

No. 2009-1504

**IN THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT**

14I LIMITED PARTNERSHIP AND
INFRASTRUCTURES FOR INFORMATION INC.,

Plaintiffs–Appellees,

v.

MICROSOFT CORPORATION,

Defendant–Appellant.

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

**REPLY BRIEF FOR DEFENDANT-APPELLANT
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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

I4I V. MICROSOFT
2009-1504

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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 percent or more of the stock of the party or amicus curiae represented by me are:
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4. There is no such corporation as listed in paragraph 3.
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TABLE OF CONTENTS

ARGUMENT	1
I. The Judgment Of Noninfringement Is Based On An Erroneous Claim Construction And Must Be Reversed	2
A. “Distinct Map Storage Means” Requires That The Metacode Map Be Able To Be Revised Independently Of The Content	2
B. The District Court’s Definition Of “Distinct Map Storage Means” Makes “Distinct” Meaningless	4
C. Infringement Fails As A Matter Of Law Under The Proper Construction	7
II. Invalidity	8
A. The Invention Was Obvious	8
1. Reversal Is Warranted	8
2. At A Minimum, A New Trial On Obviousness Is Warranted	14
B. The On-Sale Bar Applies	14
III. The General Verdict Of Infringement Cannot Be Sustained	18
A. The Erroneous Contributory Infringement Instruction Requires Vacatur Of The Infringement Verdict	19
B. Microsoft Was Entitled To JMOL On The Question Of Substantial Noninfringing Use	21
C. The Inferences Of <i>Scienter</i> Required For Both Inducement And Contributory Infringement Liability Are Legally Inadequate	24
IV. The Damages Verdict Cannot Be Sustained	27
A. Wecker’s Survey Is Unreliable	27

B.	Wagner’s Methodology Is Untethered To Reality, Or Common Sense	31
C.	The Damages Verdict Cannot Be Sustained Even If The Expert Testimony Had Been Properly Admitted	35
V.	There Was No Basis For An Award Of \$40,000,000 In Enhanced Damages	36
VI.	The Award Of Injunctive Relief Conflicts With <i>eBay</i>	38
CONCLUSION.....		40

TABLE OF AUTHORITIES

	<u>Page(s)</u>
Cases	
<i>Advocare Int’l, L.P. v. Horizon Labs., Inc.</i> , 524 F.3d 679 (5th Cir. 2008).....	9
<i>Agrizap, Inc. v. Woodstream Corp.</i> , 520 F.3d 1337 (Fed. Cir. 2008).....	14
<i>Albert v. Warner-Lambert Co.</i> , 234 F.Supp.2d 101 (D. Mass. 2002)	29
<i>Ashcroft v. Iqbal</i> , 129 S.Ct. 1937 (2009)	25
<i>Ball Aerosol & Specialty Container, Inc. v. Ltd. Brands, Inc.</i> , 555 F.3d 984 (Fed. Cir. 2009).....	8
<i>Black & Decker, Inc. v. Robert Bosch Tool Corp.</i> , 260 Fed. Appx. 284 (Fed. Cir. 2008).....	37
<i>Broadcom Corp. v. Qualcomm, Inc.</i> , 543 F.3d 683 (Fed. Cir. 2008).....	26, 28
<i>C.R. Bard, Inc. v. Advanced Cardiovascular Sys., Inc.</i> , 911 F.2d 670 (Fed. Cir. 1990).....	23
<i>Cardiac Pacemakers v. St. Jude</i> , __ F.3d __, 2009 WL 2516346 (Fed. Cir. Aug. 19, 2009)	19
<i>Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.</i> , 424 F.3d 1293 (Fed. Cir. 2005).....	22
<i>D.O.C.C. Inc. v. Spintech Inc.</i> , 36 U.S.P.Q.2d 1145 (S.D.N.Y. 1994).....	22
<i>Duro-Last, Inc. v. Custom Seal, Inc.</i> , 321 F.3d 1098 (Fed. Cir. 2003).....	9

<i>Electromotive Div. of GMC v. Transp. Sys. Div. of GE</i> , 417 F.3d 1203 (Fed. Cir. 2005).....	15, 16
<i>Fuesting v. Zimmer</i> , 448 F.3d 936 (7th Cir. 2006).....	9
<i>Harris Corp. v. Ericsson, Inc.</i> , 417 F.3d 1241 (Fed. Cir. 2005).....	8
<i>Gen. Elec. Co. v. Joiner</i> , 522 U.S. 136, 146 (1997).....	31
<i>In re Air Crash Disaster at New Orleans</i> , 795 F.2d 1230 (5th Cir. 1986)	33, 35
<i>In re Bose Corp.</i> , __ F.3d __, 2009 WL 2709312 (Fed. Cir. Aug. 31, 2009)	27
<i>In re Dillon</i> , 919 F.2d 688 (Fed. Cir. 1990).....	10, 13
<i>Jurgens v. CBK, Inc.</i> , 80 F.3d 1366 (Fed. Cir. 1996).....	37
<i>KSR Int’l Co. v. Teleflex, Inc.</i> , 550 U.S. 398 (2007).....	8, 15
<i>Kumho Tire Co., Ltd. v. Carmichael</i> , 526 U.S. 137 (1999).....	34
<i>Loral Fairchild Corp. v. Matsushita Elec. Indus. Co.</i> , 266 F.3d 1358 (Fed. Cir. 2001).....	15
<i>Lucent Technologies v. Gateway, Inc.</i> , __ F.3d __, 2009 WL 2902044 (Fed. Cir. Sept. 11, 2009)	passim
<i>Mahurkar v. C.R. Bard, Inc.</i> , 79 F.3d 1572 (Fed. Cir. 1996).....	15
<i>Maryland v. Baldwin</i> , 112 U.S. 490 (1884).....	19

<i>Microsoft Corp. v. AT&T Corp.</i> , 550 U.S. 437 (2007).....	21
<i>Muniauction, Inc. v. Thomson Corp.</i> , 532 F.3d 1318 (Fed. Cir. 2008).....	8
<i>Northpoint Tech., Ltd. v. MDS America, Inc.</i> , 413 F.3d 1301 (Fed. Cir. 2005).....	18
<i>Omega Eng’g, Inc. v. Raytek Corp.</i> , 334 F.3d 1314 (Fed. Cir. 2003).....	6
<i>Price v. Symsek</i> , 988 F.2d 1187 (Fed. Cir. 1993).....	16
<i>Read v. Portec</i> , 970 F.2d 816 (Fed. Cir. 1992).....	37
<i>Ricoh v. Quanta</i> , 550 F.3d 1325 (Fed. Cir. 2008).....	22, 25
<i>Rousseau v. Teledyne Movable Offshore, Inc.</i> , 812 F.2d 971 (5th Cir. 1987).....	14
<i>Rutherford v. Harris County</i> , 197 F.3d 173 (5th Cir. 1999).....	21
<i>Schering Corp. v. Pfizer Inc.</i> , 189 F.3d 218 (2d Cir. 1999).....	28
<i>SmithKline Beecham Corp. v. Apotex Corp.</i> , 439 F.3d 1312 (Fed. Cir. 2006).....	9
<i>Sony Corp. of Am. v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984).....	23
<i>Spectrum Sports, Inc. v. McQuillan</i> , 506 U.S. 447 (1993).....	19
<i>Stumbo v. Eastman Outdoors, Inc.</i> , 508 F.3d 1358 (Fed. Cir. 2007).....	7

<i>Sunkist Growers, Inc. v. Winckler & Smith Citrus Products Co.</i> , 370 U.S. 19 (1962).....	18
<i>U.S. Env't'l Prods., Inc. v. Westall</i> , 911 F.2d 713 (Fed. Cir. 1990).....	16
<i>Voda v. Cordis Corp.</i> , 536 F.3d 1312 (Fed. Cir. 2008).....	36
<i>Walther v. Lone Star Gas Co.</i> , 952 F.2d 119 (5th Cir. 1992).....	18
<i>Wilmington Star Mining Co. v. Fulton</i> , 205 U.S. 60 (1907).....	19

