

i4i v Microsoft

Appeal No. 2009-1504
Oral Argument: September 23, 2009

Audio recordings available at:

<http://oralarguments.cafc.uscourts.gov/mp3/2009-1504-1.mp3>

<http://oralarguments.cafc.uscourts.gov/mp3/2009-1504-2.mp3>

* * *

Judge Schall: Good morning everyone. We have one case on the calendar this morning. It's number 2009-1504, *i4i vs. Microsoft*. Before we start, without having the clock run, I just wanted to, on behalf of the panel, take care of a couple of housekeeping matters. There are presently two motions before the Court.

One is a motion, I guess on behalf of i4i, to have the Court reconsider its disposition of its earlier motion for leave to file a Corrected Volume 5 of the Joint Appendix. We are going to deny that motion, however the parties can be assured that all pertinent documents will be maintained under seal so that they're not available to the public at large with connection to that motion.

The second motion that is before the court is a additional motion by i4i to file a replacement version of Exhibit 13 to an original confidential response in connection with the Motion to Stay the Injunction. That motion will be granted.

The other matter we just wanted to address, before we start the oral argument, is the panel has noted that in the joint appendices there are a number of confidentiality markings. And we wanted to inquire as to how significant those are, because often if there is extensive confidentiality material, it's somewhat difficult to write an opinion. Should we be in terms of an opinion that gets written down the road, be significantly concerned about confidentiality markings, Mr. Powers?

Mr. Powers: Your Honor, I believe that everything in the Joint Appendix was used in open Court below, and also although it was designated confidential by one party or the other, for purposes of discovery, by the time of the trial, it was used in open Court. So I don't think there should be any constraint on Your Honor's use of it.

Judge Schall: Okay. Thank you. Mr. Dunner, do you have anything to add to that?

Mr. Dunner: I have nothing to add to that, Your Honor.

Judge Schall: Okay. Fine. That's good. Thank you very much. With those matters out of the way we'll turn to the oral argument. I just want to confirm -- Mr. Powers you've reserved five minutes for rebuttal?

Mr. Powers: Yes ,Your Honor.

Judge Schall: Okay. You can begin whenever you're ready.

* * *

Mr. Powers: May it please the Court. I'd like to begin with claim construction, if I may, because there is a key admission in the Red brief that, in our view, changes the landscape of this issue. The term of course at issue is "distinct storage" of the metacode map, distinct from the content of the document. That term, of course, under this Court's precedence, must be given effect and meaning. That requirement is all the more important in light of the admission in the red brief that this requirement of distinctness, as they put it at page 14, "the invention's key is to treat the metacodes and content distinctly, such that each may be treated as a 'separate entity.'" The invention can treat content and metacodes as distinct entities because it stores the two as distinct entities. That is an important admission and concession in two respects. One, the district court had held that this concept of distinct storage and permitting independent manipulation, was merely one benefit, possible benefit, of the invention and not a requirement. The language that i4i chose in its Red brief goes far beyond that and makes clear that distinctness is, in fact, key to the invention, as the title, the specification, and the file history make clear. But beyond that, and perhaps even more importantly, i4i's brief concedes now that...well they don't concede there must be distinct files. They concede that the map and the content must be treatable and storable as distinct entities, which is not what the district court's construction required. The district court's construction, which effectively read distinctness out or made it meaningless, was merely that distinct storage of the map and content meant that it must be in different addresses or as the court put it, different portions of memory.

Judge Prost: Well, my question goes to Figure 9.

Mr. Powers: Yes.

Judge Prost: ...which I think is central to the argument you're making in the specification. Why doesn't Figure 9 really teach that independent manipulation of the content is not required? That's how I understand Figure 9, that the content can't be changed, even though the user is making the changes to the content in Figure 9, as I understand that. It can't be changed without changing the metacodes which is what happens down at the bottom of the figure. So why isn't that at least one embodiment, one example, where it can be, but it does not require that it be?

Mr. Powers: Your Honor, I think we're referring to the argument that i4i made regarding its embodiment of later updating, which is certainly...we've never denied that, and we argued that issue below. As i4i admits in its brief at page 47, there is a difference and a key difference between the embodiment that Your Honor is discussing and what this claim is about. The claims at issue are about the editing process. The editing process is the process by which you will either change a metacode or change the content. And in that process the patent is consistent across all embodiments, ranging from the title, to the abstract, to the summary of

the invention. And repeatedly the file history is saying that the whole point of this is that you can edit either content or metacodes without touching, accessing or even knowing the other. Now this synchronization or later updating of course happens. Of course, obviously you're are going to want to have the final document integrate whatever the changes were in the metacodes, or the changes in the content when you reproduce the final document later. That's never been at issue. That is a later process that is not covered by the claims at issue. And at page 47...

Judge Prost: Well, I'm not sure. As I understand this document in Figure 9, this processing system, this is the invention, and so what the invention does is change the update, the metacodes. That's part of the invention, as I understand the way these figures work. And they're all sort of analogous...

Mr. Powers: I would put it differently, Your Honor. I would say it's part of the later process that they envisioned in integrating the later document, and that difference...

Judge Prost: Is it the later? I mean when you look at Figure 9 and it talks about the processing system isn't this a description of the invention?

Mr. Powers: No, it's not, Your Honor.

Judge Prost: No.

Mr. Powers: Not of the invention of the claims at issue. There are other claims that cover that aspect. And at page 47 of their brief, i4i recognized exactly the distinction that you're referring to and they say that the teaching of the patent is "consistent with synchronization about editing" because the restriction is based on the user's ability to edit content which is, of course, what these claims, the asserted claims, are about.

Judge Moore: Counsel, when the district court set a data structure that contains the plurality of metacodes, why isn't that the distinct map storage means? You argue in favor of files, but with the exception of a few errant comments in the prosecution history, I see nothing in the patents to require separate files. I know that may be the easiest way to achieve various advantages that you're discussing, but it's not a requirement of the claims that I'm having trouble finding something akin to a clear and unmistakable disclaimer such that I should suddenly make it a part of the claims.

Mr. Powers: With regard to the files . . .

Judge Moore: I know there's a lot there. Sorry.

Mr. Powers: No, I understand Your Honor's question. With regard...there're two pieces to it, so let me take this in pieces. The first group relates to the data structure question. The data structure, as applied by the district order and argued below, and permitted to be argued below, was essentially meaningless with regard to distinct

storage. That ... Because the data structure requirement was satisfied as long as you had a pointer from one point in the data structure to a storage location someplace else, which then pointed to someplace else, which pointed to someplace else. And so when we asked, ... we asked Dr. Ryan, their expert, precisely the question that you're asking. Exactly that question, and his answer is telling. His answer was well if only we had all these pointers then it can't be distinct. and his answer was quote, and this is at 1266 in the record.

Judge Moore: Wait a minute, but this is the testimony, if I'm remembering right, that goes to Microsoft's accused system. And I remember that he pointed to, if I'm remembering right, six distinct places in the Microsoft accused system where you have to pull, this-this-this-this, and piece them all together, and then you have the data structure at issue.

Mr. Powers: That's right.

Judge Moore: That is not an issue of claim construction, Mr. Powers. That's an issue of infringement. And you have not appealed to us the sufficiency of the evidence...

Mr. Powers: That's true.

Judge Moore: ...regarding whether Microsoft has established ... Microsoft has the data structure that is at issue. And when I focus on claim construction it seems to me the district court has required a distinct structure. I may agree with you Microsoft doesn't have it, but that's not an issue on appeal before us.

Mr. Powers: It depends on what is meant by data structure, which is then informed by how that was argued below. If data structure meant a distinct entity, as i4i now concedes, I would agree with you. It does not. All it means, according to their expert, is different pieces stored in different places, anywhere, just different addresses, as long as there is some pointer, or other reference to them. And that goes to whether distinct storage is satisfied by a data structure.

Judge Prost: But your alternative argument, your alternative construction included a file. I see nothing, and there's no reference to the word "file" in the specification is there?

Mr. Powers: That's true.

Judge Prost: Is there anything in the prosecution history that I'm missing with respect to a file? So, I don't see where you're, I mean you came up with an alternative claim construction that required five separate files. And I'm not seeing where the District Court could have come up with or agreed with your proposed claim construction.

Mr. Powers: The source of file, you're right there's nothing in the specification. The source of file is the distinction of the Mizuta reference in the file history, and in that reference one of the arguments that was made was the content and the metacodes were all in the same file, and therefore, it couldn't be treated distinctly. That was

an argument that was made against Mizuta. That was the source of it. But if I may, because I believe that for us the more important argument is not so much the file issue. You're exactly right Judge Moore, that was our way of trying to capture distinctness and to make it meaningful on a computer context. It is perhaps true that there are other ways to do it, that is the source that we found in the file history. The key distinction in our mind is that however you do, it must permit and enable independent manipulation of the metacodes and the content. That is clear from the title of the patent, it is clear from the abstract.

