# FINNEGAN

## LAST MONTH AT THE FEDERAL CIRCUIT

### Special Edition

## Permanent Injunction Against Microsoft Is Proper Where Scope of Injunction Is Narrow and Monetary Damages Are Inadequate

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**Judges:  Schall, Prost (author), Moore**

**[Appealed from E.D. Tex., Judge Davis]**

In *i4i Limited Partnership v. Microsoft Corp.*, No. 09-1504 (Fed. Cir. Dec. 22, 2009), the Federal Circuit affirmed the district court's claim construction as well as the jury's findings of infringement and validity, finding that the district court did not abuse its discretion in admitting certain evidence as to damages or in granting enhanced damages.  The Federal Circuit further affirmed the entry of the permanent injunction with a modified effective date.

i4i Limited Partnership ("i4i") owns U.S. Patent No. 5,787,449 ("the '449 patent"). The '449 patent claims an improved method for editing documents containing markup languages like XML.  The improvement stemmed from storing a document's content and metacodes separately, primarily by creating a "metacode map," a data structure that stores the metacodes and their locations within the document.  The document's content is stored in a data structure called "mapped content."

Since 2003, versions of Microsoft Word ("Word") have had XML editing capabilities, including the ability to define custom metacodes.  In 2007, i4i filed this action in the district court against Microsoft Corporation ("Microsoft"), alleging infringement of the '449 patent.  i4i further alleged that Microsoft's infringement was willful, based on Microsoft's working knowledge of i4i's patented product prior to developing Word 2003.

Before the case was submitted to the jury, Microsoft moved for JMOL on the issues of infringement, willfulness, and validity.  The district court denied Microsoft's motions, and the case was submitted to the jury.  The jury found that Word infringed all asserted claims of the '449 patent, that the '449 patent was not invalid, and that Microsoft's infringement was willful.  It awarded $200 million in damages. After trial, Microsoft renewed its motions for JMOL on infringement, validity, and willfulness. In the alternative, Microsoft moved for a new trial based on errors in the claim construction, evidentiary rulings, and jury instructions. The district court denied Microsoft's motions, granted i4i's motion for a permanent injunction, and awarded $40 million in enhanced damages. Microsoft appealed.

On appeal, the Federal Circuit first addressed the district court's claim construction of the '449 patent.  Microsoft argued that the claim term "distinct," which is used to describe how the metacode map and the mapped content are stored, added two requirements:  (1) storing the metacode map and mapped content in separate files, not just separate portions of the

computer's memory; and (2) the ability to edit the document's content and its metacode map "independently and without access" to each other. Slip op. at 7.

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"[The injunction] applies *only* to users who purchase or license Word *after* the date the injunction takes effect. Users who purchase or license Word before the injunction's effective date may continue using Word's custom XML editor, and receiving technical support." Slip op. at 42.

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Regarding Microsoft's argument that "distinct" adds the requirement of storage in separate files, the Court found that the claim's plain language, which included the term "storage means," did not require storage in separate files. Further, the specification used "structures." The Court explained that both "storage means" and "structures" are broader terms than "file," suggesting no particular format. The Court also noted that sample algorithms disclosed in the specification did not say that storage means were restricted to "files." As such, the Court saw no clear intent to limit the claim scope to storage in files. As for the prosecution history, the Court explained that i4i did not limit the storage means to files. The Court noted that during prosecution, i4i made clear that what distinguished its invention from the prior art was not the storage type, but rather the separation of a document's content and structure. Accordingly, the Court rejected Microsoft's argument that the term "distinct" required storage in separate files.

Microsoft also argued that "distinct" required independent manipulation of the metacode map and mapped content. The Court concluded that none of the claims mentioned "independent manipulation" of the mapped content and metacode map. Similarly, the Court noted that the specification referred to "separate,"

rather than "independent," manipulation of the document's architecture and content. The Court explained that, in the specification, "separate manipulation" described the user's ability to work on only the metacode map or content, and that behind the scenes, the invention kept the metacode map and content synchronized. Moreover, the Court found that the prosecution history revealed no statements that unequivocally narrowed the claims to require independent manipulation. Accordingly, the Court rejected Microsoft's argument that "distinct" required "independent manipulation."

The Court turned next to two issues regarding the validity of the '449 patent. First, Microsoft argued that the invention would have been obvious to one of skill in the art in light of some combination of an SGML editor known as Rita or U.S. Patent No. 6,101,512 ("DeRose") with U.S. Patent No. 5,587,902 ("Kugimiya"). The Court found that Microsoft had waived its right to challenge the factual findings underlying the jury's implicit obviousness verdict because it did not file a preverdict JMOL on obviousness for these references. The Court noted that Microsoft's preverdict JMOL on anticipation, based on an early software program from i4i named SEMI-S[4] ("S4"), was insufficient to preserve its right to postverdict JMOL on obviousness or on different prior art. As such, the Court explained that it must presume the jury resolved underlying factual disputes in i4i's favor because the jury made no explicit factual findings. The Court therefore limited its review to determining whether the district court's legal conclusion of nonobviousness was correct based on the presumed fact-findings.