Statutes

35 U.S.C. § 271(c)	2, 19, 25
--------------------------	-----------

Rules

FED. R. CIV. P. 50(a).....	9, 22
FED. R. CIV. P. 51(c).....	22

Other Authorities

11 Wright & Miller, Federal Practice And Procedure §2818 (2d ed. 1995)	9
http://www.merriam-webster.com/dictionary/material	20
Manual of Patent Examining Procedure (MPEP) §707.05	10
Phyllis J. Welter, Trademark Surveys (1996).....	31
Reference Manual on Scientific Evidence, Federal Judicial Center 245 (2d ed. 2000)	29
Webster's Third New International Dictionary	19
Weinstein's Federal Evidence §702.06	31

TABLE OF ABBREVIATIONS

Parties

i4i	Plaintiffs-Appellees i4i Limited Partnership and Infrastructures for Information, Inc.
Microsoft	Defendant-Appellant Microsoft Corporation

Cites

A__	Joint Appendix at page(s) ____
BlueBr.____	Microsoft's Opening Brief
RedBr.____	Appellees' Brief
WLFBr.	Brief of <i>Amicus Curiae</i> Washington Legal Foundation

Terms

'449 Patent	U.S. Patent No. 5,787,449
Asserted Claims	Claims 14, 18 and 20 of the '449 Patent
DeRose	U.S. Patent No. 6,101,512
HTML	Hypertext Markup Language
Kugimiya	U.S. Patent No. 5,587,902
MPEP	Manual of Patent Examining Procedure
Rita	A2890-2915; A2916-2926; A2927-3043; A3044-3226; A3227-3412
SGML	Standard Generalized Markup Language
XML	Extensible Markup Language

Note: Unless otherwise indicated herein, all emphases have been added.

ARGUMENT

Having little to rebut Microsoft's arguments on the merits, i4i devotes the majority of its brief (40 pages) to a distorted presentation of irrelevant "evidence." i4i labors mightily to paint Microsoft pejoratively, portraying it as a once-close "business partner" that supposedly stabbed i4i in the back and "usurped" i4i's patented invention. Yet that breathless tale is belied by i4i's own allegations: i4i admitted there was no evidence Microsoft copied its technology and explicitly disclaimed making any such contention, and i4i never accused Microsoft of breach of contract, misappropriation, or other claims that are typical of a dispute between business "partners." Rather, this suit reveals a different reality—it was filed not by the supposed "victim," but by litigation investors, and then fully four years after i4i congratulated Microsoft on the release of its supposedly infringing product.

Unfortunately for i4i, the truth is both comparatively mundane and innocent: After a handful of unfruitful meetings, i4i and Microsoft went their separate ways and Microsoft later released the custom XML functionality for *Word* that it had told i4i it was developing. And when Microsoft released its custom XML functionality, i4i congratulated Microsoft because Microsoft's custom XML development platform would increase the opportunities for i4i's own products, which, to that point, had sold poorly.

But both stories, the truth and i4i's creative retelling, are ultimately irrelevant to the proper disposition of this appeal. That is because the central issues before this Court are questions of law reviewed *de novo*. A straightforward application of the law to the *undisputed* facts leads ineluctably to the conclusion that the district court misconstrued key claim terms, Section 271(c), and the legal standard for obviousness, as well as the court's own role as a gatekeeper, leading to erroneous verdicts of infringement and validity and grossly unsupportable damages. The judgment should be reversed and the case remanded with instructions to enter judgment for Microsoft; at minimum, a new trial is required.

I. The Judgment Of Noninfringement Is Based On An Erroneous Claim Construction And Must Be Reversed

Although the district court's erroneous claim construction undermines the entire judgment, i4i's brief devotes scant attention to this issue. Even then, i4i relies on a fictitious "conflict" between Microsoft's construction and an isolated snippet from the patent, while attempting to evade the dispositive impact of the intrinsic record.

A. "Distinct Map Storage Means" Requires That The Metacode Map Be Able To Be Revised Independently Of The Content

The "*distinct* map storage means" requires the ability to manipulate the metacode map independently of, *i.e.*, "without having access to," the content. (BlueBr.22-30.) This follows from the title ("method and system for manipulating

the architecture and the content of a document *separately* from each other”), the abstract (“the system allows ... the ability to work *solely* on structure and *solely* on content”), every disclosed embodiment (Figs. 1-10), the prior-art problem purportedly solved by the invention (A250 at 3:12-27), and the Summary of the Invention (A250 at 4:3-10). i4i’s cursory argument on this critical issue does not even address, much less refute, this intrinsic evidence. (RedBr.46-47.)

The prosecution history compels the same conclusion. In rejecting the claims as obvious, the examiner initially posited that “distinct” failed to distinguish over the prior art because all memory stores different data at different addresses. (A2786.) i4i unmistakably clarified that “distinct” requires *more* than mere storage at different addresses—it requires the ability to “change the architecture ... of a document *without even having access to* the actual content of the document.” (A2796;A2812;A2839;A2853-54.) i4i’s response also fails to rebut this evidence.

i4i summarily argues that these clear statements from the specification and prosecution history should not be given effect because they are supposedly in conflict with a few lines in the specification addressing a different issue: automatic updating of the metacode map after the content is edited. (RedBr.4-5, 15-16, 46-47; A255-56 at 14:49-15:5.) In contriving a conflict, i4i conflates two different processes: (1) permitting editing of the metacode map to be performed without

having access to the content, and (2) automatic updating of the metacode map once content has been modified.

Simply put, as Microsoft explained below, independent manipulation by a user is not inconsistent with automatic updating by the system. (A538-39;A556-61.) i4i has not shown otherwise. The district court apparently agreed, as it did not adopt this argument in rejecting Microsoft's construction. Instead, the district court concluded that independent manipulation is just a "benefit." (A72.) Microsoft has demonstrated why that conclusion is contradicted by the intrinsic record. (BlueBr.22-30.) Nothing in i4i's brief refutes that demonstration.

B. The District Court's Definition Of "Distinct Map Storage Means" Makes "Distinct" Meaningless

i4i now concedes that one of the problems addressed by its patent is the "intermixing" of content and metacodes, and that the "invention's key is to treat the metacodes and content *distinctly*, such that each may be treated as a '*separate entity*.'" (RedBr.13-14.) i4i's "separate entity" phrase comes from the prosecution history, wherein the applicants were very clear about what they meant. In traversing the rejection over Mizuta, the applicants explained that their invention treated a document's architecture "as a *separate entity* from the document's content," which "allows *distinct processes* to operate on each of the content and architecture, *with or without knowledge of the other*." (A2812.) "Thus, using this

invention, one could change the architecture of the document *without even having access* to the actual content of the document.” (*Id.*; *see also* A568-70.)

Yet, that is not the construction i4i induced the district court to accept. Instead, at i4i’s urging, the district court adopted a construction that effectively reads “distinct” out of the claims, requiring no “separate entities”—indeed, requiring nothing more of “distinct” storage than that the bits are simply in different “portions of memory” (A116), which of course is meaningless, because that is always true.

Thus, in now conceding that the metacode map and content must be at least “separate entities,” i4i tacitly admits that the district court’s broad construction is untenable. This error was pivotal and was repeatedly exploited by i4i’s expert (Rhyne) in arguing to the jury that, as long as the metacode map and mapped content are merely “separated in memory,” this satisfies the “distinct” requirement. (A1266-67;A1251-56;A1261-62;A1268;A1270-71.) In particular, Rhyne’s infringement theory regarding the “metacode map” was based on a contrived amalgamation of at least seven different data structures in *Word* linked through several attenuated “logical relationships.” (A1249-78.) But Rhyne admitted that the same “logical relationships” that allowed him to link these structures in *Word* to form the “metacode map” could also link the “metacode map” to content. (A1262-71.) When confronted with the inherent incongruity of i4i’s infringement

position with the notion of storing the metacode map “distinctly” from the content, Rhyne trumpeted the court’s construction as requiring nothing more than that they be “separated in memory.” (A1266-67.)

