technologies, Inc. for Microsoft’s infringement of the Day patent. Because the validity and infringement decisions were not contrary to law and supported by substantial evidence, we affirm. Because the damages calculation lacked sufficient evidentiary support, we vacate and remand that portion of the case to the district court for further proceedings.

BACKGROUND

In the 1970s, niche groups of hobbyists, including two teenagers in a Los Altos garage, built personal computers from scratch. In the early to mid-1980s, personal computing gained popularity although still in its infancy. In 1982, a fifteen-year-old high school student created the first public computer virus, spreading it among personal computers via floppy disks, most likely the 5¼-inch version, as the 3½-inch disk wasn’t introduced until a few years later. Commercially available operating systems at the time were mainly text-based with few, if any, graphical interfaces. In 1984, with its now famous “1984” commercial aired during Super Bowl XVIII on Black Sunday, Apple Computer announced the introduction of its Apple Macintosh, the first widely sold

personal computer employing a graphical user interface. The following year, Microsoft introduced its own version of a graphical operating system, Windows 1.0.

In December 1986, three computer engineers at AT&T filed a patent application, which eventually issued as the Day patent. The patent is generally directed to a method of entering information into fields on a computer screen without using a keyboard. A user fills in the displayed fields by choosing concurrently displayed, predefined tools adapted to facilitate the inputting of the information in a particular field, wherein the predefined tools include an on-screen graphical keyboard, a menu, and a calculator. The system may display menus of information for filling in a particular field and may also be adapted to communicate with a host computer to obtain the information that is inserted into the fields. In addition, one of the displayed fields can be a bit-mapped graphics field, which the user fills in by writing on the touch screen using a stylus.

In 2002, Lucent¹ initiated the present action against Gateway, and Microsoft subsequently intervened. The appeal comes from the consolidated action of three separate infringement suits filed in the Eastern District of Virginia, the District of Delaware, and the Southern District of California. The consolidated action was originally before Senior Judge Rudi Brewster. In October 2007, Judge Brewster severed part of the patent infringement case for transfer to Judge Marilyn Huff. The court severed and transferred for further proceedings all matters relating to the Day patent and U.S. Patent Nos. 4,383,272; 4,958,226; 5,347,295; and 4,439,759.

At trial, Lucent charged infringement by Microsoft of claims 19 and 21, among others, of the Day patent. Lucent alleged indirect infringement of claim 19 based on the

¹ The Day patent is now assigned to Lucent.

sales and use of Microsoft Money, Microsoft Outlook, and Windows Mobile. As to claim 21, Lucent asserted that the use of Windows Mobile infringed. Lucent also alleged infringement by Dell and asserted claims of the other patents as well, but those issues are not on appeal.² Microsoft challenged Lucent's infringement contentions, contending among other defenses that the Day patent was invalid for being anticipated or obvious and, even if valid, Microsoft's sales of its products did not infringe the Day patent.

The jury found Microsoft liable on claim 19 as to all three products and on claim 21 as to Windows Mobile but returned a finding of no infringement by Dell as to those two claims. The verdict, without distinguishing among the three products or between inducement and contributory infringement, awarded a single lump-sum against Microsoft for all products involved. The jury awarded \$357,693,056.18 for Microsoft's infringement of the Day patent, excluding prejudgment interest.³

The parties filed numerous post-trial motions, including Microsoft's renewed motions seeking judgment as a matter of law that the Day patent was anticipated and obvious and motions challenging the jury's finding of infringement and the jury's award of damages. In particular, Microsoft sought judgment as a matter of law that claims 19 and 21 were anticipated under 35 U.S.C. § 102(b) and (g) or were obvious under § 103. The district court found substantial evidence in the record to support the jury's determination that the defendants had not proven the Day patent to be invalid. The district court also held that neither judgment as a matter of law nor a new trial was

² Additionally, on December 15, 2008, Microsoft and Lucent filed a stipulation dismissing all claims between them except those relating to the Day patent.