Judge Moore: Yes, but you know, I mean honestly, I spent quite a bit of time because this title was even amended during prosecution. How is that not relevant in the *Pitney v. HP* case, that Chief Judge Michel wrote, had the exact same facts, and said the title is not something to be considered, even though in that very case it had been amended during prosecution to effectively add a limitation. So I'm sympathetic to you, unfortunately, I just don't have precedent that allows me to consider that.

Mr. Powers: If you were to rely on the title alone, I would be concerned by that precedent. The fact is the title is consistent. It's part of a consistent pattern throughout the specification. The abstract, this is quite clear, that the Court's precedence has made, the abstract is something to be considered for claim construction. And this court's precedence makes it even more clear that a statement in the summary of the invention which says "The present invention," which is true at column 7, lines 6-10, "in the present invention," and it emphasizes that in the present invention, and I'll quote it "the present invention provides the ability to work solely on metacodes. The process allows changes to be made to the structure of a [content] a document without requiring the content."

Judge Moore: Hold on. You started with the present invention, and then you jump to the processes, which is not the next sentence, so I don't know where you're going. The present invention is at line 17...

Judge Prost: What column are we on?

Judge Moore: Column 7

Mr. Powers: I'm at Column 7, lines 6-10.

Judge Moore: Oh, 6-10. Okay.

Mr. Powers: And it reads in full "the present invention provides the ability..."

Judge Moore: Got it. Now I'm with you.

Judge Prost: And "the process allows changes to be made to the structure." "Additionally a new map can be created solely based on an existing map without requiring the content. This allows changes to be made." This is what you're referring to? Okay.

Mr. Powers: And that is a key distinction that was made over the prior art. The entire preceding discussion is the prior art that the problem with the prior art, is if you have metacodes and content intermixed in any way, that impinges, that impinges your ability to edit one independently of the other as they put it in the file history without access to the other.

Judge Prost: But I think Mr. Dunner's response to that, or at least one of his responses, would be the reliance on the word "can". That the word "can", which is used in the sentences you're referring us to, is a permissive term, and, therefore, it's not a limitation. What is your response to that?

Mr. Powers: That is the response from i4i. And that was the response by the District Court. But that choice of words doesn't take away the fact that when you read the specification that is what was claimed to distinguish it from the prior art. And that is made, I think clear beyond dispute, in the file history.

Judge Moore: Mr. Powers, I agree with you. I mean, this, this really tells me a compelling story about how they perceive this invention to work. The difficulty I have, though, is I feel like I have to find a clear and unmistakable disclaimer and that's a high burden, and even though it seems to me that they're advancing their ideas about how their invention is going to work, and that might in theory involve, or require even, independent manipulation, the claim language itself doesn't contain that requirement. And I can't read that into the word "distinct". Independent manipulation can't be read into this thing.

Mr. Powers: Well...

Judge Moore: It has to be a disclaimer. You're asking me to put a limitation from the specs into the claim, because there's no choice but to do so.

Mr. Powers: Two thoughts, Your Honor. With regard to the specification, I believe the court's current law does not require a clear disclaimer. I believe it requires the court to look at that specification holistically, and decide what made that invention an invention. With regard to the file history...

Judge Moore: I think that's true only when you're construing a particular claim term, and I don't think "distinct" can fairly be construed to read in independent manipulation.

Mr. Powers: Perhaps the file history will help on that issue, because on "distinct", and this is, it think, a critical point, on "distinct", the Examiner specifically said, "Well, distinct is meaningless because..."

Judge Moore: I know, I'm- I...

Mr. Powers that just means different addresses." And i4i's response is telling. i4i's response, and this is at 2796, said "Well, the architecture of the document can be treated as [an]...entity having distinct storage." So they gave that term meaning, where the Patent Office is saying "I'm sorry, the distinctness has no meaning to me, because

and I'm going to find it obvious." This was a rejection where they found obvious because distinctness has no meaning. And the patent, in order to get around that objection, said "I'm sorry, here distinct does have meaning. Distinct has meaning because it means it can be treated distinctly and stored distinctly..."

Judge Moore: Okay well-

Mr. Powers: ...and can be independently manipulated."

Judge Moore: But hold on. On 2796,...

Mr. Powers: Yes.

Judge Moore: And this is going to be a slight aside, so let me just say this so I have to get it out of my system, I found very frustrating the prosecution history that you gave us. Okay, so here is the sentence you're referring to, the examiner's rejection? That sentence doesn't even end here. It carries over on to the next page, but we don't have the next page.

Mr. Powers: I apologize for that.

Judge Moore: The key sentence, but that's every single office action and every single response, you gave us like, one page. And sometimes referred to something that actually carried over and we didn't have. I printed them all off PACER. I've been through the whole prosecution industry at this point. And truthfully, you gave us all the relevant stuff in hindsight. But you left me sort of wondering about context. And so next time, I would advise both parties to be more sensitive when you're raising an issue with referring to prosecution history, to give us all the meaningful stuff. But anyway, go back to it. So, on 2796, when the response says "[t]his separation allows distinct processes to operate on the content and the architecture, with or without the knowledge of the other." Why couldn't that be just, okay, I'm going to present to you a single document. Here's the content at the top, here are the metacodes at the bottom. You can work on each one independently. They are not intermixed. Why wouldn't that possibly be something that could satisfy, could, could be an explanation they could be advocating? Is that wrong or does that conflict with something else they're saying in this?

Mr. Powers: I don't think that's consistent with the next sentence.

Judge Moore: Because of the access? Well, wait a minute...

Mr. Powers: Exactly.

Judge Moore: Well wait a minute. Can't you, isn't it possible, I mean, you're representing these Microsoft people. They're awfully smart. I have no doubt they could find a way to give access only to a portion of a document and make the rest inaccessible.

Mr. Powers: I find it frustrating sometimes that their intelligence is used against them in a way that isn't supported by the intrinsic record. But I, the point I think that, my belief, and Your Honors can read it as well or better than I can; I don't think there is a fair reading of this patent and this file history, particularly in light of their response to the Office Action, which doesn't give "distinct" meaning beyond they're stored at different addresses. And that's all the District Court's construction did.

Judge Moore: But what about...?

Mr. Powers: The Patent Office said that can't be what it means, and they agreed with that.

Judge Moore: One more thing I want you to respond to before you likely move on from this topic is, what about when the patent itself at column 4 says a document, and they say this is a "non-random aggregation of the data irrespective of its mode of storage."

Mr. Powers: I don't think that means, not meaning it has to be stored, not stored distinctly, because they've said over and over again, it has to be stored distinctly. That's a highly ambiguous term. It could mean it can be stored in flash or hard drive. It could mean 100 different things. But what it can't mean, it's not a get out of jail free card that says distinct storage is meaningless after we told the patent office it's meaningful in response to a rejection, after we said over and over again in the specification it's what makes this important, and after the Red brief admits, it's key to the invention. It can't possibly mean just different addresses. That's meaningless.

Judge Moore: Are there other issues you want to hit? I don't want you to lose all your time.

Judge Prost: Well let me, let me ask you, let me move you on to validity, namely obviousness. Let me see if we can under, if we're on the same wavelength. Do you agree that Microsoft can't challenge the jury's factual finding underlying claims of obviousness, based on DeRose and Rita, and the other prior art?

Mr. Powers: We agree with that.

Judge Prost: Okay, I see, oh go ahead, finish.

Mr. Powers: We don't agree that that means we, that (a) and normally that would limit you to a new trial, which we did ask for and there's no debate that that's not good. What we don't agree with, and this is an issue post *KSR* that frankly, has not been developed into law yet, is what that has -- what effect that has on a request to change as a matter of law, because obviousness, of course, is a question of law, where the facts that were disputed below don't matter. Where it is the question of law on appeal.

Judge Moore: So many of the arguments you made were facts. You want us to say something about analogous art. Well, determination of what is or is not in the analogous art

is 100% a question of fact. Reaffirmed repeatedly by our case law. So how is that not an argument asking us to look into a factual issue?

Mr. Powers: Well, two answers. First, the facts aren't disputed. The facts aren't disputed about makes it analogous or not.

Judge Moore: Well, the ultimate determination of whether something is or is not in the analogous arts is a question of fact.

Mr. Powers: If it's made by an improper standard, which it was here. Because what the district court did was to say, "I'm going to decide it's not analogous because it's in a totally different area, translation versus document processing." This Court's precedence say that's not the right standard. The question is whether it's reasonably pertinent. They're both in the same class in the PTO. They're in Class 715. It was cited by the Examiner. How could it not be reasonably pertinent?