If the “metacode map” and content are linked, as Rhyne admitted, then they are not “separate entities” in any meaningful sense of the term “separate.” Nor, in that case, can one be accessed (or edited) *without also having access* to the other. This flatly contradicts what the applicants told the PTO their invention required. *Omega Eng’g, Inc. v. Raytek Corp.*, 334 F.3d 1314, 1326-27 (Fed. Cir. 2003) (repeated statements during prosecution created an unmistakable surrender of subject matter).

Not only did the applicants represent to the PTO that their invention required separate “entities,” but they also clearly distinguished prior art that kept all of the information in a “single file.” Specifically, in rejecting the claims as obvious over the Mizuta reference, the examiner noted that Mizuta taught, *inter alia*, “distinct storage areas for content and meta-information.” (A2803-04.) Traversing this rejection, the applicants insisted that Mizuta “lacks any notion of ... a map in a ‘metacode map distinct storage means’” because Mizuta stored information in “one file—the document file.” (A2816.)

This demonstrates that, contrary to i4i’s contention (RedBr.49), the applicants did not distinguish Mizuta exclusively on the ground the “meta-

information” in Mizuta was “not at all similar to the invention’s metacodes” but *also* on the ground that Mizuta’s storage in a single file violated the claims’ “distinct storage” requirement. (A2815-16.)

i4i’s construction of “distinct” as requiring merely “separat[ation] in memory” (A1266-67) fails for the additional reason that it accords “distinct” no meaning at all. Because, as the examiner observed, every bit has its own location, all storage of information bits is in some sense necessarily “separated in memory.” (A2796.) i4i never explains why this construction of “distinct” should not be “denounced” in the same manner as the similarly meaningless construction of “vertical” in *Stumbo v. Eastman Outdoors, Inc.*, 508 F.3d 1358, 1362 (Fed. Cir. 2007). The district court’s claim construction was error.

C. Infringement Fails As A Matter Of Law Under The Proper Construction

i4i devotes only two conclusory sentences to the effect of the proper claim construction on its infringement arguments, insisting that adoption of Microsoft’s construction would require resolution of “disputed facts.” (RedBr.50.) But i4i identifies no such facts and points to no error in Microsoft’s explanation of why use of *Word* cannot infringe the Asserted Claims under a proper construction—in particular, because *Word*: (1) does not allow a user to edit either a “metacode map” or “mapped content” *without access to* the other; and (2) does not store the alleged metacode map in a separate file or recognizable “entity” that is necessarily

“*distinct*” from the mapped content. (BlueBr.30-32.) Yet both points are premised on i4i’s own expert testimony. (*Id.*;A1356-57;A1374-75(Martin);A1262-71(Rhyne).)

Because the record confirms that there is no infringement under the proper construction, this Court can and should reverse the judgment without remand. *E.g., Harris Corp. v. Ericsson, Inc.*, 417 F.3d 1241, 1255-57 (Fed. Cir. 2005).

II. Invalidity

A. The Invention Was Obvious

1. Reversal Is Warranted

1. Although obviousness is based on subsidiary factual inquiries, it is ultimately a question of law reviewed *de novo*. *See KSR Int’l Co. v. Teleflex, Inc.*, 550 U.S. 398, 427 (2007). A legal conclusion of obviousness is proper where, as here, “the content of the prior art, the scope of the patent claim, and the level of ordinary skill in the art are not in material dispute, and the obviousness of the claim is apparent in light of these factors.” *Ball Aerosol & Specialty Container, Inc. v. Ltd. Brands, Inc.*, 555 F.3d 984, 994 (Fed. Cir. 2009). In similar circumstances, by *reversing* denials of JMOLs or summary judgments on obviousness, this Court has repeatedly recognized that obviousness can be decided on appeal as a matter of law. *E.g., id.* at 993; *Muniauction, Inc. v. Thomson Corp.*,

532 F.3d 1318, 1326-28 (Fed. Cir. 2008); *see also* BlueBr.33 (collecting additional cases).

2. i4i's "waiver" argument under FED.R.CIV.P. 50 (RedBr.51-52) is misplaced. The purpose of Rule 50(a) is to assure the plaintiff an opportunity to cure deficiencies in the *evidence* presented to the jury; therefore, Rule 50(a) is "not implicated" when the challenge is one of *law* for the court. *Advocare Int'l, L.P. v. Horizon Labs., Inc.*, 524 F.3d 679, 690 (5th Cir. 2008). *Duro-Last, Inc. v. Custom Seal, Inc.*, 321 F.3d 1098 (Fed. Cir. 2003), which involved *disputed facts* deemed found by the jury favorably to the patentee, and *SmithKline Beecham Corp. v. Apotex Corp.*, 439 F.3d 1312, 1319 (Fed. Cir. 2006), which involved a challenge to the sufficiency of the *evidence*, are not to the contrary. Here it is the *legal* issue (the ultimate conclusion of obviousness) that Microsoft challenges, not the underlying factual questions, as grounds for JMOL (BlueBr.33-38). *Advocare*, 524 F.3d at 690; 11 WRIGHT & MILLER, FEDERAL PRACTICE AND PROCEDURE §2818 (2d ed. 1995) (only "sufficiency of the evidence" challenges must be preserved through JMOL); *Fuesting v. Zimmer*, 448 F.3d 936, 938-42 (7th Cir. 2006) (collecting cases). Moreover, Microsoft also requested a new trial on validity in the alternative (BlueBr.45-46), which does not require a Rule 50(a) motion.

3. Here, the material facts are not disputed. Neither i4i nor the district court identified any claim limitation that is missing from the combination asserted by

Microsoft—the Kugimiya patent coupled with the Rita or DeRose references. Rather, the court dismissed the combination on the incorrect notion that Kugimiya was from “an entirely unrelated field,” because Kugimiya pertained to document translation, whereas Rita and DeRose pertained to document editing. (A32.) In so doing, the court erroneously applied the wrong legal standard. As this Court has explained, a reference is from analogous art if “the reference is *reasonably pertinent* to the particular problem with which the inventor was involved.” *In re Dillon*, 919 F.2d 688, 694 (Fed. Cir. 1990) (*en banc*). The district court did not apply this standard, and it is beyond serious dispute that Kugimiya—which was the subject of rejection and extensive discussion in the prosecution history—is “reasonably pertinent” to the ’449 Patent. (A239;A2841-44;A2849;A2853-54.) This is confirmed by the fact that the examiner cited it on the face of the patent. *See* MPEP §707.05 (“During the examination of an application or reexamination of a patent, the examiner should cite *appropriate prior art* which is *nearest to the subject matter defined in the claims*”). Indeed, i4i never asserted during prosecution that Kugimiya was non-analogous art. By adopting a position even i4i would not advance, the district court committed legal error. (BlueBr.37-38.)

Moreover, in differentiating Kugimiya because it pertains to document translation rather than document editing, the district court ignored the nature of the invention claimed in the ’449 Patent. The Asserted Claims of the ’449 Patent

recite a method of opening a document and parsing the intermixed codes (including SGML tags) and content to create a map and a separate mapped content. (A250 at 4:63-64;A256.) As Gray explained at trial, and i4i agreed, Kugimiya, Rita, and DeRose all involve opening and manipulating electronic documents containing SGML tags. (A2050-51;A2061;A2281-83.)

Thus, because Microsoft has demonstrated that the combination of Kugimiya with Rita and DeRose teaches all elements of the claimed invention (BlueBr.34-37), and because the district court's conclusion of lack of motivation to combine was based on a legally erroneous conclusion that Kugimiya is non-analogous art (*see also* BlueBr.37-38), the validity verdict is fatally undermined by legal error, and reversal is warranted.

