

No. 2009-1504

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

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MICROSOFT CORPORATION,  
*Defendant-Appellant,*

v.

i4i LIMITED PARTNERSHIP, et al.,  
*Plaintiffs-Appellees.*

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Appeal from the United States District Court for the Eastern District of Texas,  
No. 6:07-CV-00113, Judge Leonard Davis

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**BRIEF OF WASHINGTON LEGAL FOUNDATION AS *AMICUS CURIAE*  
IN SUPPORT OF DEFENDANT-APPELLANT SUPPORTING REVERSAL**

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## CERTIFICATE OF INTEREST

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1. The full name of every party represented by me is:

Washington Legal Foundation

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

N/A

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party represented by me are:

None

4. The names of all law firms and the partners and associates that appeared for the party represented by me in the trial court or are expected to appear in this case:

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## **INTERESTS OF *AMICUS CURIAE***

The Washington Legal Foundation (WLF) is a public interest law and policy center that devotes substantial resources to defending and promoting free enterprise, individual rights, and a limited and accountable government. WLF has regularly appeared before this Court in cases raising important questions of patent law.<sup>1</sup> WLF also has frequently participated in cases concerning the admission of expert testimony (including the Supreme Court’s seminal *Daubert* trilogy), as well as in cases involving punitive or other extraordinary damages awards. WLF believes that the excessive damages award and ill-conceived injunction in this case reflect disturbing trends in patent infringement cases more generally. This *amicus* brief therefore is directed at the remedies awarded by the district court, and does not address Microsoft’s liability, if any, for patent infringement. All parties have consented to the filing of this brief.

### **INTRODUCTION AND SUMMARY**

1. The award of \$200 million to i4i resulted directly from the district court’s failure to perform its assigned role in assessing the reliability of i4i’s expert witnesses on damages. Federal Rule of Evidence 702 permits “a witness qualified as an expert by knowledge, skill, experience, training, or education” to provide expert

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<sup>1</sup> *E.g.*, *Tafas v. Doll*, No. 2008-1352 (filed June 17, 2009); *Orion IP, LLC v. Hyundai Motor Am.*, No. 2009-1130 (filed May 28, 2009); *Purdue Pharma L.P. v. Endo Pharms., Inc.*, Nos. 04-1189, 04-1347, 04-1357 (filed June 29, 2005).

testimony “[i]f scientific, technical, or other specialized knowledge will assist the trier of fact to understand the evidence or to determine a fact in issue.” This rule imposes on trial judges a critical “gatekeeping” function, under which they must exclude evidence that is not the product of “reliable” methods. *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589 (1993).

This responsibility is critical to ensuring that jurors’ decisionmaking is meaningfully guided, and this is all the more true when, as here, reasonable-royalty damages are at issue. The calculation of such damages is notoriously subject to exaggeration and abuse, a problem that is exacerbated when an expert purports to assess the value of a product or technology with little or no presence in the marketplace. When objective, market-based evidence of the product’s commercial value is scant or non-existent, the risk of speculative or shoddy expert analysis is particularly acute.

The district court here, however, failed to engage with serious questions concerning the reliability of i4i’s proposed damages experts. This failing is part of a broader and problematic trend that finds trial courts shifting the reliability inquiry from the judge as gatekeeper to the jury as factfinder. And it all but ensures that junk science will dictate the outcome in many trials – and to outsized effect when the supposed expertise pertains, as here, to damages in a high-stakes patent-infringement case.

2. In imposing an additional \$40 million in enhanced damages, the district court erroneously disregarded Microsoft's successful defense to numerous of i4i's asserted claims. Under *Seagate*, a jury may find willful infringement, and a court may enhance damages, only if the plaintiff demonstrates by clear and convincing evidence that the defendant engaged in the conduct at issue despite an objectively high likelihood that its conduct would infringe a valid patent. *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (en banc), *cert. denied*, 128 S. Ct. 1445 (2008). This objective willfulness standard is critical to preventing unjustifiable punitive awards, and it is well established that the infringing party's defenses are important to the willfulness inquiry. Here, the district court gave Microsoft's defenses, including meritorious defenses, no weight.

3. The district court's injunction is equally unsound. The Supreme Court has made abundantly clear that injunctive relief is an "extraordinary remedy" that does not follow as a matter of course to a prevailing plaintiff, *Winter v. Natural Res. Def. Council, Inc.*, 129 S. Ct. 365, 375-76 (2008), and that traditional equitable standards apply "in patent disputes no less than in other cases." *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006). Yet, the district court here paid only lip service to these controlling principles, and instead rooted its injunction in overbroad presumptions that are irreconcilable with *Winter* and *eBay*.