Judge Moore: Again maybe I would agree with you, but it's all fact, and that's off limits. Because you didn't move for JMOL.

Mr. Powers: In my view, those facts are not disputed, and we're talking about conclusions. I understand...

Judge Moore: The conclusion is one of fact.

Mr. Powers: I understand Your Honor's point. In my view, the application of an improper legal standard to those facts makes it a legal question. But independent of all of that, if you agree with me, then we get a new trial. Because that was not done properly as well.

I would like now to turn to the issue of indirect infringement, if I may. And I'd like to start, if I could, with the question of scienter because the knowledge of the patent is a portion, absolute requirement for both contributory and inducement of infringement. It is undisputed here. Several things were undisputed. First, there was never an allegation of infringement, never a disclosure of claim charts or even a conclusory allegation of infringement. In fact, quite to the contrary. When they studied our beta copy, they congratulated us and never said anything for four years. Second, they never gave us a copy of the patent. That's undisputed. Third, they never communicated to us anything about the contents of the patent. Also undisputed. Fourth, there's no evidence that anyone at Microsoft ever read the patent. No evidence at all of that. And fifth, there's no dispute that the only issue, the only evidence that's in the record as to what they're basing this fundamental knowledge requirement on is two things. First, that they explained their product to us, which they did. But there's no dispute also that we didn't copy that product. They conceded that at the District Court. So knowledge of a product, and even knowing that that product is patented, tells you nothing about the contents of the patent, which is the requirement for scienter for contributory inducement.

Judge Moore: But counsel, the emails...you did move for JMOL here certainly. But still it's a jury verdict on a factual issue. And so, we have to look and there is this email that provides the description of the product, it says it's patented, gives the patent number, and all of that undoubtedly within Microsoft's possession.

Mr. Powers: No dispute.

Judge Moore: So you think for there to be intent there has to be testimony from someone saying I read the patent and I know what it said. I mean, circumstantial evidence of intent has been held sufficient.

Mr. Powers: Circumstantial evidence is certainly sufficient where there is a basis to infer that they read the patent. There is no basis here. You can't take an inference out of the air. And all that's present here, is they told us they had a product, they showed us how it worked, and they gave us a patent number, and said it was patented. That is not information about the contents of the patent.

Judge Schall: Why is it an unreasonable inference that given the material that we know, and that Judge Moore just cited, that someone read the patent. I mean, I find it hard to...

Mr. Powers: Because the...

Judge Schall: I find it hard to, you know -- I find it hard to believe that someone at Microsoft didn't read the patent.

Mr. Powers: Well, I think that's speculation which is not an inference. The answer is, here, as i4i contends, i4i argues, that we were these great partners, and they were congratulating us on the product, and we were working together. Why would we go look at a patent number when there's no allegation of infringement?

Judge Schall: You're saying all of the statements that are in the record about the quality of the i4i product on the part of Microsoft employees, and so forth, is based not on any knowledge of the patent but rather on the information that was provided to Microsoft by i4i about the product.

Mr. Powers: Explicitly. There's no doubt about that. And no contention otherwise. And there is simply no basis in this record to draw the inference that Judge Moore was suggesting. You have to have that inference locked in something, otherwise you're saying that inference is always present from merely being given a patent number. And knowing it's attached to a product. And this Court has never -- has never held that. And for that reason, it's for exactly that reason that i4i art argues, not for that inference in its brief. i4i argues based on *Broadcom* on a duty to investigate. So even i4i isn't arguing that the inference that Your Honor is suggesting supported by this record, because it's not.

Judge Prost: Can I move, before your time runs out? I know you're hoping we don't reach the issue of damages, but in case we do, can I ask you a damages question? And that is why wasn't Microsoft's identification of XMetaL as a competing product

sufficient to make it a reasonable benchmark, on which the damages expert could rely?

Mr. Powers: Microsoft didn't actually identify it, well, I guess it did.

Judge Prost: Yes.

Mr. Powers: In one way it did.

Judge Prost: Yeah. Yes. Are you taking issue with the fact that -- I mean if you take issue with the fact that XMetaL was a proper benchmark...

Mr. Powers: Oh, yes.

Judge Prost: Okay.

Mr. Powers: And the issue of whether its propriety is a benchmark is not whether it's in the space of XML editing because the patent isn't an XML editor, it's an XML editor 12 layers down. There were hundreds of XML editors that don't infringe. The question of its propriety as a benchmark hinges on two issues.

One, does it practice the patented invention. And their own expert admitted there was zero evidence that it did. So we don't even know the issue of the benchmark -- is it a sufficient proxy to tell us what the value is of the patented invention? That's the point of a benchmark, right? And it can't possibly be a benchmark if it doesn't practice a patented invention at all, and they have no evidence of that. No one bothered to look. That's point one.

Point two is you have to decide the -- even if it is something that practices the invention -- you have to decide the components of its value that reflects that patented invention. Here, the price of XMetaL was \$500 -- \$499. Which is multiple times what all of Word costs. So you know \$500 can't be the right value because it's more than what we charged for the entire Word product, much less the little sliver of functionality it's accused here.

Judge Moore: I found it very compelling that the notion -- I mean it seemed to me Mr. Wagner assumed that 100% of the people who bought Word would have alternatively bought a \$500 version price inelasticity is a simple economic concept and it totally teaches against that notion. You know, you've got me hook, line, and sinker, but here's the problem. How do I get there? Again, we have no JMOL motion. Most of your brief goes to the sufficiency of the evidence for damages. Our cases, which aren't cited by either side of *Advanced Display* and *Minx* [?] and *Biodex* and *Jurgens* say in exactly this situation we as a Court can't touch the sufficiency of the evidence. It is not available for our review. On a new trial all we can look at is abuse of discretion or legal error, neither of which includes sufficiency of the evidence. So what do we do?

Mr. Powers: If you throw out Wagner and you throw out...

Judge Moore: What do you mean throw out Wagner? You want me to find the District Court abused its discretion ...

Mr. Powers: Absolutely.

Judge Moore: ... by not excluding him under *Daubert*, but hold on. Let's look at all the regional circuit cases on *Daubert* because they all say -- and this is one of my favorite quotes. They say "garbage in, garbage out; not unreliable." That goes to the weight of the evidence. Not the reliability. You have no problem with the methodology of choosing a benchmark. You explicitly acknowledge in your brief that it would not be unreasonable to choose a benchmark. In fact I can read you the sentence if you need me to.

Mr. Powers: That's not the issue. The issue is whether the methodology ...

Judge Moore: You don't like the choice he made of the benchmark.

Mr. Powers: The issue ...

Judge Moore: That's garbage in, garbage out. We don't like the pick you made. We don't disagree with your methodology, but we don't like the pick.

Mr. Powers: We disagree violently to his methodology. We don't disagree with the overall concept in the air that you can pick a benchmark. That doesn't mean we bind to his methodology. We objected explicitly to his methodology. His methodology was to take the *Georgia-Pacific* analysis and say, I think that Microsoft -- the starting point of Microsoft's analysis -- when it sat down to negotiate with i4i is, don't take the value of our product and apportion it properly the way *Lucent* and other cases require you do. Let's take this \$500 product over here, but don't apply their profit margin to it because they're going out of business. Apply our very high profit margin to it and then take 25% of that and we'll give you that. That is his methodology. He applies a suspect 25% rule in a way that's never been blessed by any court anywhere and that methodology is absurd. And that methodology should have been thrown out below and it was an abuse of discretion and you should so hold. That is our view.

Judge Moore: With your problem, the choice of XMetaL as the benchmark, or is your problem the combination of XMetaL plus the application of a 25% Microsoft profit margin to someone else's product? I need to understand exactly, pinpoint for me exactly what the biggest problem is with the damages.

Mr. Powers: Our problem is his entire methodology which I've just laid out. His entire methodology is, I'm using the 25% rule in this transmogrified form that no one's ever used, ever blessed, ever. That's a methodology. It's wrong. And that methodology has to be tied; *Lucent* and other cases make blindingly clear that you have to tie your opinions to the facts of the case, and, if not, you throw it out. And we've cited several cases that say you must throw it out. That is the law. It's not everything goes to weight and you can just go ...

Judge Moore: But why did this go to methodology and not choice? Because all of the regional circuits, say you don't like the choices, the things that are selected and put into the equation. That is all for weight and to be argued on cross-examination, but does not go to the reliability. And there are umpteen cases I have in front of me that say this.

Mr. Powers: We are not challenging -- at a high level you could say we're challenging this choice of XMetaL. But that's not what we're challenging overall. We're challenging his methodology. *Georgia-Pacific* analysis, analysis in quotes.