4. Relying almost entirely on its misplaced “waiver” argument, i4i attempts to miscast the legal inquiry as a factual dispute, contending that five factual questions cannot be challenged on appeal. (RedBr.51-52.) As demonstrated herein, each “fact” recited by i4i is immaterial. Moreover, i4i's own narrow list confirms what is not disputed: Rita and/or DeRose teach the lone element missing from Kugimiya—a menu of metacodes. (*See* A2053;A2057;A2063-64; BlueBr.33-38.) Indeed, conspicuously absent from i4i's list is any claim limitation allegedly missing from the combination of these references. The list and rebuttal follow:

“(1) the ‘Rita’ software that was analyzed by Microsoft’s expert (Gray) at trial was not the same as the Rita software that was on sale more than a year before the ’449 patent was filed;”

Microsoft’s obviousness argument is not based on the Rita source code. (BlueBr.35.) The published documents describing the Rita SMGL editor (A2890-915;A2916-26;A2927-3043;A3044-3226;A3227-412) are themselves, individually and collectively, sufficient to prove the teachings of the Rita SGML editor. (A2050-60.)¹

“(2) both Rita and DeRose lacked the ‘metacode map,’ ‘mapped content,’ and ‘address of use’ limitations;”

Even if Rita and DeRose did not disclose the metacode map, mapped content, and address of use limitations—and they do (*see* BlueBr.34-38)—these limitations are provided by the Kugimiya reference, as both Vulpe and Rhyne acknowledged. (A1727-28;A2337-39.)

“(3) Kugimiya does not teach the ‘providing’ limitations;”

i4i does not specify what “providing” limitation Kugimiya allegedly fails to teach. As established by the prosecution history, however, the only aspect of “providing” that was allegedly lacking in Kugimiya, relative to the Asserted Claims as construed by the court, was the *menu of metacodes*. (A2853.) i4i

¹ i4i never disputed that each of the Rita publications (A2050;A2890;A2916-17;A2931;A3046;A3242) describes the same prior art Rita SGML editor. (*See* RedBr.30-31.)

acknowledged below that Kugimiya “provides” a metacode map separate from the mapped content. (A352-55;A357-58;A1727-28;A2337-39.) i4i’s only challenge during prosecution to Kugimiya’s “providing” a metacode map was lack of “persistent” storage. (A2841-44;A2849;A2853-54.) But, during claim construction, i4i argued successfully that the claims do not require “persistent” storage of the metacode map. (A352-55;A357-58.) i4i therefore had to admit at trial that Kugimiya’s metacode map “meets the Court’s construction.” (A2339.) And whether Kugimiya lacked the “providing a menu of metacodes” limitation is immaterial because i4i did not dispute that either Rita or DeRose teaches providing menus of SGML codes (metacodes), as Microsoft demonstrated. (A2053;A2057;A2063-64; BlueBr.33-38.) In fact, i4i’s own expert submitted a declaration stating that menus are “ubiquitous” in the art of “software systems.” (A4427 at ¶27.)

“(4) there is no reason to combine the teachings of Kugimiya with either Rita or DeRose;”

As noted *supra*, i4i’s terse dismissal of any motivation to combine is based on the erroneous notion that Kugimiya was from a “different field” than the Rita or DeRose SGML editors. (RedBr.33.) Applying the correct standard, it is beyond question that Kugimiya—cited by the examiner during prosecution—is “reasonably pertinent” to the invention. *See Dillon*, 919 F.2d at 694.

“(5) numerous secondary considerations support the nonobviousness

of the invention.”

This Court has reversed jury verdicts of nonobviousness even in the presence of “substantial evidence of commercial success, praise, and long-felt need,” as such evidence is “inadequate to overcome a strong showing of primary considerations that rendered the claims at issue invalid.” *Agrizap, Inc. v. Woodstream Corp.*, 520 F.3d 1337, 1344 (Fed. Cir. 2008); BlueBr.38-39 (discussing cases). Such is the case here.

2. At A Minimum, A New Trial On Obviousness Is Warranted

Even if the foregoing errors were not deemed purely legal, they show that the validity verdict was against the great weight of the evidence, meriting at least a new trial. *See Rousseau v. Teledyne Movable Offshore, Inc.*, 812 F.2d 971, 972 (5th Cir. 1987) (“[A] verdict can be against the ‘great weight of the evidence,’ and thus justify a new trial, even if there is substantial evidence to support it”). At minimum, the erroneous instruction on the presumption of validity and the burden of proof requires a new trial; contrary precedent on this issue should be reconsidered *en banc* in light of *KSR*. (BlueBr.45.)

B. The On-Sale Bar Applies

The issue underlying the on-sale bar is whether inventors can salvage the validity of their patent with uncorroborated oral testimony of a *later* conception that contradicts a *prima facie* case of an invalidating sale established by the

contemporaneous evidentiary record. i4i responds with three arguments: (1) corroboration is required only of testimony offered to *invalidate* a patent; (2) i4i did provide corroboration; and (3) the contemporaneous evidentiary record did not show that SEMI S⁴ embodied the invention. (RedBr.53-56.) i4i is wrong on all counts.

1. This Court has recognized that testimony offered to *salvage* a patent's validity is subject to the corroboration requirement. *Electromotive Div. of GMC v. Transp. Sys. Div. of GE*, 417 F.3d 1203, 1217-18 (Fed. Cir. 2005). In *Electromotive*, this Court explained that the inventor's "vague, conclusory, and uncorroborated testimony" regarding the customer's possible awareness that a pre-critical-date sale was for "experimental" purposes was legally insufficient to "establish what [the customer] really knew about the purpose of the sale, especially without correspondence with [the customer] or other documentation." *Id.*; *see also Loral Fairchild Corp. v. Matsushita Elec. Indus. Co.*, 266 F.3d 1358, 1361 (Fed. Cir. 2001) (corroboration required to antedate prior art reference); *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1577 (Fed. Cir. 1996) (same).

Here, the lack of corroboration for the inventors' testimony that the sale of the SEMI S⁴ system could not have embodied their invention (despite their previous representations to the contrary) because they "invented" it *later* is similarly fatal to the patent. Under such circumstances, allowing uncorroborated

testimony of a post-sale “conception” would, just as in a priority contest, “offer great temptation to perjury.” *Price v. Symsek*, 988 F.2d 1187, 1194 (Fed. Cir. 1993). Requiring such corroboration does not impermissibly shift the burden of proof to the patentee, but merely confirms that patentees cannot overcome a *prima facie* case of invalidity with uncorroborated testimony from an interested witness. *Electromotive*, 417 F.3d at 1217-18; *see also U.S. Envt’l Prods. Inc. v. Westall*, 911 F.2d 713, 716 (Fed. Cir. 1990) (“Once a defendant demonstrates a *prima facie* case of on-sale or public use, the patent holder must ‘come forward with convincing evidence to counter that showing’”).

2. i4i’s half-hearted contention that the inventors’ testimony was, in fact, “corroborated” further underscores the weakness of i4i’s position. Nothing in the two documents cited by i4i (RedBr.53;A7788-91;A7775-87) provides a date of invention or is otherwise inconsistent with Vulpe’s other contemporaneous representations that his invention was “embodied” in the SEMI S⁴ system as sold in 1992-1993. (BlueBr.40-42.) Indeed, although Vulpe kept notebooks and thought conception was a very significant event (A1682-84), he agreed there was not “a single document anywhere” that recorded the “eureka a-ha moment” that i4i now conveniently insists occurred *after* the SEMI S⁴ project. (*Id.*; *cf.* RedBr.11.)

3. In stark contrast to the inventors’ uncorroborated trial testimony, the contemporaneous evidentiary record submitted by Microsoft established that the

SEMI S⁴ system embodied the '449 invention. In the Canadian funding documents (the "IRAP" documents), i4i unambiguously represented that its invention was already "implemented" in its "S⁴ product":

Infrastructures has applied for a US Patent (US Patent Serial Number 08/253,263) to protect specific technology that it has developed. **The initial implementation is embedded into Infrastructures' S⁴ product** which is a vertical market document development and management application targeted to the semi-conductor and publishing industries.