³ For U.S. Patent No. 5,347,295, the jury awarded \$10,350,000.00 for Microsoft's infringement and \$51,000.00 for Dell's infringement.

appropriate on the jury's finding that Lucent had proven damages in the amount of approximately \$358 million. The district court granted only the post-trial motion setting aside the obviousness verdict concerning U.S. Patent No. 4,958,226 but denied all other post-trial motions, including those for the Day patent. See Lucent Techs., Inc. v. Gateway, Inc., 580 F. Supp. 2d 1016 (S.D. Cal. 2008). Microsoft has timely appealed the district court's decision. We have jurisdiction pursuant to 28 U.S.C. § 1295(a)(1).

ANALYSIS

I. Standards of Review

When reviewing the denial of a motion for judgment as a matter of law ("JMOL") after a jury verdict, we "'appl[y] the same standard of review as that applied by the trial court.'" Wechsler v. Macke Int'l Trade, Inc., 486 F.3d 1286, 1290 (Fed. Cir. 2007) (quoting nCube Corp. v. SeaChange Int'l, Inc., 436 F.3d 1317, 1319 (Fed. Cir. 2006)). Furthermore, "[t]he grant or denial of a motion for judgment as a matter of law is a procedural issue not unique to patent law, reviewed under the law of the regional circuit in which the appeal from the district court would usually lie." Summit Tech., Inc. v. Nidek Co., 363 F.3d 1219, 1223 (Fed. Cir. 2004). In the Ninth Circuit, a district court grants JMOL only "if the evidence, construed in the light most favorable to the nonmoving party, permits only one reasonable conclusion, and that conclusion is contrary to the jury's verdict." Pavao v. Pagay, 307 F.3d 915, 918 (9th Cir. 2002). Similarly, a district court in the Ninth Circuit "may grant a new trial only if the verdict is against the clear weight of the evidence." Id.

"Infringement is a question of fact, reviewed for substantial evidence when tried to a jury." Finisar Corp. v. DirecTV Group, Inc., 523 F.3d 1323, 1332 (Fed. Cir.),

cert. denied, 129 S. Ct. 754 (2008). Obviousness is a legal question reviewed de novo. PharmaStem Therapeutics, Inc. v. ViaCell, Inc., 491 F.3d 1342, 1359 (Fed. Cir. 2007), cert. denied, 128 S. Ct. 1655 (2008). The statutory standard requires us to decide whether the subject matter of the claimed invention “would have been obvious at the time the invention was made to a person of ordinary skill in the art to which [the subject matter of the invention] pertains.” 35 U.S.C. § 103(a) (2006); see also KSR Int’l Co. v. Teleflex Inc., 550 U.S. 398, 415-16 (2007). “Underpinning that legal issue are factual questions relating to the scope and content of the prior art, the differences between the prior art and the claimed invention, the level of ordinary skill in the art, and any relevant secondary considerations, such as commercial success, long-felt need, and the failure of others.” PharmaStem, 491 F.3d at 1359.

We review for an abuse of discretion a district court’s decision concerning the methodology for calculating damages. Unisplay, S.A. v. Am. Elec. Sign Co., 69 F.3d 512, 517 n.8 (Fed. Cir. 1995); see also State Indus., Inc. v. Mor-Flo Indus., Inc., 883 F.2d 1573, 1576-77 (Fed. Cir. 1989) (noting that the precise methodology used in “assessing and computing damages is committed to the sound discretion of the district court”). We review the jury’s determination of the amount of damages, an issue of fact, for substantial evidence. SmithKline Diagnostics, Inc. v. Helena Labs. Corp., 926 F.2d 1161, 1164 n.2 (Fed. Cir. 1991). “A jury’s decision with respect to an award of damages ‘must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork.’” State Contracting & Eng’g Corp. v. Condotte Am., Inc., 346 F.3d 1057, 1072 (Fed. Cir. 2003)

(quoting Brooktree Corp. v. Advanced Micro Devices, Inc., 977 F.2d 1555, 1580 (Fed. Cir. 1992)).