## ARGUMENT

### I. THE GROSSLY EXCESSIVE DAMAGES AWARD RESTED UPON UNRELIABLE EXPERT TESTIMONY THAT THE DISTRICT COURT SHOULD NOT HAVE PERMITTED THE JURY TO HEAR.

The decision below vividly illustrates the problems that characterize the calculation of patent damages in too many federal courts around the country. Particularly in cases where patentee-plaintiffs have little or no market evidence to establish the actual value of their supposed invention (and thereby damages), trial courts give experts free rein to bedazzle juries with “expert analysis,” and grotesque damages awards result. This is a systemic problem, and it is of no small consequence, as manifested in the quarter-billion-dollar damages award in this case: A district court’s failure to perform its critical function with regard to experts opens the door to massive damages awards that are unjust, contrary to law, and economically inefficient. This Court should make clear that this practice is inconsistent with *Daubert*; that federal district courts must carefully scrutinize such expert opinions; and that this Court will do likewise.

A. When the district court admitted the testimony and reports of i4i’s putative experts on damages, it departed from the Supreme Court’s clear teaching that a district court must withhold unreliable expert testimony from the jury. Under the

*Daubert* trilogy,<sup>2</sup> district courts play a critical “gatekeeping” role: They are duty-bound to shield jurors from unreliable expert testimony. Expert testimony must meet “exacting standards of reliability.” *Weisgram v. Marley Co.*, 528 U.S. 440, 455 (2000). It therefore is incumbent upon trial judges to “ensure that any and all [expert] testimony or evidence admitted is not only relevant, but reliable.” *Daubert*, 509 U.S. at 589 (emphasis added). The purpose of this requirement is basic, and critical: to prevent jurors from being improperly influenced by opinions cloaked with unwarranted legitimacy. See *E.I. du Pont de Nemours & Co. v. Robinson*, 923 S.W.2d 549, 553 (Tex. 1995) (“[e]xpert witnesses can have an extremely prejudicial impact on the jury, .... [which] more readily accepts the opinion of an expert witness as true simply because of his or her designation as an expert”). After all, the simple but unfortunate truth is that “[p]rofessional expert witnesses are available to render an opinion on almost any theory, regardless of its merit,” and “some experts ... ‘are more than willing to proffer opinions of dubious value for the proper fee.’” *Id.*

To that end, this Court and others repeatedly have excluded damages evidence that is based on unsound methods and research. *E.g.*, *Microstrategy Inc. v. Business Objects, S.A.*, 429 F.3d 1344, 1353-56 (Fed. Cir. 2005); *Integra*

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<sup>2</sup> *Daubert*, 509 U.S. 579; *Gen. Elec. Co. v. Joiner*, 522 U.S. 136 (1997); *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999).

*Lifesciences I, Ltd. v. Merck KGaA*, 331 F.3d 860, 869-72 (Fed. Cir. 2003), *vacated on other grounds*, 545 U.S. 193 (2005); *see also Albert v. Warner-Lambert Co.*, 234 F. Supp. 2d 101, 107 (D. Mass. 2002) (excluding lost-profits survey as “an archetypical example of the kind of ‘junky’ science that *Daubert* commands be excluded from the jury’s realm”).

Commentators likewise emphasize the importance of placing the reliability determination required by *Daubert* in the hands of judges, rather than entrusting it to a lay jury’s assessment of credibility. *E.g.*, Victor E. Schwartz & Cary Silverman, *The Draining of Daubert and the Recidivism of Junk Science in Federal and State Courts*, 35 Hofstra L. Rev. 217, 238 (2006) (“When a court looks to the data underlying expert opinion but neglects to evaluate its relation to the expert’s conclusion ... ostensibly legitimate data may serve as a Trojan horse that facilitates the surreptitious advance of junk science and spurious, unreliable opinions.” (quotation marks omitted)); Note, *Reliable Evaluation of Expert Testimony*, 116 Harv. L. Rev. 2142, 2150 (2003) (“Taking reliability determinations out of the ‘black box’ of the jury ... is justified by judicial rulings’ greater transparency and accountability—which, in turn, hold the promise of more accurate and consistent decisions.”).

B. The *Daubert* inquiry, important in all events, assumes even greater practical significance when, as here, the expert testimony concerns reasonable-royalty

damages. *See Microstrategy*, 429 F.3d at 1353-56; *Integra Lifesciences I, Ltd.*, 331 F.3d at 869-72. The stakes are high in this context – both for individual litigants and for the national economy – because of the potential for enormous damages awards.<sup>3</sup> Inflated damages awards create a socially inefficient “incentive to be harmed,”<sup>4</sup> encouraging patent trolling rather than “the Progress of Science and useful arts,” U.S. Const. art. I § 8, cl. 8. This is all the more true where reasonable royalties are concerned, because the analysis of those damages is particularly susceptible to manipulation and abuse. *See* Robert L. Harmon, *Patents and the Federal Circuit* 1014 (9th ed. 2009) (“Determining a fair and reasonable royalty is often a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge.”); F. Russell Denton & Paul J. Heald, *Random Walks, Non-Cooperative Games, and the Complex Mathematics of Patent Pricing*, 55 *Rutgers L. Rev.* 1175, 1179 (2003) (“Current patent valuation methods have been described charitably as ‘inappropriate,’ ‘crude,’ ‘inherently unreliable,’ and a ‘guesstimate.’” (footnotes omitted)).

