2009-1504

IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

I4I LIMITED PARTNERSHIP AND
INFRASTRUCTURES FOR INFORMATION INC.,

Plaintiffs-Appellees,

v.

MICROSOFT CORPORATION,

Defendant-Appellant.

Appeal from the United States District Court
For the Eastern District of Texas
In Case No. 07-CV-113, Judge Leonard Davis

REPLY BRIEF IN SUPPORT OF COMBINED PETITION FOR PANEL REHEARING AND REHEARING EN BANC

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Counsel for Defendant-Appellant certifies the following:

1. The full name of every party or amicus represented by me is: Microsoft Corporation.

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

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

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

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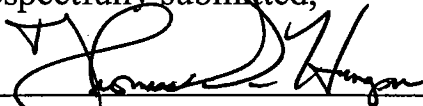

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ARGUMENT

i4i concedes that the panel erred in stating that Microsoft had not challenged the sufficiency of the evidence underlying the district court's finding of willfulness. *See* Opp. 4, 14. That concession requires that Microsoft's petition for rehearing be granted: While some legal or factual errors can be classified as harmless, a failure to conduct properly invoked judicial review is inherently prejudicial.

But rehearing should not be limited to the issue of willful infringement, because, with respect to the other arguments raised in Microsoft's petition, i4i does not so much defend the panel decision as rewrite it. In so doing, i4i implicitly concedes both the importance of the issues raised in the petition and the deficiencies in the decision's analysis of them.

I. The Decision Improperly Insulated An Expert's Misapplication Of The *Georgia-Pacific* Framework From Review.

i4i sets up a straw man by claiming that Microsoft is seeking *de novo* review of the district court's evidentiary determinations. i4i does this because it has no answer to Microsoft's *actual* argument, which is that the district court failed to undertake a required aspect of the Rule 702 analysis and that this failure was legal error, and thus, by definition, an abuse of discretion. *See Koon v. United States*, 518 U.S. 81, 100 (1996).

i4i claims that the panel "devoted . . . eight pages of its decision to an analysis of Wagner's methodology." Opp. 5 (citing slip op. at 28). That is not so. The decision *described*, but never *analyzed*, Wagner's *Georgia-Pacific* testimony, and then proceeded to rule out all of Microsoft's attacks on the reliability of that analy-

sis on the ground that "Microsoft's disagreements are with Wagner's conclusions, not his methodology," or alternatively were mere "quarrel[s] with the facts Wagner used." Slip op. 31. According to the decision, because the *Georgia-Pacific* hypothetical negotiation model has been "accept[ed] . . . among damage experts and economists," any of Wagner's more specific methodological errors—including his ludicrous methodology for compiling a "baseline royalty rate" that served as the starting point in his hypothetical negotiation and his selection of $499 XMetaL as a "sufficiently comparable benchmark" for the value of *Word*'s custom XML editor—were completely insulated from appellate scrutiny. *Id.*

i4i does not—because it cannot—deny that the decision's endorsement of the district court's failure to scrutinize Wagner's implementation of the *Georgia-Pacific* model conflicts with numerous precedents that mandate judicial scrutiny of "all aspects of an expert's testimony," *Knight v. Kirby Inland Marine Inc.*, 482 F.3d 347, 355 (5th Cir. 2007), and likewise contradicts the Supreme Court's teaching that courts must inquire whether the facts cited by the expert relate sufficiently to the facts of the case, *see Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997); *Daubert v. Merrell Dow*, 509 U.S. 579, 593 (1993). *See also* Pet. 4–5.

i4i claims instead that the district court did independently review Wagner's benchmark methodology. Opp. 6. But far from scrutinizing Wagner's methodology, the district court held that the benchmark issue "was properly submitted to the jury" in light of "Wagner's *testimony* that such a method is generally appropriate when estimating market value." A40 (emphasis added). The district court thus did precisely what Supreme Court precedent forbids: It substituted "the *ipse dixit* of

the expert" for independent judicial review of reliability. *Joiner*, 522 U.S. at 146. By approving this abdication of the gatekeeping role, the panel's decision effectively insulates from judicial review the manner in which a damages expert implements the *Georgia-Pacific* framework—an issue of immense significance for patent law, as the outsized verdict in this case amply demonstrates.