Judge Moore: Yeah, but you don't have any problem with *Georgia-Pacific*. You agree that that is an appropriate methodology. You just don't like the way he did it. And that's the problem.

Mr. Powers: But then you're saying that, that, that any challenge to *Georgia-Pacific* or any challenge to a benchmark can't ever be challenged under *Daubert*. And that's just not the law.

Judge Moore: Why? Show me a case that says it's the law.

Mr. Powers: We've cited several cases where they've been thrown out because they were unreliable. They didn't tie anything to the link, to the facts of the case.

Judge Moore: I guess I don't find that and I want you to show me the case because I look on page 65, 66, and 67 of your brief where you cite more than seven cases that are relatively close on point and every one of them involved the review of a JMOL motion. Not reliability of a *Daubert* witness. And so I -- this is my frustration because I'd love to be able to reach and get into some of this stuff, but I don't feel like I can and ...

Mr. Powers: The law squarely gives you the permission to do that.

Judge Moore: You say that, but I need to know which law.

Mr. Powers: I will look for the specific case that you're asking for on -- and give it to you in rebuttal if I can find it. If I may, I'd like to return very quickly to indirect infringement, if I may. And if I can, very quickly on willfulness. Indirect infringement, there's one point that I wasn't able to make with regard to scienter, and the issue there, on *Broadcom*.

Broadcom does not stand for the proposition that there's a duty to investigate to find the patent. It doesn't. In *Broadcom*, there's an explicit allegation of infringement with detailed infringement contentions. It says once you have that, then you can't stick your head in the sand. There is no holding in *Broadcom*, or in any other case, that says you have to go find the patent and read it. And that is the allegation that is explicitly made. Not an inference from the evidence here, but a duty to investigate. That would be new law. It would be inappropriate law.

Noninfringing use is critical as well. Here, their own survey which was relied upon to prove infringement -- if that's not reliable they don't have infringement. But their own survey established that the *noninfringing* uses were greater than the supposed infringing uses. And while frequency of noninfringing use is not required, under *Vita-Mix* and other cases, it's clearly sufficient, if more people -- and we're talking about the exact same accused functionality, not Word as a whole. So it's not that issue, not a *Hodosh* issue. If more people use that specific accused functionality for noninfringing use than infringing, under their own evidence, how in the world can that be insubstantial? And they have no answer for that at all - none. They didn't have an answer for that below, they don't have an answer for that here.

With regard to willfulness, very quickly if I may. There's really two issues, I think, for the Court. One, they explicitly argue in the District Court, explicitly argued, for a duty to investigate, which *Voda* and other cases have rejected explicitly. That's just false. But, second, the District court and i4i, but i4i in attenuated way, argues that the strength of defenses asserted at trial is, in the District Court's words, "irrelevant unless you can prove they were perceived at the time of infringement." That is not this Court's law under *Cohesive*, under *Black & Decker*, or any other case.

Judge Prost: No, but even if we agree you with respect to the law, the problem here is most of your argument with respect to the defenses you raise had to do with other issues that were ultimately thrown out. They weren't the defenses that led, that were part and parcel. I mean, I can understand that you look at defense with to the validity issues that are currently before us. It seems to me, most of your argument with respect to the strength of your defenses went to issues that never got anywhere.

Mr. Powers: Well, got anywhere. The issue under *Black and Decker* and *Cohesive* isn't whether they won before the jury. The issue is whether they were "legitimate", "credible", or "reasonable". Those are the words being used by this Court's authorities. And, I don't think it's possible to say that the defenses weren't "credible, legitimate, or reasonable."

And the last point I'd like to make on that is, the Patent Office's reexam decision, not just accepting the request, but an actual decision rejecting, not final, but rejecting the claims on exactly the prior art combinations that was argued below. I think it is difficult to see how one branch of the Federal Government—the District Court—could say that the, another branch of the Federal Government, whose job it is to look at validity, that their decision is not legitimate, credible, or reasonable. So, I would assert that, as a matter of law, when you have an actual rejection from the PTO, on the same argument that is being asserted in the District Court, not for purposes of validity yet, we're just talking willfulness on the objective prong; I think it's improper to say that the Patent Office's decision is not credible, legitimate, or reasonable, such as to eliminate the objective prong.

Judge Prost: Can I ask one quick question on *Seagate*, though, on the point you were making about looking at the objective inquiry. How is that consistent with the other things, while *Seagate* talks about the ordinary circumstances, willfulness will depend on infringer's prelitigation conduct. So, by looking at just what happened at trial in terms of the strength of the defenses, how does that dovetail with the other guidance or...

Mr. Powers: That's the subject of; *Seagate* is discussing the subjective there not objective. And the post-*Seagate* cases on the objective: *Black & Decker*, *Cohesive* and others have all applied the defenses at trial, without regard to when those were perceived or perceivable. Uh, that would just be new law and I would suggest inconsistent with *Seagate*.

Judge Schall: Thank you Mr. Powers.

Mr. Powers: Thank you.

Judge Schall: We'll, uh, we'll restore your five minutes of rebuttal. And you've gone over in addition by, we'll call it four minutes, so you'll have had, if my counting is right, and everything is settled up about 39 minutes for argument. So, Mr. Dunner, if you need it, you'll have 39 minutes for arguments. So, we'll set the clock at 39 minutes for you. So you have that, that should equal it out.

* * *

Judge Prost: Did your Red brief...

Mr. Dunner: Thank you, your honor, but I pray I won't need it.

Judge Prost: Well, did your Red brief give away your case on claim construction?

Mr. Dunner: Pardon, your honor?

Judge Prost: Did your Red brief give away your case on claim construction?

Mr. Dunner: Absolutely not, your honor. The fact is that the, there is no requirement for independent manipulation, there is no requirement for not having access. The specification makes that clear, we never gave it away. It has to be separate. We don't deny that it has to be separate. But it is separate. The question is what does "separate" mean?

If you listen to Mr. Powers, he takes it bit by bit. He says if all you have is a single bit, how can it be separate from any other bit. But, that isn't what we are talking about. We are talking about a separate metacode map. Separate from mapped content. And, if you can envisage a bowl of jelly beans and you had yellow jelly beans and blue jelly beans and they were all mixed together, then Mr. Powers's point might have some significance or value. But, if you have the bowl

divided so that you have a mass of blue jelly beans here and a mass of yellow jelly beans here, they are separate. And that is the whole concept.

The fact is that Your Honors have focused correctly on Figure 9. You can also focus on Figure 7, which also shows that the user has access at the same time to both the mapped content and the metacode map. And you can also look at the very top, oval 132, input device for creating content and selecting metacodes. The user has access to both, and it's not only the Figure 9 statement that has the statement about updating. But, if you look at column 6, lines 14 and 15, the mapped content area and metacode map is updated as changes are made.

Judge Moore: Okay, I'm a little slower than you're going right now. Go back to Figure 7. What is it about Figure 7 that shows me the user has access to both?

Mr. Dunner: Today, if you look at Figure 7, you'll see Oval 132, "input device for creating content and selecting metacodes", meaning the user has access, knowledge of both. Their point is, it's got to be without access, it's got to be without knowledge. They mention that multiple times in the brief. And, a question was asked about the file history and Mr. Powers focused on the wrong words.

Judge Moore, I think you focused on the right words. If you read the statement at 2796 it says, "This separation allows distinct processes to operate on the content and the architecture, with or without knowledge of the other." Now the next sentence, which Mr. Powers focused on, he said, "you didn't look at the next sentence". But the next sentence starts with "In other words", meaning it's a summary of what precedes it and all it says is "In other words, using the present invention one *could* change", it's permissive. It's not mandatory. Every embodiment in the specification has automatic updating. When you update the metacode map, when we change the metacode map you automatically update.

Judge Moore: You mean synchronization?

Mr. Dunner: Yes, it's synchronization. And, in fact, it is interesting because Microsoft said, has flip-flopped. In its main brief, it said at Blue 32, "Because a change to one of the metacode map or mapped content" (those are added words from the preceding sentence) "requires a change to the other, the alleged metacode map and map content at Word 203 and 207 cannot be independently manipulated." The independent manipulation charge is tied to this automatic updating, and they say that can't be done. And they get to their Grey brief and they do an about face. They realize they've got a problem. And, so here they say "Independent manipulation by a user..."

Judge Prost: What page in the gray brief?

Mr. Dunner: The page is 4. Gray brief 4. "Independent manipulation by the user is not inconsistent with automatic updating by the system." That's a total flip-flop. And I submit, Your Honors, that in fact to follow Microsoft's claim construction would be to read out preferred embodiments in the specification that's

impermissible under multiple decisions of this Court. I'd like to go on to the invalidity point.