II. Invalidity

Before the jury, Microsoft engaged in a multi-pronged attack of the Day patent's validity. Microsoft argued, for example, that the Day patent was anticipated under § 102(b) and (g) and obvious under § 103. On appeal, Microsoft challenges only the district court's denial of the JMOL motion on obviousness. Microsoft does not challenge any of the district court's claim constructions. In analyzing the obviousness defense, we therefore must apply the claim construction as it was presented to the jury. Further, Microsoft relies on only a single prior art document for its obviousness position with respect to claim 19.

Independent claim 19 is directed to a method of inputting data using certain predefined "tools" and entering that information into particular fields displayed in a computer form. Claim 21 depends from claim 19 and further specifies that the information field is displayed as "a bit-mapped-graphics field." Claims 19 and 21 read in full as follows.

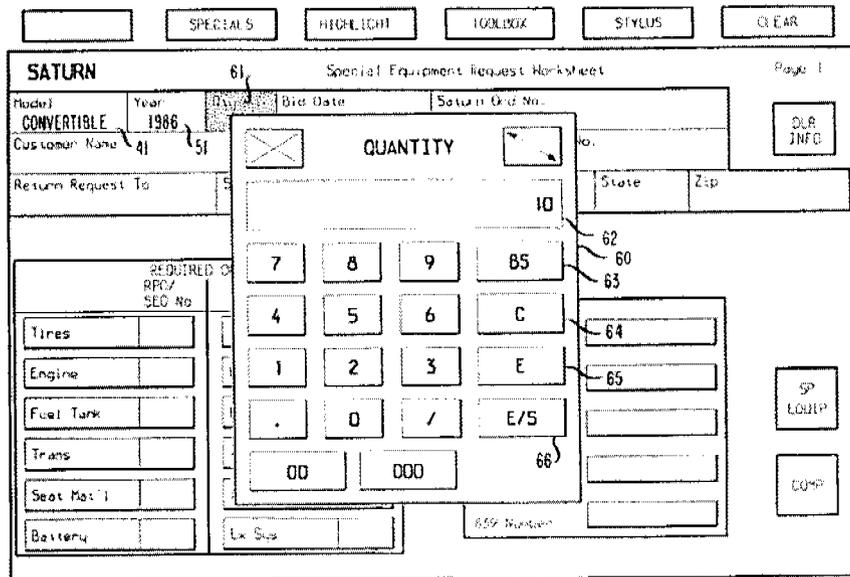
19. A method for use in a computer having a display comprising the steps of
of
displaying on said display a plurality of information fields,
identifying for each field a kind of information to be inserted therein,
indicating a particular one of said information fields into which information is to be inserted and for concurrently displaying a predefined tool associated with said one of said fields, said predefined tool being operable to supply information of the kind identified for said one field, said tool being selected from a group of predefined tools including a tool adapted to supply an individual entry from a menu of alternatives and at least a tool adapted to allow said user to compose said information, and
inserting in said one field information that is derived as a result of said user operating said displayed tool.

* * *

21. The method set forth in claim 19 wherein the step of displaying said pattern includes the step of displaying one or more of said information fields as a bit-mapped-graphics field.

The '356 patent, col.17 l.27 to col.18 l.22. Figure 5 of the Day patent, shown below, illustrates an embodiment of the invention in which a graphical calculator overlays the form having multiple fields, one of which—"Quantity" (Qty 61)—is highlighted.

FIG. 5



A. Claim 19

Microsoft's position was that claim 19 would have been obvious over a 1984 magazine article, Michael Tyler, Touch Screens: Big Deal or No Deal?, Datamation, Jan. 1984, at 146 ("the Datamation article" or "Datamation"). The article describes both the potential benefits and drawbacks of using computer touch screens at a time when computer technology was developing. As Datamation reports, analysts feared that "[t]he combination of these drawbacks and outside influences may doom the touch-sensitive terminal" and that "[e]ven touch technology's greatest proponents admit that