II. The Decision Breaks With Every Other Circuit In Holding That A JMOL Motion Is A Prerequisite To Full Appellate Review Of An Excessiveness Challenge.

i4i clings to the view that in order for a defendant to obtain full-fledged appellate review of the excessiveness of a damages award, it must file a *pre-verdict* JMOL motion. Opp. 9. i4i cites no case to support that proposition because there is none, and there is none because it is plainly wrong. *See, e.g.*, *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1357–58 (Fed. Cir. 2001).

Although a defendant can challenge pre-verdict the sufficiency of evidence to support a particular theory or type of damages, it cannot challenge a non-existent verdict as excessive.[1] Although the panel thought that a pre-verdict JMOL motion was necessary to challenge the quantum of damages, a district court could not grant such a motion without violating the Seventh Amendment. *Hetzel v.*

[1] Thus in *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009), Microsoft's pre-verdict Rule 50(a) motion challenged the sufficiency of the evidence to support application of the entire market value rule—a particular theory of damages—but, not surprisingly, contained no challenge to the excessiveness of the as-yet-unreturned verdict. *See Lucent Techs., Inc. v. Microsoft Corp.*, No. 07-CV-2000 H (CAB), Doc # 619-1 at 12 (S.D. Cal. Mar. 14, 2008). Microsoft did not challenge the excessiveness of the *Lucent* jury's verdict until it filed a post-verdict motion seeking a *new trial*. See Doc. #770-1.

Prince William County, 523 U.S. 208, 210 (1998) (per curiam). Since the rules of civil procedure must be interpreted to avoid constitutional violations, *Ticor Title Ins. Co. v. Brown*, 511 U.S. 117, 121–22 (1994), the panel's unprecedented construction of Rule 50 should be rejected. Just as i4i has no answer to this Court's decision in *Shockley*, it has no answer to the Seventh Amendment.

i4i asserts that Fifth Circuit precedent supports the decision's unprecedented holding that a pre-verdict JMOL motion is necessary to obtain full appellate review of excessiveness, but i4i cites no case that remotely supports that claim.[2] In fact, Fifth Circuit precedent is directly contrary, holding explicitly that a motion for new trial, not a JMOL motion, is the proper mechanism for raising an excessiveness challenge: "We have held that 'there can be no appellate review (of allegedly excessive or inadequate damages) if the trial court was not given an opportunity to exercise its discretion ***on a motion for new trial***.'" *Carlton v. H.C. Price Co.*, 640 F.2d 573, 577 (5th Cir. 1981) (emphasis added). And the Fifth Circuit has repeatedly held that excessiveness review requires "'a detailed appraisal of the evidence bearing on damages,'" Pet. 10—precisely the "appraisal" that the panel decision

[2] The only case i4i cites, *Whitehead v. Food Max of Mississippi, Inc.*, 163 F.3d 265 (5th Cir. 1998), actually supports *Microsoft*. *Whitehead*'s observation that appellate review of denial of a motion for a new trial generally is more narrow than review of the denial of JMOL came in reference to a *liability* argument. *Id.* at 269. When the Fifth Circuit later addressed the *Whitehead* defendants' challenge to the $3.4 million damage award, the court did not apply the "absolute absence of evidence" standard that i4i proposes here, but rather acknowledged that, "[a] new trial . . . is the appropriate remedy when a jury award results from passion and prejudice," and ***remanded for a new trial on damages on that basis***. *Id.* at 275.

held Microsoft had waived by not seeking JMOL on damages. *See* slip op. 36 (court could not "ask[] whether the jury's award is supported by the evidence").

i4i then claims, without explication, that the decision actually applied the correct standard for excessiveness review. Opp. 8. But the decision speaks for itself: "Had Microsoft filed a pre-verdict JMOL . . . we could have considered whether the $200 million damages award was 'grossly excessive . . . .'" Slip op. 37; *see also id.* at 36 (disclaiming "grossly excessive" review). Instead, the decision said, "we are constrained to review the verdict under the much narrower standard applied to denials of new trial motions." *Id.* at 37. The decision's view that the "grossly excessive" standard does not apply to new-trial motions squarely conflicts with the law of *every* other circuit *and* this Court's own prior decisions. *See* Pet. 10–11 & n.6. It also conflicts with the guidance set out in the Committee on Patent Damages' recent handbook. *See* WLF Amicus Br. 3.