The Court then examined Microsoft's argument on appeal and noted that the argument depends heavily on (1) the scope of the prior art and (2) whether a person of ordinary skill would have been motivated to combine the references' teachings, which are both questions of fact. As the Court must view the evidence in the light most favorable to the verdict, all of these questions must be resolved against Microsoft and in favor of i4i. Accordingly, the Court found that Microsoft had not established that the asserted claims would have been obvious.

Second, Microsoft argued that it was entitled to JMOL because it established a prima facie case of anticipation based on the sale of S4, which i4i could not rebut by relying on the inventors' testimony alone, absent corroboration. Alternatively, Microsoft contended that the evidence was not sufficient to support the verdict of no invalidity. The Court disagreed with Microsoft's contention that i4i was required to come forward with corroboration to "rebut" Microsoft's prima facie case of anticipation. The Court noted that this was not a case where witness testimony was being used to overcome prior art by establishing an earlier date of invention. The Court held that the corroboration was not required where the testimony was offered to rebut a claim of anticipation and pertained to whether the prior art practiced the claimed invention. The Court further concluded that there was sufficient evidence for a reasonable jury to find that the '449 patent was not anticipated by the sale of S4.

Microsoft also argued that the burden of proof for invalidity should have been less than clear and convincing, when considering prior art that was not before the PTO. The Court concluded that the jury instructions were in accordance with the Court's precedent, which requires the challenger to prove invalidity by clear and convincing evidence.

The Court then examined Microsoft's infringement arguments. First, Microsoft argued that it is entitled to a new trial because of two alleged errors in the jury instructions regarding contributory infringement. Microsoft argued that it was error to use the term "component" rather than "material or apparatus" when referring to an instrumentality for use in practicing a patented method. *Id.* at 20-21. But despite the literal language of 35 U.S.C. § 271(c), the Court found that this was not a case where the difference mattered. Microsoft also argued that it was error to instruct the jury to focus on the custom XML editor rather than all of Word when deciding whether any noninfringing use was "substantial." *Id.* at 21. The Court held that there was sufficient evidence for the jury to conclude that the relevant "material or apparatus" was the custom XML editor functionality, not all of Word.

*Id.* at 21-22. Accordingly, the Court found the jury instructions proper.

Second, Microsoft challenged the sufficiency of evidence supporting the jury's general verdict of infringement. Microsoft argued that the general verdict must be set aside unless both of i4i's alternative legal theories, contributory infringement and induced infringement, were supported by substantial evidence. The Court disagreed and explained that the legal theories were each legally valid and that affirmance required factual support of only one of the theories.

To succeed on a theory of contributory or induced infringement, the Court noted that i4i was required to show direct infringement of the '449 patent. The Court found that based on the evidence presented at trial, including testimony given by i4i's expert, a joint stipulation, and Microsoft's response to interrogatories, a reasonable jury could have found that at least one person performed the methods claimed in the '449 patent.

Regarding contributory infringement, the Court examined the evidence presented at trial and concluded that the jury could have reasonably concluded that the custom XML editor had no substantial, noninfringing use and that Microsoft knew that the use of the custom XML editor would infringe i4i's patent. At trial, i4i's expert had opined that the custom XML editor could be used in three noninfringing ways, but none was "substantial." *Id.* at 25. The jury also heard ample testimony that the noninfringing, binary file format was not a practical or worthwhile use for the XML community. Further, the Court noted that the jury could have reasonably concluded from the evidence presented at trial that Microsoft knew about the '449 patent and knew that the use of its custom XML editor would infringe the patent.

Regarding induced infringement, the Court found that a reasonable jury could have concluded that Microsoft had the affirmative intent to cause direct infringement because the jury heard i4i's expert testimony that using Word's custom XML editor as directed by Microsoft's instructional

materials would infringe the '449 patent. The Court noted that there was substantial evidence that Microsoft knew its instructions would result in infringing use, in light of Microsoft's history with i4i and i4i's patented product.

Next, the Court assessed the propriety of various evidentiary rulings and found that the district court did not abuse its discretion by denying Microsoft a new trial on damages. On appeal, Microsoft challenged the admission of i4i's expert testimony on damages as well as a survey relied on by the expert. The Court explained that the i4i expert's use of a hypothetical negotiation and factors set out in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), for estimating a reasonable royalty satisfied the standards of relevance and reliability under Fed. R. Evid. 702 and *Daubert v. Merrill Dow Pharmaceuticals, Inc.*, 509 U.S. 579, 589-90 (1993). The Court noted that Microsoft's disagreements with facts used by i4i's expert addressed the weight, not admissibility, of his opinion.

Microsoft also disputed whether the benchmark, the baseline royalty rate, and i4i's survey for estimating infringing use were relevant for determining a reasonable royalty rate and should have been admitted at trial. The Court explained that the existence of other facts, which may be more favorable to Microsoft, does not mean that the facts used at trial failed to meet the minimum standards of relevance or reliability under Rule 702. The question was whether the i4i expert relied on facts sufficiently related to the disputed issue, which was a reasonable royalty for the '449 patent. The Court concluded that i4i's damages expert based his calculation on facts that had a sufficient nexus to the relevant market, the parties, and the alleged infringement. The Federal Circuit therefore held that the district court did not abuse its discretion in admitting i4i's expert testimony on damages.