(A3759.) In the second IRAP document, Vulpe described i4i's "progress to date" on the project for which he sought funding by again noting that his invention had already been "implemented" in "*i4i flagship product S⁴ vertical market product.*"

(A3770.)

i4i suggests that it was referring in the IRAP documents to a different "S⁴ product." (RedBr.11-13.) In view of the inventors' concession that the SEMI S⁴ system was i4i's *only product* at the time of the IRAP submission (A1687-88;A1690-94;A1775-77), no reasonable jury could accept that the "S⁴ product" that Vulpe told the Canadian government "embodied" his invention was anything other than SEMI S⁴.

Vulpe was especially brazen in dismissing one of his pre-litigation representations to investors as "lying" (not a mere "exaggerat[ion]") (A1697; *cf.* RedBr.54), while agreeing that he "threw away" the source code that would show "exactly" what was actually sold (A1770-72). Microsoft did not merely *allege* that

Vulpe had lied (RedBr.30); Vulpe admitted it (A1697), and the district court agreed. (A68 (“Mr. Vulpe *admitted* on the stand that *he lied to investors about the creation date* of the ‘449 patent.”).)

Far from presenting a “classic issue of credibility” that i4i could whitewash with conclusory testimony by its inventors and paid expert, the present case confirms the need to apply the corroboration requirement in situations where, as here, inventors attempt to counter a *prima facie* showing of an on-sale bar with nothing other than their uncorroborated trial testimony of a post-sale conception. The denial of JMOL of anticipation should be reversed.

III. The General Verdict Of Infringement Cannot Be Sustained

i4i contends that the general verdict of infringement may be sustained if the record would support a finding of “*either* induce[ment] *or* contributory infringe[ment].” (RedBr.58.) The law is otherwise. Although “it is not necessary for every possible *factual basis* for liability to be independently sufficient in order for the evidence to be sufficient to support a jury verdict,” *Northpoint Technology, Ltd. v. MDS America, Inc.*, 413 F.3d 1301, 1311 (Fed. Cir. 2005), a general verdict must be vacated and a new trial awarded if any of the *liability findings* on which the verdict might have rested is “legally inadequate,” *Walther v. Lone Star Gas Co.*, 952 F.2d 119, 126 (5th Cir. 1992). This is true whether the legal theory fails as a matter of law, *Sunkist Growers, Inc. v. Winckler & Smith Citrus Products Co.*,

370 U.S. 19, 29-30 (1962), was predicated on an incorrect jury instruction, *Spectrum Sports, Inc. v. McQuillan*, 506 U.S. 447, 459-460 (1993), the finding was not supported by sufficient evidence, *Wilmington Star Mining Co. v. Fulton*, 205 U.S. 60, 74 (1907), or was infected by inadmissible evidence, *Maryland v. Baldwin*, 112 U.S. 490, 494 (1884). Here, numerous errors vitiate any implied findings of induced *and* contributory infringement.

A. The Erroneous Contributory Infringement Instruction Requires Vacatur Of The Infringement Verdict

The court’s instruction that contributory infringement may be found if Microsoft offered for sale a “component for use in practicing the patented method” is improper and contradicted by this Court’s (and Congress’s) conclusion that a “component” is “separate and distinct from” a “material or apparatus” in Section 271(c). *Cardiac Pacemakers v. St. Jude*, __F.3d__, 2009 WL 2516346, at *13 (Fed. Cir. Aug. 19, 2009) (*en banc*). i4i dismisses the error as harmless, insisting that the term “material or apparatus” embraces “abstract or intangible” information, data, or instructions such as the custom XML functionality at issue here. (RedBr.61.) That argument—that contributory infringement liability can be predicated on sale or importation of *information*—is far more “radical” than any that Microsoft has made. And it is dead wrong.

That a “material” must be a physical thing is confirmed by the ordinary meaning of that word. *See Webster’s Third New International Dictionary* at 1392

(defining the noun “material” as “the basic matter (as metal, wood, plastic, fiber) from which the whole or the greater part of something physical (as a machine, tool, building, fabric) is made”). Indeed, it is demonstrated even by the online dictionary relied upon by i4i (RedBr.61) but likely not relied upon by Congress: The *first* definition for “material” provided there is: “the elements, constituents, or substances of which something is composed or can be made.” See <http://www.merriam-webster.com/dictionary/material>. And even the *third* definition chosen by i4i suggests that “material” must be physical. How, after all, could “something (as data)” be “worked into a more finished form” unless the “data” were first embedded in some physical medium upon which a person could “work”? That contributory infringement liability extends only to the sale or importation of physical things is hardly a “radical” notion; the patent laws have never been interpreted to prohibit the dissemination of abstract information.

Moreover, Microsoft never argued that the sale of “software” is categorically immune from contributory infringement liability. “Software” can be the object of contributory infringement liability when it is reduced to a physical format (such as a CD, a hard drive, or an electronic signal) and that physical thing either is made a component (*i.e.*, a part) of an apparatus, or is used to perform a patented method. (BlueBr.48.) On the other hand, software code in the *abstract*—the binary instructions themselves divorced from any physical medium—is neither a

“component” of an apparatus, *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 449 (2007), nor a “material or apparatus.”

It is precisely because “material or apparatus” would not ordinarily be construed by a juror or anyone else to include abstract information that i4i insisted upon an instruction that referred to a “component.” (A5694n.49.) And once the district court agreed, i4i seized upon its instruction to argue that distribution of an abstract *functionality* of *Word* could properly be a basis for contributory infringement liability. (A1211 (“[T]hey could view this XML support software as a component”).) The instructional error makes it impossible to determine whether “the jury based its verdict” on a permissible legal theory (sale of physical material) or an impermissible theory (sale of abstract information). *Rutherford v. Harris County*, 197 F.3d 173, 185 (5th Cir. 1999). Accordingly, the general infringement verdict must be reversed.²

B. Microsoft Was Entitled To JMOL On The Question Of Substantial Noninfringing Use

i4i argues that this Court’s decision in *Ricoh v. Quanta*, 550 F.3d 1325 (Fed. Cir. 2008), requires the substantial-noninfringing-use inquiry to focus on *Word*’s

² i4i’s allegation of waiver (Red.Br.61) is puzzling. As i4i admits (*id.*), Microsoft objected to the adopted instruction (A5692; *see also* A2267). This is all that was required to preserve Microsoft’s instructional challenge for appeal. Fed.R.Civ.P. 51(c). In addition, as explained above, neither issues of law nor issues requesting a new trial must be preserved through a Rule 50(a) motion.

custom XML functionality rather than the physical copies of *Word*. (RedBr.62.) Even under this test (which Microsoft disputes is correct) the evidence of record compels JMOL for Microsoft. ***i4i's own evidence*** demonstrates conclusively that *Word's* custom XML functionality has substantial noninfringing uses.

According to the Wecker survey, which i4i says was appropriately credited by the jury, ***more than 2 million*** users of *Word's* custom XML functionality saved their documents in noninfringing file formats (*e.g.*, the familiar “.doc” format). (A4243.) This widespread noninfringing use of *Word's* custom XML functionality cannot conceivably be described as “hypothetical,” “occasional,” or “impractical.” (RedBr.63.) As Microsoft pointed out—and i4i has not refuted (RedBr.63.)—if the survey is legally sufficient to establish millions of infringing uses, then it must also be legally sufficient to establish even more noninfringing uses.³ And courts have long recognized that “[c]ontributory infringement liability is not meant for situations where noninfringing uses are common.” *D.O.C.C. Inc. v. Spintech Inc.*, 36 U.S.P.Q.2d 1145, 1155 (S.D.N.Y. 1994); *see also Cross Med. Prods., Inc. v. Medtronic Sofamor Danek, Inc.*, 424 F.3d 1293, 1314 (Fed. Cir. 2005)

³ Contrary to i4i's insinuation (RedBr.63), its damages expert did not testify that 2 million uses of the accused functionality “do not amount to ‘substantial’ use.” At the transcript page i4i cites (A1501), Wagner's only pertinent words are “there's a fair number of people that save and appear to save in [noninfringing] dot doc or dot dot formats.”