Judge Prost: Can we do inducement first?

Mr. Dunner: Absolutely.

Judge Prost: Mr. Powers focused on that. Let me just ask you a process question. Can we, in order to uphold the damages under the injunction, do we have to find that Microsoft induced and contributorily infringed? Or, would it be sufficient to find one or the other?

Mr. Dunner: Your Honor, under Microsoft's theory you need to do both. Under our theory, you need to do only one. And, let me answer that by going to that point right now. And that is, they argue that there was an incorrect jury instruction by using the word "component" instead of "material apparatus", which are the words of 271(c). And they say under the law if there is...if one of the legal theories is erroneous, then you've got to throw out the case, even if the other theory is.

Our point is that the bad instruction, if it is a bad instruction, was totally harmless. It's totally harmless because the only reason they give for prejudice to them is that software might have infringed "component" but doesn't infringe "material apparatus". Well, *Lucent v. Microsoft* put that question to rest. Because 271(c) was involved, software was involved, they made the same arguments there that they have made in this case, and the Court found infringement under 271(c) for software. So the only prejudice that they allege for the bad instruction is something that is not a viable prejudice.

Moreover, there is no reasonable way, I submit, that the jury could have been affected by the use of the word "component" rather than "material or apparatus", because that debate was never in front of the jury. That debate was only before the judge on jury instructions. What the jury heard was testimony where Dr. Rhyne said; he used the word "component or apparatus". He actually comingled the two. *Ricoh*, the *Ricoh* case comingles the two. It talks about, it talks about "component" in a software process situation, 271(c).

And so, the point is that there can't be any prejudice here. The jury instruction was totally harmless. It can't be a basis for remand, for a new trial and, therefore, all you need to find is 271(b) or 271(c). That was long answer to your very short question, I apologize. It is our position that both 271(b) and 271(c) are satisfied in this case and, while I'm talking about that, let me talk about that issue. I'm jumping out of the order that I would give but I have long since learned, answer questions immediately and not defer them.

Judge Prost: The question being the inducement and the argument Mr. Powers made.

Mr. Dunner: Yes.

Judge Prost: With respect to knowledge of Microsoft of the patent.

Mr. Dunner: Yes. Okay, let's, we'll talk about intent and then whether or not there are substantial noninfringing uses. Those are the two points he made. There is more than...this is I agree totally with Judge Moore. It doesn't make any difference whether I agree with Judge Moore but she has the final decision, but in this case I do agree that this a fact, it's a fact question. And there was ample evidence here for the jury to have found intent under either 271(b) or 271(c).

For over a three year period, from 2001 through 2004, there were dealings where the details of the i4i system were explained. Where it was repeatedly explained, it was patented. Microsoft gave instructions to its users as to how to use their XML editor in a way that would have infringed. The testimony says that would have infringed. There are documents, Microsoft documents saying that they are going to "obsolete" i4i's system. This was an aggressive...a former partner, in Microsoft's own words, an aggressive attempt to actually eliminate i4i as a competitor from the system.

I submit, under those circumstances, particularly the *DSU* case, which is a 271(b) case, which arguably has a higher standard of intent, it basically says that you have a duty, you don't need to know that the actions would induce infringement. You should have known that the actions would induce infringement. And in the *Institutform* case we also cite, they talk about active or constructive knowledge...

Judge Moore: I guess Mr. Powers argument, as I understand it is knowledge of a patent number is not the same thing as knowledge of a patent.

Mr. Dunner: Your Honor, we described the patent as covering, the patent covered the process they were hearing.

Judge Moore: S4 technology, that's right...S3, S4, something like that...

Mr. Dunner: Pardon, Your Honor?

Judge Moore: I think the email said something like the S4, covers the S4...

Mr. Dunner: Yes, yes. So we said it covered the process. At the very least, they had the duty to disclose, particularly in a situation where you have an aggressive company with a lot of market power concluding it's going to obsolete its competitors product, process. And, in fact, they did obsolete it in 80% of the market.

Judge Prost: When you said duty to disclose, did you mean they had a duty to investigate?

Mr. Dunner: Investigate, I misspoke. The point is...

Judge Moore: Well wait a minute, didn't...in the willfulness context, didn't we sort of get rid of this duty to investigate to some extent? Why would we now give it vitality through 271(b).

Mr. Dunner: Because *Broadcom* holds that the rules as to willfulness do not apply in an indirect infringement context, and so...that's exactly right. In the willfulness context *Seagate* says you don't have a duty to investigate, that is not true, we submit, in an indirect infringement context. Now, unless there are more questions about that, I'd like to go to the substantial noninfringing use.

There are three alleged substantial noninfringing uses and the *Vita-Mix* case is very instructive, the recent *Vita-Mix* case, because it basically tells you that there, it gives you sort of a benchmark (I hate to use the word benchmark because it comes up in another context) as to when it is infringing or noninfringing, and whether it is substantial or not. And it talks about, it cites two different cases. It talks about "utility, presence, and efficiency" of the noninfringing use, and alternatively it talks about whether the noninfringing use is "unusual, far-fetched, impractical, aberrant, or experimental."

And there were three noninfringing uses and Dr. Rhyne addressed his comments to all three. And he concluded that they are all three noninfringing. And I will explain why his testimony relates to the *Vita-Mix* test. The first one is a case where somebody is working with XML documents with metacodes, but there is no content there. And his conclusion was that the only purpose in doing that is to add content, and resulting in infringement. And that, he concluded, was a noninfringing use.

The second one was the use is created by XML documents that are never reopened. And Dr. Rhyne said that that has no relevance as to how in the real world users use an XML editor. and he concluded that that was not substantial. And that, of course, would be unusual, that would be far-fetched, that would be impractical, under these *Vita-Mix* tests and the first one would have been, I submit, far-fetched or impractical.

The third one is the one that Mr. Powers focuses on, and that's the one where there were several million, I think there were two million pieces of evidence, or two million events where the XML documents were saved in a binary format, which they call .doc or .dot. And they can't be shared with other systems. And Dr. Rhyne pointed out that this contravenes the fundamental purpose, not of the patent invention, but of XML. Which is to create a system that can be shared with other systems. So, again, this fits into the *Vita-Mix* test: it's impractical, it's lacking in utility.

So we submit that it's a red herring to argue that there are noninfringing uses here and, moreover, that issue doesn't cut across 271(b), in any event. 271(b) would remain viable.

Judge Prost: Can I move you to damages before your time runs out?

Mr. Dunner: Oh, I have plenty of time Your Honor.

Judge Prost: As Judge Moore suggested to Mr. Powers, I mean for the economists in the room or the consumers, there is a lot of appeal to the notion that you are using as a benchmark a \$400 or \$500 product, when the produce of Microsoft Word costs something less than half of that. And what we're talking about is one of many, many, many, many components or functions within Microsoft Word. There is something that is intuitively problematic, I would suggest to you, about having done that, about that methodology.

Mr. Dunner: Well, let me explain then, why the benchmark was chosen and, as part of that explanation, I think I will, I hope to answer all, even your intuitive concerns if they're not real concerns. One is, why was that benchmark chosen? The benchmark was chosen because it was Microsoft's policy to add functionality to Word, to its basic Word system, without charging for it. The one time they charge for it, they charged \$50 across all of the Microsoft systems. And if you follow the same methodology, applying the \$50 across all XML systems, even though somebody might not have infringed, using that XML system, you end up, not with a \$98 per unit royalty, but with a \$2 unit royalty following the same methodology.

Judge Moore: But, wait, wait counsel you can't use that though because you've got to prove infringement of a method patent here, not an apparatus patent, in which case you could look at the \$2 per product capable of infringing. But since this is a method patent, and for damages purposes the only thing you can turn everyone towards is the instances of actual uses of the process because that's the only thing that infringes. We are stuck with the \$98 per product royalty, \$2 is not on the table.

Mr. Dunner: Okay, let me accept that, Your Honor. And I think our answer is still a viable answer. He picked XMetaL because of the fact that the \$50 use that Microsoft added was a very real use. The practice was not to charge for added functionality to induce people to use their systems. So he decided, rationally, I submit, that he couldn't use the \$50 number as an example. So what did he do, he looked for other possibilities. And he found that there were three other possibilities out in the market that Microsoft considered competitors. One of whom was XMetaL. Of the three other possibilities, XMetaL was the cheapest, by far, of those three possibilities, so that, in turn, additionally was a rational use. He also considered the possibility of i4i's system. And that was a little lower but they...; combined with the sale of that system was services, was consulting and what have you. He concluded that the total price would have been more for i4i system, so he decided that the XMetaL system was the best benchmark and he needed a benchmark, he needed something to start with. Now he didn't, in answer to...

