

Federal Circuit Affirms \$200 Million Patent Infringement Award

December 23, 2009

On December 22, the U.S. Court of Appeals for the Federal Circuit, in an opinion by Judge Prost (joined by Judges Schall and Moore), affirmed the jury's \$200 million award in a patent infringement action brought by i4i against Microsoft in the U.S. District Court for the Eastern District of Texas. *i4i Limited Partnership v. Microsoft Corp.*, No. 2009-1504 (Fed. Cir. Dec. 22, 2009).

Because Microsoft failed to file a pre-verdict motion for judgment as a matter of law (JMOL) regarding damages, the Federal Circuit was precluded from undertaking a substantial evidence review as was done in *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009). Unlike the situation in *Lucent* where the Federal Circuit vacated a \$358 million patent infringement award entered against Microsoft, the Federal Circuit was "constrained to review the verdict under the much narrower standard applied to denials of new trial motions." Slip op. at 37. Though "the outcome might have been different" had Microsoft not waived the issue, the award had to be affirmed under the "highly deferential" new trial standard because Microsoft could not clearly show that *no* evidence supported the jury's verdict. *Id.*

The *i4i* decision provides essential guidance to those involved in patent litigation. The decision shows that half the Federal Circuit's active judges endorse the strict review of patent infringement awards articulated in *Lucent*. It also provides a road map for analyzing the admissibility of damages expert evidence. Finally, the decision confirms the critical importance of preserving objections to the sufficiency of damages evidence.

In-Depth Analysis

i4i sued Microsoft in the U.S. District Court for the Eastern District of Texas alleging that certain versions of Microsoft Word infringed an i4i patent claiming an improved method for editing documents using Extensible Markup Language (XML). At trial, Microsoft sought to prevent i4i's damages expert from testifying, arguing that his methodology was unsound and therefore inadmissible under Federal Rule of Evidence 702 and *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993). In support of its challenge, Microsoft argued that the \$98 per product royalty rate advocated by i4i's damages expert exceeded the entire price of some of the accused Word products, resulted in total damages of \$200 million to \$207 million when Microsoft normally paid between \$1 million to \$5 million to license patents, and depended largely on applying "the 25-percent rule" (i.e., the inventor keeps 25% of the profit from any infringing sales) to a "benchmark" product that cost \$499. The district court overruled

Microsoft's objection and permitted i4i's damages expert to testify. Though Microsoft filed a pre-verdict JMOL motion on infringement, willfulness, and validity issues, it did not file a JMOL motion regarding damages. The jury returned a verdict finding that Microsoft willfully infringed i4i's valid patent and awarded \$200 million to i4i. Following the verdict, the district court rejected Microsoft's JMOL and new trial motions regarding damages, finding that "Microsoft had waived its right to challenge . . . the sufficiency of the evidence supporting the jury's damage award." Slip op. at 1–2.

On appeal, the Federal Circuit rejected Microsoft's challenge to the admissibility of i4i's damages expert's testimony in a detailed discussion. *See* slip op. at 27–35. The Federal Circuit explained that i4i's damages expert used a hypothetical negotiation analysis, and considered the factors identified in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970), to determine i4i's infringement damages. The Federal Circuit noted that it has "consistently" upheld this damages methodology. Slip op. at 31. Though recognizing "various weaknesses" in the i4i expert's damages calculation, the Federal Circuit ruled that the district court had properly admitted his testimony because he (a) had "a detailed explanation for how he arrived at the \$98 royalty rate," (b) "testified that the 25-percent rule was 'well-recognized' and 'widely used' by people in his field," and (c) had explained "how he applied the model to the relevant facts, satisf[ying] Rule 702 and *Daubert*." Slip op. at 28–29, 31. "Given [i4i's damages expert's] testimony about his credentials, the district court did not abuse its discretion in finding [him] qualified to apply the methodology." *Id.* at 31.

Though acknowledging "various weaknesses in the damages calculations by i4i's expert," the court found that "Microsoft's quarrel [was] with the facts [i4i's expert] used" and the "conclusions" he reached, "not [with] his methodology." Slip op. at 31. The Federal Circuit held that i4i's expert's opinion was "'based on sufficient facts and data.'" *Id.* (quoting Fed. R. Evid. 702). For example, the expert's \$499 "benchmark" product was one that Microsoft bought and used to develop its infringing product and it was the cheapest custom product available on the market at the time of the hypothetical negotiation. Because Microsoft's business strategy was "[t]o incentivize users to upgrade," it often "included new features at no additional cost, making it difficult to value the new feature" based on the price charged for the infringing Word products. *Id.* at 32. Microsoft's own documents described the infringing feature as "'like 90 percent of the value'" of the product, "'where the future is, seriously,'" and "'the glue that holds the Office ecosystem together.'" *Id.* at 30. The court further explained: "While the data were certainly imperfect . . . it is not the district court's role under *Daubert* to evaluate the correctness of facts underlying an expert's testimony." *Id.* at 35. Instead, "[v]igorous cross-examination . . . and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence," and it is "for the jury . . . to decide for itself what to accept or reject." *Id.* (quoting *Daubert*, 509 U.S. at 596).

Having found i4i's damages evidence admissible, the Federal Circuit addressed Microsoft's claim that the \$200 million award "is not a reasonable royalty." It could not, however, "reach that question because Microsoft did not file a pre-verdict JMOL on damages." Slip op. at 36. The Federal Circuit, therefore, was precluded from conducting a substantial evidence review as was done in *Lucent*. Unlike the situation in *Lucent*, the Federal Circuit was "constrained to review the verdict under the much narrower standard applied to denials of new trial motions." Slip op. at 37. Had the Federal Circuit been able to consider "whether the \$200 million damages award was 'grossly excessive or monstrous' in light of Word's retail price and the licensing fees paid for other patents" and evaluate whether there was an "evidentiary basis for the *Georgia-Pacific* factors, and whether the benchmark . . . was sufficiently comparable," the "outcome might have been different." *Id.* Given Microsoft's waiver, the jury award had to be affirmed under the "highly deferential" new trial standard because, "while high," it "was

supported by the evidence presented at trial, including the expert testimony—which the jury apparently credited.” *Id.*

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