(recognizing there could be no contributory infringement liability where “a substantial number of surgeries occur in which the claimed apparatus is not made or used”); *C.R. Bard, Inc. v. Advanced Cardiovascular Sys., Inc.*, 911 F.2d 670, 674 (Fed. Cir. 1990) (where 40-60% of uses of catheter *could* be noninfringing, substantial noninfringing use could be found); *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984) (observing that “substantial noninfringing use” does *not* require even that the product be “widely used” in a noninfringing manner but rather *only* that there be “a significant number” of noninfringing uses).

Yet, i4i claims that this widespread use is “insubstantial” because, in Rhyne’s opinion, a user who saves a custom XML file in a noninfringing format “can’t achieve the benefit that XML is intended to provide.” (A1214.) This assertion seems contrived, coming as it did from a witness who acknowledged that he had “never even used XML for a real task.” (A1219.) But Rhyne’s assertion could not in any event possibly support the *district court’s* rejection of Microsoft’s defense—that the noninfringing use was impractical given the “purpose of the invention” (A15-16): A noninfringing use cannot be insubstantial simply because it does not achieve the purpose of the patented invention; the defense to liability centers on the fact that the material is suitable for *noninfringing* use.

Moreover, the district court’s conclusion that the substantial-noninfringing-use inquiry must focus on the accused functionality rather than the product actually

sold by Microsoft—a conclusion validated after-the-fact by *Lucent Technologies v. Gateway, Inc.*, ___ F.3d ___, 2009 WL 2902044 (Fed. Cir. Sept. 11, 2009), at *13-15 (Sept. 11, 2009)—diverges from *Ricoh*, contravenes the plain text of Section 271(c), and should be considered *en banc*.

C. The Inferences Of *Scienter* Required For Both Inducement And Contributory Infringement Liability Are Legally Inadequate

i4i rests its infringement case on the assertedly “indisputable fact ... that Microsoft ‘was provided with an explanation of i4i’s patented technology along with the patent number starting in April 2001 and continuing through 2003.’” (RedBr.64) Even taken at face value, that assertion is insufficient as a matter of law to establish *scienter*. That i4i provided Microsoft with “an explanation of i4i’s patented technology”—which Microsoft admittedly did not copy (A44)—and a patent number—but no suggestion of infringement and nothing about the content of the patent (A1020-21;A1704-07)—does not and cannot establish that Microsoft had knowledge of the *contents* of the patent. Indeed, i4i’s own product strategist testified that i4i had never provided Microsoft with any details of the patent, much less details concerning the Asserted Claims. (A1033 (“I don’t think we told them any details of the patent”).) In the absence of *any knowledge* of the limitations of the invention claimed by the patent, one cannot *knowingly* induce or contribute to its infringement.

Indeed, when the meager evidence i4i cites is scrutinized, even the assertion that Microsoft was “provided with an explanation of i4i’s patented technology” seems grandiose:

- An “i4i at a glance” marketing one-pager, which states that i4i is the “inventor of the patented S4 Technology (U.S. Patent Number 5787449) which helps different proprietary software applications—like word processors, email packages, CAD tools, and databases—structure information in XML/SGML and share instantly without converting or duplication.” (A7240.)
- A spam email sent to a listserv advertising a product called “Tagless Editor,” which states: “Since its inception in 1993, i4i has been a leader in design and development of ‘smart content’ solutions. ... [T]he R&D Team evolved the patented (US Patent Number 5787449) S4 Technology that is at the heart of the Tagless Editor.” (A7302-03.)
- A “Company Briefing” that contains a “Background” bullet point stating: “Delivered custom SGML/XML content management solutions; patented markup management technology.” (A7360.)

Of the remaining evidence cited by i4i (RedBr.21,64), none contains any reference to the ’449 Patent or any discussion of the technology covered by that patent. Most of the evidence demonstrates only that i4i attended certain meetings with Microsoft. (*E.g.*, A7243 (agenda for meeting—notably lacking any mention of the patent).)

There is absolutely no evidence in this record from which a juror reasonably could infer that Microsoft had knowledge of *the contents* of the ’449 Patent. It is simply not logical—much less plausible as *Ashcroft v. Iqbal*, 129 S.Ct. 1937, 1952 (2009), requires—to conclude that a defendant “knew” that *its* products would

infringe simply because a handful of employees received the *number* of a patent covering *the plaintiff's* technology that the defendant admittedly did not copy.

i4i ultimately concedes as much when it rests its indirect infringement case on its assertion that evidence of knowledge of a patent number and “a failure to investigate, a failure to explore design around approaches, [and] a failure to take remedial steps” are sufficient to demonstrate specific intent. (RedBr.64 (citing *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683 (Fed. Cir. 2008)).) But i4i elides the fact that in *Broadcom*, the failure to investigate was preceded by pre-suit *notice of infringement*, and it was the failure to investigate *in the face of that pre-suit notice* that this Court found sufficiently reckless to establish the requisite *scienter*. 543 F.3d at 700 (“Qualcomm does not dispute that it was on notice of Broadcom’s patents *and infringement contentions*”). But in the absence of any similar pre-suit notice, mere knowledge of a patent number cannot impose a duty to investigate. There is simply no support—and i4i cites none—for i4i’s novel theory that liability can be imposed because “anyone in Microsoft’s position” (*i.e.*, anyone receiving a patent number) “should have” located and read the patent (RedBr.29): The “should have known” test permits the leap from substantive knowledge of the patent to knowledge of infringement. It does not suggest that one aware of the number of a patent “should have known” *of the contents of the patent*. (BlueBr.53.) To hold otherwise would reduce the *scienter* requirements of

Section 271(b) & (c) to precisely the “should have known” negligence standard that this Court rejected as insufficient to establish *scienter* in *In re Bose Corp.*, ___F.3d___, 2009 WL 2709312, at *2 (Fed. Cir. Aug. 31, 2009). If, as i4i asserts, *Broadcom* compels application of some variant of a negligence standard to establish *scienter*, then that decision should be reconsidered *en banc*. But as demonstrated above, *Broadcom* does not reduce *scienter* to mere negligence.

IV. The Damages Verdict Cannot Be Sustained

Before trial, Microsoft moved to exclude both the results of Wecker’s survey and Wagner’s *Georgia-Pacific* analysis, arguing that they lacked the reliability required of expert evidence and did not fit the facts of the case. (A5944-65; A6018-36;A395-406;A413-15;A431-33;A437-39.) Although neither Wagner’s unrealistic assumptions nor Wecker’s failure to follow generally accepted survey practices can withstand minimal scrutiny under *Daubert*, the district court summarily denied Microsoft’s motions (A415;A439) and further denied Microsoft’s subsequent motion at trial to strike the opinions. (A1619-20.) This was reversible error.

A. Wecker’s Survey Is Unreliable

i4i contends that surveys are admissible regardless of hearsay considerations if “reliable and ... compiled in accordance with accepted survey methods.” (RedBr.66.) But the survey here was inherently unreliable because it asked

respondents to answer based not on their observations of actual recent events, but on their estimation—their “best guess”—of their co-workers’ habits and on their recollections of events that had taken place many years before. Indeed, calling them “recollections” is charitable: The court speculated without support and against common sense that computer administrators,⁴ simply because they install *Word* on employees’ computers, “would have knowledge” about precisely how each of the thousands of other employees in their organizations had used *Word* and precisely how they had opened XML documents *over the preceding five years*. A37. There is no evidence that the survey responses were based on such personal observation because it was never established that the individual respondents actually knew how hundreds or thousands of employees at a company each use *Word* on any given day. (A1580-82; BlueBr.56-57.) This absence of personal knowledge or recent recollection means that the survey cannot be admitted under a hearsay exception to Rule 703. *Schering Corp. v. Pfizer Inc.*, 189 F.3d 218, 235 (2d Cir. 1999) (Sotomayor, J.) (discussing the unreliability of surveys based on recollection of events “which had taken place many years before”).

