

i4i Ltd. v. Microsoft Corp.

No. 09-1504, Fed. Cir. (Schall, Prost,* Moore)

The test for willfulness is distinct and separate from the factors guiding a district court's discretion regarding enhanced damages.

On March 10, 2010, in an accompanying nonprecedential order, the Federal Circuit granted Microsoft's petition for rehearing by the panel and withdrew its December 22, 2009 opinion in favor of a new opinion with revisions regarding willfulness. The Federal Circuit affirmed the district court's judgment that awarded i4i \$240 million (including \$40 million in enhanced damages) for Microsoft's infringement of U.S. Patent No. 5,787,449, which related to the improved editing of documents containing markup languages like XML. The Federal Circuit also affirmed the permanent injunction enjoining Microsoft and/or users who purchase or license Word after the effective date, inter alia, from selling, offering to sell, and/or importing into the United States any infringing Word products with the capability of opening XML files containing custom XML, and using Word to open an XML file containing custom XML. On the willfulness issue, the Federal Circuit stated:

Section 284 gives the district court discretion to "increase the damages up to three times the amount found or assessed" by the jury. A finding of willful infringement is a prerequisite to the award of enhanced damages. In this case, the question of whether Microsoft willfully infringed the '449 patent was submitted to the jury, which was instructed that i4i had to prove Microsoft (1) was aware of the '449 patent; (2) acted despite an objectively high likelihood that its actions infringed a valid patent; where (3) this objectively high risk was either known or so obvious it should have been known to Microsoft. The verdict form instructed the jury to answer "yes" or "no" to "Did i4i prove by clear and convincing evidence that Microsoft's infringement was willful?" The jury answered "yes." Based on the jury's willfulness finding, i4i made a post-trial motion for enhanced damages.

The district court then analyzed the factors set out in *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826-27 (Fed. Cir. 1992), in deciding whether to enhance damages. The district court found that factors 2, 4, 6, 7, and 8 supported enhancement. Factors 1 and 9, combined with i4i's delay in bringing suit, were found to weigh against enhancement. For factor 1, which considers whether the infringer deliberately copied the ideas or design of another, the district court found no evidence that Microsoft deliberately copied any of i4i's products. For factor 2, which considers whether the

infringer knew of the patent, investigated the patent's scope and formed a good-faith belief of its invalidity or noninfringement, the district court found Microsoft was aware of i4i's patent, never formed a good faith belief of noninfringement, and clearly intended to add a custom XML editor in Word with similar capabilities to i4i's patented products. For factor 4, which considers the infringer's size and financial condition, the district court found that the jury's award, while "substantial," was only a small fraction of Microsoft's profits from the sale of Word products. The district court also noted that Microsoft was "undisputedly" the world leader in software for business and personal computing, with revenues of \$60.42 billion in 2008 alone. As for factors 6, 7, and 8, the district court found that Microsoft had started using the infringing products more than five years ago (in 2002), failed to conduct an infringement analysis after being notified of the '449 patent again in 2003, and implemented the infringing custom XML editor with the purpose of rendering i4i's products obsolete. Although statutorily authorized to increase the award to \$600 million, the district court awarded only \$40 million in enhanced damages. . . . The district court made detailed factual findings which, taken together, support its award of enhanced damages. In deciding whether to enhance damages, the district court properly declined to reapply the test for willfulness set out in *Seagate*, 497 F.3d 1360. Although a finding of willfulness is a prerequisite for enhancing damages under § 284, the standard for deciding whether—and by how much—to enhance damages is set forth in *Read*, not *Seagate*. Here, the question of willfulness was submitted to the jury. Microsoft does not dispute that the jury instructions were proper under *Seagate*, 497 F.3d at 1371. The test for willfulness is distinct and separate from the factors guiding a district court's discretion regarding enhanced damages. Under the *Read* factors, the district court properly considered Microsoft's size and financial condition, as well as whether Microsoft investigated the scope of the patent.

Microsoft is correct that it would have been improper to enhance damages based solely on litigation misconduct, and that this is not the prototypical case of litigation misconduct. Typically, "litigation misconduct" refers to bringing vexatious or unjustified suits, discovery abuses, failure to obey orders of the court, or acts that unnecessarily prolong litigation. Here, the misconduct was improper statements by Microsoft's counsel to the jury, in defiance of the court's repeated admonitions. However, the district court considered Microsoft's litigation misconduct only after finding that the other *Read* factors favored enhanced damages: "Finally, also favoring enhancement is Microsoft's counsel's litigation conduct" Considering all the *Read* factors and the district court's statutory authority to treble damages under § 284, the actual award of \$40 million was not an abuse of discretion.

[Our] review is limited to asking whether that verdict is supported by substantial evidence. On appeal, Microsoft has never attacked the jury instructions or the basis for the jury's willfulness verdict. [T]he jury was free to decide for itself whether Microsoft reasonably believed there were any substantial defenses to a claim of infringement.

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