Judge Moore: Why, why didn't he start with the cost of Word and then figure out how much of the value of Word is attributable to the XML patented technology?

Mr. Dunner: Your Honor, because it was difficult to do that. Because Microsoft doesn't charge typically for these added functionalities. So, I don't think it was practicable for him to start with Word. He needed to start with an XML add-on.

Judge Moore: But you think a \$500 software package for XML, which is only a tiny portion of the huge functionality offered by Microsoft Word is a reasonable one to one substitute? You think every person that bought and used Microsoft Word for an infringing use would have alternatively bought the \$500 XML XMetaL product as an alternative if Word did not offer that functionality? I mean, that's totally irrational.

Mr. Dunner: He did not include all of the total number of people who had the XML functionality. He only used, based on the survey, the people who, in fact, he concluded, based on the survey, used XML functionality.

Judge Moore: That's right, he used everyone who uses XML functionality in Word. But even the people who use XML functionality in a \$200 product, how can you suggest that every one of them would have bought a \$500 product if they couldn't, right? I mean the simple demand curve, I got the store, I want a VCR or a Blu-ray/DVD player or something like that, and I find out it's \$300. I might be willing to pay that. But if I go to the store, the same person who is willing to pay \$300 is not willing to pay \$500 for the same thing. I might, at that point, say well I don't need it that bad.

Mr. Dunner: Your Honor, we submit that if a person wanted XML use, of course, he only took, he used the 25% rule, and then he depreciated that a little after his calculations. We submit that if a person wanted to use XML functionality and they had choices, they didn't want to buy a whole Word system, that they would have been willing, for those who wanted to use it, for those who infringed, which is the only ones that the two million total number affects, they would have paid. They would pay...

Judge Moore: Where is that testimony, where is that evidence?

Judge Prost: Isn't it a flaw in his methodology, though, to not have asked? I mean, we say we need a survey, you needed a survey. The survey worked with respect to who used it, that was a relevant factor. Isn't it equally relevant and necessary to establish that once you've identified the people that use XML on a daily basis, that they would have, in the alternative, gone out and spent a lot of money for just that function in a separate purchase?

Mr. Dunner: Your Honor, that could have been a question that's asked. But, I submit to you, I hate to just rely on the fact that this is a sufficiency of evidence standard, but it is. The jury heard all of these arguments. Microsoft made all of these arguments before the jury. Microsoft cross-examined Wagner, cross-examined Wecker, attacked the quality of the survey, attacked the quality of the *Georgia Pacific* analysis that Wagner made. And the jury accepted the verdict.

Judge Moore: Counsel, counsel I don't think that Judge Prost and I are focusing our questions on JMOL because that wasn't raised here. So we can't look at all of this for sufficiency of the evidence, that's off the table. I think we're looking at it under

Daubert. Should Wagner have been allowed to offer this testimony, or is his methodology flawed because, you know, he didn't use the right equation. He missed entire variables that should have been in there. Is that methodology so flawed to render it unreliable, and therefore inadmissible under *Daubert*? Because that's what's really the focus of our questions are on, just so you know.

Mr. Dunner: Your Honor, I realize that. I don't think his methodology was flawed. You're suggesting that he might have asked additional questions. I assume that in any survey that's made, somebody can come up with additional questions that might have been asked. It may have even been nice if he had asked these additional questions. But what he did ask, the survey basically was trying to identify people who used the XML editor. It was, and there were 988 surveys out there, 46 responded, 19 were found to have used it. He only used the 19. He assumed that every other one of the 988, or every other one of the 46...

Judge Moore: Yes, but this all goes to a different question. Mr. Dunner, all of the testimony that you're discussing now goes to how many people use XML technology. That doesn't go to whether or not those people would have purchased a \$500 alternative, which is the thing that I think our questions are struggling with. The notion that a \$500 alternative would have been a one to one substitution, and I guess my concern is: is this a question of methodology or choice of what you're substituting into a formula. And because, in my view, if we just think he made the wrong choice, then that's not something that should be struck under *Daubert*. But if he employed the wrong methodology, then it absolutely is something that is questionable under *Daubert*.

Mr. Dunner: Okay, let me try again.

Judge Moore: Okay.

Mr. Dunner: There are two things I'd like to mention.

Judge Moore: Maybe you need all of that time after all, huh?

Mr. Dunner: I may. We still have 16 minutes. Thank you Judge Schall for accommodating.

Judge Schall: You're welcome.

Mr. Dunner: There are two points to be made. One is, would somebody have paid this much money for this functionality? I submit there is ample evidence in the record to show that somebody would have.

Judge Moore: Somebody, but everybody?

Mr. Dunner: Well, let me give you the evidence to show you why I think a reasonable conclusion would be made, could be made that anyone who used this functionality would fit in this category. You can reject it, but I'd like to just make the point.

One is that the argument was made that the XML functionality was just a small tiny obscure functionality of Word. And maybe even a tiny obscure functionality of XMetaL itself. But, we pointed out in our Red brief that, and this is clear at 7684, Microsoft touted the XML as a core functionality, core technology to Word. I don't think they used the word "core" but the words they used are equivalent. It was a very important functionality to Word. And that a custom XML was, and this is a quote, "was the most important effort it did on XML in Office since ever". And that's at 7565. There are several key Microsoft documents and one is at 7684 and one is at 7291. 7684; it says, "Microsoft has truly embraced XML as a key component of our company wide strategy going forward. Office 11" (which is Word 2003) "will lead the way in delivering the benefits of XML to the desktop productivity customer." Then at 7291, it says, "If we're betting the farm on the XML revolution, an XML editor should be an absolutely fundamental component of our product system." And then there is another document, also at 7291, and I will mention that that one was directed directly to Bill Gates. That one says, "An XML authoring tool would be a logical new product for MS. If Word was to morph in an XML direction, that would refresh that product and provide one more reason for users to upgrade." And, in fact, Microsoft at one point did sell an upgrade, it was the SGML Author and they sold it for over \$500. And so, there's a lot of evidence, in fact I can get you, hopefully I can get you that cite.

Judge Moore: What was it they sold for over \$500 that you were just discussing?

Mr. Dunner: An SGML author, it was called, and we mentioned it in our brief, do you have a cite for that, A1388 to 1390. So, there are all kinds of reasons why...

Judge Moore: And did that, wait, did that ...I might have missed this. Does this SGML Author offer XML technology?

Mr. Dunner: Yes. So...

Judge Moore: But, I guess, even if I were to grant you everything that you've just said as completely gospel and beyond question, all of it goes to the notion that Microsoft thought, and possibly consumers too, that the XML portion of Word were important. And suppose I were to actually concede something, I'm sure Mr. Powers never would, and say that every single person who used the XML technology bought Word solely for that purpose. Okay. Still the Word product ranged from what \$90 to in some cases to \$200 something in others. Not all of those people, not everyone who is willing to pay \$90 for something or \$200 is willing to pay \$500 for it.

Mr. Dunner: Well, I submit, that they sold this SGML Author for over \$500 per unit.

Judge Moore: Yeah, but the problem you have here is damages and I'm wondering if it's methodology or not such that I should exclude. I don't disagree that some people are willing to pay \$500. The problem is that your expert assumed that everyone who bought Word was willing to alternatively buy the \$500 product. And we

both know not all those people are. I mean, I go to the supermarket, and if the price of asparagus is more than \$3.99 a pound, I don't buy it. Sometimes I, you know, go and even if I want it for dinner tonight I don't buy it.

Mr. Dunner: Well, I can only tell you that the people bought, people bought the XMetaL and there is evidence, and I will direct you to it. A1468 at 7-10, line 7-10 and you'll have to read the words because there is a typo here. And it's a typo on an important word. But I think it can only be read one way. The words are: "the additional functionalities in XMetaL" it says "are totally and necessary". That doesn't make any sense, and in the context it clearly means "are totally unnecessary". So you have an XMetaL product which sold for \$499, which had a lot of functionalities. And he said, "it's totally unnecessary if you use it as an add-on to Word". So you have a unit that is sold, XMetaL, it's sold for \$499 which people are buying.

Mr. Powers said it has to be an infringing use, it doesn't have to be an infringing use to be a benchmark. There is no law that says it has to be an infringing use. There has to be some relevant reasons, some rational reasons for picking it. And I gave you the relevant rational reason for picking it. But, the point is, if you had an XMetaL unit, which sells for \$499, which is, or is it \$399?

Judge Moore: \$499.