i4i has no plausible response to Microsoft's showing that the decision's circuit-splitting error probably changed the outcome of this appeal. "[I]t is true," the decision said, "that the outcome might have been different" had it undertaken "the more searching review" under the "grossly excessive" standard. Slip op. 37. This case, after all, presents a more egregious example of runaway damages than the verdict reversed in *Lucent*. *See* note 1, *supra*; Pet. 12–13. i4i responds that the admission of i4i's expert testimony insulates the verdict from excessiveness review, Opp. 9 n.2, but that is a misstatement of black-letter law: "The 'admissibility' and 'sufficiency' of [expert] evidence necessitate different inquiries and involve different stakes." *In re Joint E. & S. Dist. Asbestos Litig.*, 52 F.3d 1124,

1132 (2d Cir. 1995). In fact, *Daubert* itself emphasized that properly admitted expert evidence would still be subject to post-verdict challenges. *See* 509 U.S. at 596. Here, even if Wagner's analysis could pass *Daubert* muster, his deeply flawed testimony would not be sufficient alone to support the damages award.

III. The Decision Based Its Finding Of Irreparable Harm Exclusively On Past Harm.

Unable to find any hint in the decision that the panel sustained the injunction on the basis of future harm (or any evidence supporting such a proposition), i4i resorts to citing isolated snippets of the *district court's* opinion that could be read to suggest a continuing harm to i4i, although such suggestions are unsupported by any evidence. Opp. 11–12. The panel decision itself, however, agreed with Microsoft that i4i could not possibly suffer future harm since its current product lineup "complement[s]" Microsoft's products. Slip op. 43. There is a world of difference between using past harm as *evidence* of some identifiable future harm, *see O'Shea v. Littleton*, 414 U.S. 488, 496 (1974), and imposing an injunction purely to *remedy* past harm, which the Supreme Court has forbidden. *See City of Los Angeles v. Lyons*, 461 U.S. 95, 111 (1983). This case involves the latter, because the decision never identified any future harm, and no record evidence supports it.

Revealingly, i4i never contests the irrefutable point that an injunction may not issue solely based on past harm. It merely speculates, without evidentiary support, that with the injunction it "might be able" to manufacture a product that competes with Microsoft. Opp. 13. Of course, that is true of virtually *any* patent plaintiff. If that sort of future-harm argument were sufficient to satisfy "this prerequisite of equitable relief," *Lyons*, 461 U.S. at 111, it would be no prerequisite at all.

IV. i4i's Concession That The Decision Failed To Address Microsoft's Willfulness Challenge Requires Rehearing.

i4i concedes that the panel erred in failing to adjudicate Microsoft's challenge to the sufficiency of the evidence supporting the finding of willfulness. Opp. 14. Despite this total lack of appellate review of a finding that was necessary to the award of $40 million in enhanced damages, i4i urges this Court to deny rehearing on the ground that the error was "harmless." *Id.* That of course begs the question that Microsoft has asked this Court to decide. Microsoft, for its part, has demonstrated that the evidence is not sufficient under *Seagate*, and it is entitled to the appropriate appellate scrutiny of that argument. *See* Blue Br. 68–69; Gray Br. 36–37. i4i obviously disagrees, but the panel should resolve this disagreement on the merits rather than taking i4i's word for it.[3]

CONCLUSION

The petition for panel rehearing or rehearing en banc should be granted.

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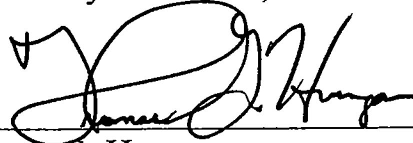
[3] For example, i4i effectively admits that under *Cohesive Technologies, Inc. v. Waters Corp.*, 543 F.3d 1351 (Fed. Cir. 2008), a close and dispositive question of claim construction precludes a finding of willfulness. i4i's too-literal parsing of the panel opinion aside, it is clear that the panel believed the "independent manipulation" claim-construction issue to be close. *See* slip op. at 10–12. And even if i4i were correct that Microsoft's favored claim construction would have required a remand for a new trial (Opp. 15), which Microsoft disputes (Blue Br. 32), *Seagate*'s objective prong would at a minimum require the panel to assess Microsoft's non-infringement arguments under that alternative claim construction, which it never did.

Respectfully submitted,

February 1, 2010



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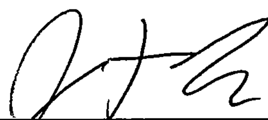

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