Microsoft also challenged the district court's admission of the survey used to estimate the amount of infringing use. The Court examined the danger of unfair prejudice and the survey's probative value under Rule 403. The Court noted that i4i's experts testified that the survey

was based on conservative assumptions, and the survey was important to i4i's damages calculation because it was used to estimate the amount of infringing use. The Court concluded that, given the importance and the acceptable design of the survey, the district court did not abuse its discretion in admitting the survey.

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"By carving out users who purchased or licensed infringing Word products before the injunction's effective date, the injunction's tailoring minimizes disruptions to the market and the public." Slip op. at 46.

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Next, the Court turned to the reasonableness of the damages award. The Court explained that this case differed from its recent decision in *Lucent Technologies, Inc. v Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), because Microsoft did not file a preverdict JMOL on damages. Had Microsoft properly objected before the jury's verdict, the Court opined, the appellate panel could have considered whether the $200 million damages award was "grossly excessive or monstrous" in light of Word's retail price and the licensing fees Microsoft paid for other patents. Slip op. at 37. In the present case, however, the Court was constrained to review the verdict under the much narrower standard applied to denials of new trial motions. It then concluded that the damages award, while high, was supported by the evidence presented at trial and that the Court was not in a position to second-guess or substitute its judgment for the jury's.

Microsoft also appealed the district court's decision to award $40 million in enhanced damages under 35 U.S.C. § 284. The Court reviewed the district court's analysis based on the factors set out in *Read Corp. v. Portec, Inc.*, 970 F.2d 816 (Fed. Cir. 1992), in determining whether to enhance damages. The Court found that the district court, applying the

*Read* factors, properly considered Microsoft's size and financial condition, as well as whether Microsoft investigated the scope of the patent. Considering all the *Read* factors and the district court's statutory authority to treble damages under § 284, the Court concluded that the actual award of $40 million was not an abuse of discretion.

Finally, the Court turned to whether the district court abused its discretion in granting a permanent injunction against Microsoft or in tailoring that injunction under *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006). The Federal Circuit affirmed the district court's holding that i4i was irreparably injured by Microsoft's infringement, based on the factual findings that Microsoft and i4i were direct competitors in the custom XML market, that i4i lost market share as a result of the infringing Word products, and that the infringing Word products rendered i4i's software obsolete, as a result of which i4i changed its business model to make software that complemented Microsoft's infringing products. Furthermore, the Court noted that it was proper for the district court to consider evidence of past harm to i4i.

The Court also found that it was not an abuse of discretion for the district court to conclude that monetary damages would be inadequate. The Court explained that Microsoft captured 80% of the custom XML market with its infringing Word products, forcing i4i to change its business strategy, which loss was particularly difficult to quantify and therefore evidence that remedies at law were inadequate.

Regarding the balance of hardships, the Court concluded that the district court properly considered the relevant *eBay* factors in its analysis. These factors include the parties' sizes, products, and revenue sources. The Court found these factors clearly show that the patented technology was central to i4i's business, and that i4i's market share, revenue, and business strategies were tied to the patented method. The Court further found these factors revealed that the infringing custom XML editor related to only a small fraction of Microsoft's sizeable business. The Federal Circuit agreed with the district court that the far greater importance of the patented method to i4i, combined with the demonstrated past effects of infringement on i4i, favored issuance of a permanent injunction.

As for the public interest factor, the Court held that the district court did not abuse its discretion in finding that the narrow scope of the injunction and the public's general interest in upholding patent rights favor injunctive relief. The Court noted that the injunction excluded users who purchased or licensed infringing Word products before the injunction's effective date, which substantially minimizes adverse effects on the public.

Lastly, Microsoft challenged the date on which the injunction goes into effect. The Court noted that the only evidence about how long it would take Microsoft to comply with the injunction was the declaration of a Microsoft employee, which gave an estimate of "at least" five months. Slip op. at 47. The Federal Circuit found that the district court erred by ordering Microsoft to comply with the injunction within sixty days, and modified the injunction's effective date from "60 days from the date of this order" to "5 months from the date of this order," maintaining the triggering date as the district court's order. *Id.*

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## Abbreviations

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| ALJ | Administrative Law Judge |
| ANDA | Abbreviated New Drug Application |
| APA | Administrative Procedures Act |
| APJ | Administrative Patent Judge |
| Board | Board of Patent Appeals and Interferences |
| Commissioner | Commissioner of Patents and Trademarks |
| CIP | Continuation-in-Part |
| DJ | Declaratory Judgment |
| DOE | Doctrine of Equivalents |
| FDA | Food and Drug Administration |
| IDS | Information Disclosure Statement |
| ITC | International Trade Commission |
| JMOL | Judgment as a Matter of Law |
| MPEP | Manual of Patent Examining Procedure |
| NDA | New Drug Application |
| PCT | Patent Cooperation Treaty |
| PTO | United States Patent and Trademark Office |
| SJ | Summary Judgment |
| TTAB | Trademark Trial and Appeal Board |