Mr. Dunner: Which was the cheapest one of the alternatives that he could have picked, the cheapest one. And it has a functionality which people want to use. And the other functionalities are really not necessary as an add-on to Word. It is not unreasonable to assume that somebody who wanted to have that functionality would have been willing to make that payment. And what he did was, he took the 25% rule and he ends up with \$96 and, I think, based on other factors it ended up being \$98.

Judge Prost: What about that 25% rule?

Mr. Dunner: Your Honor?

Judge Prost: Why is that not just something pulled out of the air, that we ought to be able to be willing to accept that methodology?

Mr. Dunner: Your Honor, the 25% rule is a factor, is used all the time in patent infringement cases. There are some people who don't like it. And Dr. Wagner admitted there are some people who don't like it. But there are some, a lot of people who do like it and, in fact, this Court's decisions, they are cited in our Red brief, have sustained analyses under the 25% rule. It is a rational approach. The jury heard it. They heard the attacks on the 25% rule, because Microsoft's expert pooh-poohed it. He said he didn't like it. And so, the jury, again, had an opportunity to decide, certainly the 25% rule in the abstract is not a basis for throwing out or for applying the *Daubert* rule. The 25% rule is used all the time, and it's proper.

And maybe the jury should have accepted it, but they did accept it in this case and there was countervailing testimony on that subject.

Judge Moore: Would you mind if I moved you on to willfulness? I think Mr. Powers raised a point that I'd like to hear your response to, which is we're not talking about introducing the reexam evidence for invalidity, but simply on the issue of willfulness. Why wouldn't the PTO's rejection of the very claims that have been found to infringe in this case be enough to give credibility to their defense as a valid defense to prevent willfulness?

Mr. Dunner: Simply for this reason, Your Honor. There has been no response from i4i in that reexamination, so you have an examination, so far, which has been based on the input of one party. Secondly, the standard of review in the Patent Office, which is in construing claims as broadly as reasonably possible, is very different from the standard of review in the District Courts. And, thirdly, there is case law from this Court which has held. I believe it is from this Court, which has held reasonable, not relying on a reexamination, early office action, because its value is greatly exceeded by the prejudicial effect to a jury.

Judge Moore: Right, but why not for willfulness, though? Why isn't it something that gives credibility to a defense, not meaning to legitimize it such that it should be adopted. But simply as a defense to willfulness. It's sort of like not to the truth of the matter asserted, but rather just to give credibility to the fact that they did have a good faith belief walking into this that they were not willfully infringing someone else's patent rights.

Mr. Dunner: Your Honor, for the reasons I mentioned. One, the fact that the Patent Office has acted without any input from us is not a good measure of whether or not that's a reasonable, that something reasonable, to be relied on by the other side. Particularly in the situation where there's a different standard of review. I submit, certainly, it's not a basis for throwing out a whole verdict on the ground, certainly not an abuse of discretion. The question is, did the District court abuse its discretion by not admitting that evidence. I think there are ample reasons, people can disagree on whether or not the District Court Judge should have done it. But abuse of discretion is a very high threshold to reach. And I don't think it was reached in this case. Now...

Judge Moore: Did you want to talk more on willfulness or can I move you...I'm going to move you right along if you don't mind.

Mr. Dunner: No, please go ahead.

Judge Moore: Okay. So, I wanted to ask you a question about the injunction in this case. The Court asked for some supplemental evidence or information from the parties regarding the record proof establishing what the District Court said in his Order with regard to the injunction. It seems clear from the language of his Order that

he intended to give Microsoft the amount of time it would reasonably take them to design around the patent in this case, namely five months. Is what they said.

He ultimately gave them 90 days and he said in that Order, “there is some conflicting evidence over how long it will reasonably take Microsoft to do that. Therefore, I’m going to give them 60 days.” Well so, we ask the parties to submit what evidence it was that supported the notion that something other than five months. Because his Order very clearly cites the evidence, the testimony that it would take them five months. But it actually cites nothing in the way of conflicting evidence. And, unfortunately, I couldn’t find any conflicting evidence that you all presented to us on the issue of how long it would take them to design around. Not whether they’re capable of it, not how they would go about doing it, but how long, the amount of time. I found no testimony that conflicted with the five months notion. So, I guess my question to you is since, isn’t that a clear error by the District Court because he clearly intended in the Order to give them at least the amount of time that was reasonable for them. And, so isn’t it an error on his part because it turns out there’s no conflicting evidence, that conflicts with the five months.

2009-1504 - Part 2 - Oral Argument

Mr. Dunner: Your Honor, the answer to that...that one the subject because as...I was not at the trial but we discussed this. When the Court asked us for information, we gave you all the information we could find.

Judge Moore: Right.

Mr. Dunner: And Microsoft responded with a very short letter “there is none.” So we didn’t give you a ton. I agree, we did not give you a ton. And they said, “there is none.” And the fact is...

Judge Moore: But they said there is none to support your notion that a shorter time would be adequate.

Mr. Dunner: Yes.

Judge Moore: They certainly didn’t need to present us, because the District Court cited it...

Mr. Dunner: Exactly, I didn’t mean to suggest otherwise. The fact is that, that issue was not; that issue was not terribly well debated in terms of how much time there was. Because, if I recall correctly, i4i said no time, let’s have an immediate injunction.

Judge Moore: Yes, of course.

Mr. Dunner: And the Court in its wisdom decided, no, I’m going to give it some time. We had a couple of amicus briefs, you’ll recall, Your Honor, which said more time is needed. If in the wisdom of this panel, I mean for sure we have very good arguments that an injunction should have been entered. And if the court is

interested I will explain that. But you're asking a different question. Assuming the injunction is sustained how much lead time should they have?

Our point was they've had plenty of time already, from the time infringement was found to make a change, and by the time the Court's decision is over they will have had even more time. And that may be more than enough time for them to make the change. But if in the Court's wisdom, the Court feels that sixty days is not enough, even from the time you render your decision, then we will defer to whatever reasonable time you conclude. Alternatively, if you otherwise sustain the decision, and remand to the District Court, you might want to remand with an instruction to the District Court to have a brief hearing, or briefs exchanged, on that issue and to make a subsequent decision based on that. So.

Judge Prost: Can I ask one final question, do we have time?

Mr. Dunner: Of course, I have 14 seconds left.

Judge Prost: And that's on the, I guess I want to tap your recollection, you've been given that we've noted that you were one of the parties in the *Read Corporation*. So, I'm talking about *Read* and the use of the District Court of litigation misconduct as a measure for enhancing damages at 40 million. I guess my two questions are: one, do you think that *Seagate* undermined; I mean *Read* as I understand, and tell me if I'm wrong, doesn't allow litigation misconduct to be the be all and end all, but it does allow it to be one factor. But I also think one could read *Read* as putting limitations on the kind of litigation misconduct we're talking about, because they refer to manipulative litigation strategy which demonstrates a lack of good faith belief in its defenses. So one, do you agree that you have to meet that criteria to be covered by *Read* and to be a permissible factor and enhancement? And two, do you think that *Seagate* undermined that portion of *Read*?

Mr. Dunner: Okay. I don't think *Seagate* undermined...I know *Read* pretty well, because it was my case, which I fortunately won. I don't think *Seagate* undermines that factor. The *Read* factor are that they list I think nine factors that the Court should consider in determining whether to enhance. So, this isn't a question the jury doesn't end up hearing this. The judge makes the decision.

One of the factors is conduct (I don't remember the exact words, you said them) Conduct of the party of the litigation. We have a situation here where the District Court judge admonished Mr. Powers and said, I suggest nicely, I suggest you not do that during the voir dire, certain questions were asked about bankers and trolls and people who don't practice, and what have you. And he ended up repeating it, repeating it. And I think that the Court under *Read*, properly took that into consideration. It is expressly listed as one of the factors in *Read*, and I think it survives *Seagate*. I don't think it undermined *Seagate* at all. *Seagate*...

Judge Prost: *Seagate* repeatedly emphasized this pre-litigation conduct.

Mr. Dunner: Right.

Judge Prost: And they say absence on extraordinary circumstances, I read *Seagate*. The reliance entirely is on the pre-litigation conduct and isn't the doesn't that undermine the notion that this kind of conduct at trial would be relevant to making the determination of willfulness.

Mr. Dunner: It doesn't, because the purpose of *Seagate*, was to, you did say *Seagate*?

Judge Prost: Yes.

Mr. Dunner: The purpose of *Seagate*, willfulness had gotten out of hand. When jury's heard bad things about a party, many of them instinctively found willfulness. And I read *Seagate* emanating from a concurring opinion by Judge Dyke, where he cited some Supreme Court rule about objective willfulness as an intent to pull back, to put some reins on the willfulness doctrine. That is not the same issue involving enhancement.