Moreover, far from complying with “accepted survey methods,” the Wecker survey’s anemic 5% response rate places it below even “minimally acceptable”

⁴ Fewer than a third of the respondents reported themselves as an “IT Director or IT Manager.” (A4246;A4261, col. S2.) Many were simply “Other.” (*Id.*)

survey standards. *Albert v. Warner-Lambert Co.*, 234 F.Supp.2d 101, 106 n.6 (D. Mass. 2002) (minimum response rate for a reliable survey is 50%); *see also* REFERENCE MANUAL ON SCIENTIFIC EVIDENCE, FEDERAL JUDICIAL CENTER 245 (2d ed. 2000). i4i argues that its survey’s 5% response rate should not matter because Wecker treated all the non-responses as if they had reported no infringement. (Red.Br.68-69.) But it cites *no authority* for that proposition. There is none.

The problem with a low response rate is not merely that it suggests self-selection among the respondents, but also that it leads to too few responses in the *absolute*—here, 46 respondents supposedly representing the 13 million businesses in the United States (and all of their employees). (A1544;A1562;A1602;A4222-23.) Treating non-responses as favorable to Microsoft does not change the inherent unreliability of extrapolating **1.85 million users** from **only 19 responses reporting any alleged infringing use**. (A1533-35;A1561-66.) The very small sample meant that the ultimate conclusions drawn were extremely sensitive to even the slightest change in the data: As Ugone testified (A2186-87), the “corrections” that Wecker made to just *four* of the 19 responses—Wecker actually corrected virtually all of the 19 responses—increased the damages total *by over \$80 million*, or 40%. (*See also* A4780-84.) Such a 40% swing in the damages calculation from changing just four responses demonstrates that i4i’s survey analysis was little more

reliable an indicator of infringing use than a dart throw. The court should not have allowed it to receive the imprimatur of “expertise.”

But the most egregious flaw in the Wecker survey is that *virtually all* the 19 respondents reported internally inconsistent answers (A1830-31;A8134-48; A4259-68), which Wecker then felt compelled to “correct” by always choosing, “conservatively,” the “higher” number—the number that favored i4i. (A1608-09; *see also* A1602-12.) For instance, one respondent reported an infringing usage in 5% out of the business’s two computers; Wecker first changed the response to five infringing installations on two computers, and then to the maximum permissible of two infringing installations. (A1831-35;A4262(cols. Q1A, Q1B, row 40).) Magically transforming 5% into 2 does not even pass the “smell test,” to say nothing of *Daubert*. (WLFBr.9-10.)

Indeed, given that there were only 19 respondents reporting any alleged infringing use, it would not have been difficult for Wecker to *call* them and ask them to clarify their answers. But Wecker did not do so; nor did he, as required under accepted survey practices, have an independent validation firm call the respondents to confirm the results. (A1602-03.) *See, e.g.*, Weinstein’s Federal Evidence § 702.06 (noting requirement for independent validation); Phyllis J. Welter, *Trademark Surveys*, §8:05 (1996). Nor did he comport with other generally accepted survey practices, such as using a control group. This should not

come as a surprise; before this case, Wecker had never before conducted an infringement survey. (A1569-70;A1597-99;A1828-30;A8132-34;A8105-51.)

Because the Wecker survey was not in any sense “reliable” and failed to comply with multiple “accepted survey practices,” it should have been excluded even under i4i’s crabbed view of a court’s gatekeeping responsibilities under *Daubert*.

B. Wagner’s Methodology Is Untethered To Reality, Or Common Sense

1. i4i contends that Microsoft is challenging whether XMetaL, with a price of \$499, was the “best” benchmark for the price at which the accused technology could be sold. (A431-33;A437-39.) Though it is difficult to imagine how a product that costs more than twice the retail price of *Word* possibly could be the “best” benchmark for a tiny, obscure functionality within *Word* that most have never used, Microsoft’s challenge to the admissibility of Wagner’s “expert” opinions is not so limited.

To be admissible, an expert’s opinion must have adequate “fit” to the case theories of liability and the facts of the case. *See Gen. Elec. Co. v. Joiner*, 522 U.S. 136, 146 (1997). In the damages context, that means an expert proffering an opinion on an appropriate royalty must ground that opinion in a methodology that parties in the real world might use to calculate such a royalty. This Wagner failed to do, and that failure makes his opinions inadmissible.

First, Wagner used an outlandishly unrealistic benchmark. As this Court has explained, for a “benchmark” to have any bearing on estimating the value of a patent, the expert must show how it “relates” *to the patented technology—i.e.*, “whether the patented technology is essential to the [benchmark], or whether the patented invention is only a small component or feature of the [benchmark].” *Lucent*, 2009 WL 2902044, at *23.

i4i does not deny that the patented technology is not “essential” to the XMetaL benchmark—the proposed “benchmark” was never alleged to practice the patent. (*See* A1467-68.) Nor does it deny that XMetaL had numerous uses unrelated to the patented technology. (*See* A1468.) Both factors suggest that the price for the accused technology is entirely unrelated to the price of XMetaL. Indeed, it is inconceivable that at the hypothetical bargaining table, Microsoft would have envisioned being able to sell its fairly basic XML technology for the \$499 price of high-end XML technologies, even though Microsoft’s products do not include those high-end technologies, and even though Microsoft sells the thousands upon thousands of functionalities in *Word* (including the accused functionality) for less than half of that price. Yet Wagner failed to consider these factors, or to at least try to account for them by somehow apportioning part of the XMetaL price to its functionality most similar to i4i’s patent.

Secondly, Wagner also did not consider evidence that the market attaches no more than \$50 in value to the custom XML technology in *Word*. (See BlueBr.63.) Although i4i replies that the “jury” considered this evidence, it is the district court in the first instance who should have considered whether Wagner’s assumptions were plausible in light of this evidence. As the Fifth Circuit explained, assumptions that “fail[] to consider” relevant factors, “ignore ... reality,” or are “abusive of the known facts” (such as the maximum \$50 potential value here) do not comply with the most basic requirements for scientific expertise and must be excluded. *In re Air Crash Disaster*, 795 F.2d 1230, 1234-35 (5th Cir. 1986).

Third, Wagner’s analysis depends on an unsupportable and unrealistic application of the so-called “25% Rule,” under which the royalty rate was 25% of Microsoft’s profit margin for *Word*, multiplied by the *XMetaL* list price of \$499. As an initial matter, there is no good reason to believe that any business negotiating a royalty would do so on the basis of applying *its own* profit margin to a third party’s much more expensive product. And tellingly, i4i’s brief suggests no reason.

If the unrealistic methodology were not enough to warrant exclusion, the outlandish results it produced—a per-unit royalty of \$98, roughly *50% of the retail price* of *Word*—surely would do so. As *Lucent* explained, where the accused functionality represents “but a tiny feature of one part of a much larger software

program,” it is “inconceivable to conclude” that the infringer would pay more than 50% of its anticipated revenues on thousands of non-infringing functionalities to the patent holder. 2009 WL 2902044, at *25. If it is inconceivable for a jury to reach this conclusion, it is even more inconceivable for an expert—who is held to a higher “intellectual rigor” (*Kumho Tire Co., Ltd. v. Carmichael*, 526 U.S. 137, 152 (1999))—to do so. Indeed, Wagner himself conceded that it is “problematic to use the 25-percent rule” in such a case, yet nonetheless proceeded to do so. (A1453.) Wagner’s refusal to consider the impact of “the glaring imbalance between infringing and non-infringing” functionalities of *Word* on whether more than 50% of Microsoft’s revenues from the infringing installations of *Word* can be attributed to i4i’s patent thus requires reversal. *Lucent*, 2009 WL 2902044, at *26.

Finally, Wagner’s assumption that the “25% Rule” can be applied in the context of a product potentially implicating hundreds of patents is absurd. Under such a rule, only four patents would wipe out 100% of the profits derived from selling the product, leaving *zero* value to the hundreds of other patents no less implicated, not to mention the value of the countless non-patented technologies in *Word*. *Lucent* has made abundantly clear that any royalty must be tied to the value of a particular functionality in the context of a product comprised of hundreds or thousands of useful functionalities. 2009 WL 2902044, at *25-26. The “25%

Rule” as applied by Wagner in this case violates that requirement and therefore is invalid as a matter of law.

* * *

The applicable regional circuit sent a “message” to district courts to “take hold of expert testimony in federal trials,” rather than “toss off” that role to the jury “with the shorthand remark that the jury will give it ‘the weight it deserves.’” *Air Crash Disaster*, 795 F.2d at 1233-34. (See also WLFBr.4-6,9-10.) This Court should reinforce that “message.”

C. The Damages Verdict Cannot Be Sustained Even If The Expert Testimony Had Been Properly Admitted

Regardless of the admissibility of i4i’s expert opinions, *Lucent* demonstrates that \$200,000,000 cannot possibly qualify as a reasonable royalty in this case. As *Lucent* explains, “[t]he only reasonable conclusion”—given “the glaring imbalance between infringing and non-infringing” functionalities of *Word*—is that “the portion of profit that can be credited to the infringing use ... is exceedingly *small*.” 2009 WL 2902044, at *26. \$200,000,000 is not exceedingly small, nor a reasonable royalty. Rather, its sheer size—compared to the \$1-\$5 million Microsoft customarily pays in similar circumstances (A2188-97;A8168-80;A8181-90;A8191-9097)—leads to “the unmistakable conclusion that the jury’s damages award ... is based mainly on speculation or guesswork.” *Lucent*, 2009 WL

2902044, at *29. Because the verdict “is contrary to the clear weight of the evidence,” a new trial is required. *Id.* at *31. (*See also* A2161-2202.)

The verdict here cannot survive the disciplined *Georgia-Pacific* analysis performed in *Lucent* and must be reversed.

V. There Was No Basis For An Award Of \$40,000,000 In Enhanced Damages

The question of willfulness never should have been allowed to go to the jury, but even if a finding of willfulness could be justified, the court’s outlandish award of enhanced damages could not.

i4i asserts that its evidence that Microsoft “had knowledge that its actions would infringe the patent” is sufficient to satisfy *Seagate*’s requirement of subjective willfulness. (RedBr.72.) But the “substantial evidence” i4i cites is the same extraordinarily thin record on which it relies to support its allegations of indirect infringement. *See supra* at 26-27. As demonstrated above, none of that evidence is nearly sufficient to establish that Microsoft had knowledge of the contents of the ’449 Patent, much less that *Word*’s custom XML functionality could infringe it. i4i’s willfulness case thus boils down to the contention that “anyone in Microsoft’s position should have” located and read the patent once it knew its number (RedBr.29), but *Seagate* abolished any such duty of care. *See Voda v. Cordis Corp.*, 536 F.3d 1312, 1311, 1327-28 (Fed. Cir. 2008).

Nor can i4i explain away the legal errors infecting the district court's analysis under *Seagate's* objective prong. i4i insists (RedBr.73) that the court "was correct" to blind itself to any defenses asserted at trial or other circumstances if they might have arisen after 2003, but cites no supporting authority. In fact, this Court has repeatedly relied on defenses asserted at trial to find no willfulness under the objective prong. *See, e.g., Black & Decker, Inc. v. Robert Bosch Tool Corp.*, 260 Fed. Appx. 284, 291 (Fed. Cir. 2008). And the PTO's provisional rejection on reexamination of the claims-in-suit confirms that Microsoft's validity defenses are at least "legitimate" and "credible," which is all this Court's cases require to defeat objective willfulness. *Id.*

In any event, the court's award of enhanced damages must be vacated. i4i is correct that "*Read v. Portec ... remains good law,*" but that decision establishes that a few factors going to the infringer's culpability guide courts' discretion in *whether* to award enhanced damages, while several other factors are used principally to determine the *appropriate size* of the enhancement. 970 F.2d 816, 827 (Fed. Cir. 1992). When the district court weighed in its analysis *whether* to enhance damages certain facts that "say nothing about [Microsoft's] culpability" (*Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1570 (Fed. Cir. 1996))—including the size of its corporate

treasury and the conduct of its attorneys—the district court made a legal error and therefore, by definition, abused its discretion.⁵

VI. The Award Of Injunctive Relief Conflicts With *eBay*

i4i's defense of the court's injunction offers nothing new. Microsoft refuted each of i4i's arguments in its opening brief and in the briefing on the motion to stay, and will not belabor those points here. (*See also* WLFBr.17-27.) A few particularly glaring failures are worth noting, however:

1. i4i contends that the district court did not impermissibly presume harm from the mere fact of i4i's purported competition, yet does not point to any loss of market share, or the actual loss of even a *one* customer to Microsoft. i4i demonstrated, at most, that it lost *one* customer to a third party—not Microsoft—and otherwise offered hearsay that *two* other customers were “reluctant” to purchase products from i4i years ago. (A1675-77.) Even assuming that i4i could meet the exacting burden for injunctive relief through anecdotal observations of customer loss, those observations cannot be stale: Evidence of distant past harm

⁵ i4i's argument regarding litigation conduct also depends on its repetition of a mischaracterization of Microsoft's position as simply an argument that i4i's case was improper because it was owned by a non-practicing entity. (RedBr.77-78.) A reading of the actual argument (A2452:23-2458:23) simply does not permit that mischaracterization.

does not, as a matter of law, justify injunctive relief; it is remedied with monetary damages instead. (*See* Reply Mot. Stay 6-10; BlueBr.77-78.)

2. Of course, not even “competition” has been shown on this record, so any presumption of harm from competition is not only contrary to *eBay*, but also unsupported by the evidence. Although *i4i* strenuously argues that the district court found harm from *present* competition, it never says what product it *currently* sells that is not an add-on to *Word*’s custom XML functionality, or how this nonexistent product could continue to function if *Word*’s custom XML interface were removed. Nor does it describe how *Word* possibly could meet the needs of the custom XML pharmaceutical market in which *i4i* admits it “operates almost entirely.” (RedBr.24-25.) And although *i4i* claims that it was the release of *Word 2003* that forced it into the pharmaceutical niche, *i4i* has admitted that it moved into the pharmaceutical niche in *2000*. (A696-97;A1027-28.)

3. But even assuming that *i4i* had shown both competition and harm tied to *that* competition, an injunction is inappropriate because *i4i* has not shown that whatever harm it has suffered is irreparable and cannot be remedied by money damages. Mere speculation of irreparable harm flowing from direct competition cannot justify an award of injunctive relief under *eBay*. (WLFBr.18-21). And, here, the district court amplified its error by requiring *Microsoft* to prove that any harm can be remedied with monetary relief. (BlueBr.78.)

4. All other errors aside, the district court mistakenly limited the public interest inquiry to health and safety considerations, contrary to traditional principles of equity. The court overlooked not only the harm the injunction threatened to impose on innocent third parties, but also the significant public interest that disfavors enforcement of patents of suspect validity, such as those for which the PTO has granted reexamination, and the potential impact of the injunction on third parties. (WLFBr.24-27 (discussing cases)).

CONCLUSION

The judgment should be reversed and the case remanded with instructions to enter judgment for Microsoft; at minimum, a new trial is warranted.

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CERTIFICATE OF COMPLIANCE

1. This brief complies with the type-volume limitation of FED. R. APP. P. 32(a)(7)(B) because the brief contains 9,895 words, excluding the parts of the brief exempted by FED. R. APP. P. 32(a)(7)(B)(iii) and FED. CIR. R. 32(b), as permitted by the enlargement of the word limit ordered by this Court on August 24, 2009.

2. This brief complies with the typeface requirements of FED. R. APP. P. 32(a)(5) and the type style requirements of FED. R. APP. P. 32(a)(6) because the brief has been prepared in a proportionally-spaced typeface using Microsoft Word 2003 in 14-point Times New Roman type style.

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