Enhancement is a judge decision. It's a judge decision based on the totality of circumstances. It includes financial considerations. It includes misconduct. It includes a lot of other things. And I think that all survives. I think the philosophy behind *Seagate* is very different from the philosophy behind *Read* and therefore, that's my best answer, Your Honor. And I see that I have been a bad predictor.

Judge Schall: That's all right, Mr. Dunner. We had a number of questions. Thank you.

Mr. Dunner: Thank you.

* * *

Judge Schall: Mr. Powers you have your rebuttal. Mr. Dunner went over by three minutes. So to equal things out, if you need it, you'll have eight minutes for your rebuttal. That should make the time equal on the whole.

Mr. Powers: Thank you, Your Honor. I'd like to begin by responding to Judge Prost's question regarding whether a problem with either contributory basis or the inducement basis requires reversal or not. This court's decision in the *Northpoint* case, and the *Spectrum Sports* decision from the Supreme Court, make it quite clear there is a distinction between a flaw and a legal theory that could have supported the verdict, in a general verdict context and a ultimate factual basis to support a claim.

So in *Northpoint*, the issue was, you have five different possible anticipatory references, but a single claim. The issue was anticipation. And there, the question was, if one of the references didn't work, could the verdict be supported based on one of the other four. And the answer was yes. But Judge Bryson's decision drew a very sharp distinction between that situation and the situation where there are two distinct legal theories to support a general verdict. Which is what the District Court did here, against Microsoft's request.

The *Spectrum Sports* case from the Supreme Court tells us exactly what should happen in that context, where there is again a general verdict that could have been supported by either monopolization or attempt to monopolize. The Supreme Court held that there were legal infirmities with the attempt to monopolize a portion. And therefore reversed the entire verdict because you couldn't tell whether they went under the proper legal theory or the improper legal theory. That law I think is clear and unmistakable. This isn't a question of different points of view. That's the law from the Supreme Court and this Court.

I'd now like to respond to Judge Moore's question about whether there's authority in the absence of a JMOL on damages, whether you can throw out the offending or misguided expert testimony. One of the cases we cited was the *In re Aircraft's Disaster* case from the 5th Circuit, which does of course, govern, 5th Circuit now governs this issue. And I'll quote from that case at 1234, which makes clear it's applying the differential abuse of discretion standard. "In sum we adhere to the differential standard of review of decisions regarding the admission of testimony by experts. Nevertheless, we take this occasion to caution that the standard leaves appellate judges with a considerable task. We will turn to that task with a sharp eye, particularly those instances, hopefully few, where the record makes it evident that the decision to receive expert testimony was simply tossed off to the jury under a let it all in philosophy..." which I would submit is akin to your garbage in - garbage out, "...our message to our able trial colleagues, it is time to hold off, take hold of expert testimony in federal trials." They then threw it out on exactly the reasons that are similar to what we're talking about and *Daubert* itself, of course is, provides support for that.

Judge Moore: I hope I didn't set you on the wrong course. I don't disagree with you that it's possible for us, as an appellate court to say the District Court abused its discretion in letting in testimony. Under *Daubert*, I think that it could be eliminated despite the absence of a JMOL motion with the bulk of the case law that was cited to us on 65, 66 and 67 of our brief, wherein you're explaining to us why we ought to in this case overturn the jury verdict on damages. All of that pertained, every single one of those cases almost, pertained to a JMOL situation, which is definitely different from an abuse of discretion under *Daubert*. So I guess, explain to me why there is an abuse of discretion in Mr. Wagner, if you could in a very succinct fashion, why Wagner should have been excluded. It was an abuse of discretion not to exclude it.

Mr. Powers: Under that standard there was, it should have been excluded because he took a 25% rule which in response to Judge Prost's first question, I believe itself is improper. It's something that was made up by Mr. Goldscheider who is a plaintiff's licensing expert who put it out there in one review to justify what he was doing in his own business and he based it on Swiss licensing practices of nontechnology in the 1950s. The idea that that ought to support a \$96 starting point in this case which was the starting and ending point of his *Georgia Pacific* analysis effectively is absurd.

But putting that to one side, it is clearly improper and there's no authority that supports it to take -- to have a benchmark which says, I'm going to take something which doesn't practice the patented invention where the whole purpose of this exercise is to figure out the value of the patented invention and all Mr. Dunner's quotes about for Microsoft talk about the value of XML. This patent didn't invent XML; it didn't invent XML editing. It's not about any of that. It's about a very, very sub, small slice of that, and the point of this exercise is to determine the value of the patented technology. And what *Lucent* and other cases from this Court teach is that you must, if you're good at whatever benchmark you take, you have to apportion to find the value. If it's Word, you have to apportion to find the value and exactly the reasons that your honor asked the question. If it's XMetaL you have to. He didn't. He took the full \$500 price despite the admission that there were tons of extra functionalities. That's wrong.

Judge Moore: But you argued all this to the jury. Why doesn't all this go to the weight? Why does this go to the admissibility?

Mr. Powers: It goes to the admissibility because under *GE v. Joyner* who says you have to tie it to the facts, that's the Supreme Court, under *Daubert* which says it has to be reliable, it has to be scientifically sound under *Lucent* which says it has to be tied...

Judge Moore: But the idea of choosing a benchmark and applying a standard royalty rate to that benchmark is not methodologically unsound.

Mr. Powers: That's not what we're saying was unsound. We're saying the manner in which he did that was unsound. That question you just asked would say that you could never challenge *Georgia Pacific* analysis because a *Georgia Pacific* analysis is appropriate; it's how we did it. And he did it wrong. He did it in an absurd way. He said here's something which we know is valued at less than \$50 but we're going to take a third party product that doesn't use the patented invention that has lots of accused functionalities and sells for ten times that and we're going to use that unapportioned. And we're going to assume that Microsoft would have started the negotiation by saying we'll pay you 25% of our profit on that higher priced product. That's insane. That's just not tied to the facts of the case which *Joyner* requires, which *Lucent* requires, which every court -- every decision of this Court requires.

I'd like to turn to claim construction if I may; there were two points that I wanted to address. The first is that Mr. Dunner cites number 132 in Figure 7 and says that input means which talks about content and metacodes shows they can be joined. The input means at column 14, line 18 is a keyboard. It shows nothing about where it's stored. That's a keyboard; it's irrelevant.

The second point is -- and this is the point Your Honors asked, the language is used as permissive. The language actually that's used is "it could be used." Now an equally fair reading, in fact I would argue the only reading under this patent is

not that that's permissive, i.e., you could or you could not, but it's establishing a capability of the technology. You can do it with this technology and without it you can't. That was the whole point of the invention; that's the point of this spec is that before this you couldn't do it. And that capability is what distinguished this invention from the prior art. And under Your Honor's decision yesterday and every other case of this Court where you distinguish the prior art based on a capability that the invention provides that the prior didn't have; that's limited. In this case, that's independent manipulation throughout the cases.

The second point I want to talk about is intent if I may. Now, Mr. Dunner made two points I'd like to respond to. One is, the should-have-known standard. The should have known standard is never been applied, ever, to the question of should have known of the patent. It's once you have knowledge of the patent and knowledge of an infringement contention, then you can't put your head in the sand. That every decision of this Court from *Voda* and every other case in any context never says you have a duty to investigate to find the patent contents. All the cases start from the proposition that once you know those contents and have an accusation infringement that that triggers duties. And I think *Seagate* and the rejection *Underwater Devices*, all of that law is inconsistent with it; Mr. Dunner's argument that *Broadcom* has a sweeping holding that absolutely none of the willfulness law applies to inducements he entered. I think reaches too far. All it really decided was that the question of an advice of counsel opinion that that could be relevant in the inducement context. That's all *Broadcom* decided; it did not decide the sweeping issue that Mr. Dunner cites it for. Mr. Dunner's position would take the law of inducement back to negligence which...

Judge Schall: I think you'll have to wrap up because -- let you finish that thought that you're making there but we do have to bring it to an end.

Mr. Powers: I will. I guess the only -- the last point I wanted to make with regard to substantial noninfringing use would be that Mr. Dunner makes arguments why he and the expert think some people may not want to use the accused functionality in a noninfringing way. But the point that he doesn't deny, is that two million people disagreed with him. The facts are according to their own evidence, more people used it in a noninfringing way because they saw benefits in it. So the fact that certain benefits couldn't be obtained using it that way is irrelevant whether that use is substantial. Two million people more than those who infringe, even according to their own evidence used it in that way, there is no way I would submit under this Court's law that you can say a situation where more people use it in a noninfringing way, that that's not a substantial noninfringing use.

Judge Schall: Mr. Powers, that you. Mr. Dunner, thank you. The case is submitted. That concludes today's argument.