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<sup>3</sup> Indeed, in recent debates concerning patent reform, members of Congress have bemoaned trial courts’ failure to protect against excessive damages awards, and Congress now is considering altering the very method of calculating reasonable royalties. *See* S. Rep. No. 111-18, at 8-10 (2009); *Hearing on H.R. 1260, the Patent Reform Act of 2009 Before the H. Comm. on the Judiciary*, 111th Cong. (2009).

<sup>4</sup> Amy L. Landers, *Let the Games Begin: Incentives to Innovation in the New Economy of Intellectual Property Law*, 46 *Santa Clara L. Rev.* 307, 343 (2006).

Perversely, the danger of an ungrounded damages award is greatest for products and patents of marginal commercial success, such as that at issue here. A technology that is established in the marketplace is more readily amenable to a reasoned damages calculation, with actual sales data and licensing experience to guide and constrain the damages inquiry. *See* Harmon, *supra*, at 1020 (“[a]n established royalty is usually the best measure of a ‘reasonable’ royalty”). In contrast, where a patented product has not been commercially successful, the lack of evidence of the patent’s value rooted in the real-world marketplace leaves the plaintiff’s damages expert free to concoct fanciful hypothetical scenarios and to use factually unfounded rules of thumb (such as the “25% Rule”) or rough comparisons (as to the market value of some product other than the patentee’s). *See* Landers, *supra*, at 333-34 & nn.145-52 (discussing criticism of “rules of thumb”).

It is under precisely these circumstances that careful judicial scrutiny is necessary to ensure that unreliable hypotheses are not fed to jurors as “expert” analysis. In the absence of meaningful standards for evaluating damages methodologies, “there is a significant risk that fact-finders are deciding royalty questions based on patent valuation evidence that lacks a credible basis.” *Id.* at 331. And, short of clear direction from this Court about how to calculate a reasonable royalty, *Daubert* is the principal if not the only method for preventing shoddy expert work from improperly influencing juries. *Id.* at 332.

C. Notwithstanding the Supreme Court's clear instruction in *Daubert*, the decision below is symptomatic of decisions in which courts have “‘rubber-stamp[ed]’ expert opinions” in a manner that has “marred” litigation, leaving lay juries to undertake the reliability inquiry that the Supreme Court assigned to trial judges. *In re Zyprexa Prods. Liab. Litig.*, Nos. 04-MD-1596 et al., 2009 WL 1357236, at \*3 (E.D.N.Y. May 12, 2009) (Weinstein, J.). This is flatly impermissible. As the Eleventh Circuit has explained:

While meticulous *Daubert* inquiries may bring judges under criticism for donning white coats and making determinations that are outside their field of expertise, the Supreme Court has obviously deemed this less objectionable than dumping a barrage of questionable scientific evidence on a jury, who would likely be even less equipped than the judge to make reliability and relevance determinations and more likely than the judge to be awestruck by the expert's mystique.

*Allison v. McGhan Med. Corp.*, 184 F.3d 1300, 1310 (11th Cir. 1999).

Here, the district court did not perform the searching inquiry mandated by *Daubert* and its progeny. It justified its approach on the theory that Microsoft engaged in “[v]igorous cross-examination” and had “presented its own experts.” *E.g.*, A39 (alteration in original). This was an abdication. It is not enough for a trial court merely to note the fact of competing testimony while leaving any dispute about reliability to the “weight” a jury gives the evidence. Reliability is a threshold question for the court, not for the jury. And, while cross-examination has its purposes, it is no panacea; it cannot readily distinguish valid expert conclusions

from junk science, and so cannot take the court's place in determining an expert's reliability in the first instance. *See generally* James M. Shellow, *The Limits of Cross-Examination*, 34 Seton Hall L. Rev. 317, 319 (2003).

This error is all the more egregious in light of the serious methodological flaws in the survey and testimony offered here. Microsoft has briefed this issue persuasively and at length, *see* MS Br. 55-66, and WLF will not burden the Court with repetition here. Suffice it to say that an analysis that does not pass the smell test surely cannot pass *Daubert*. Plaintiffs' damages theory cobbled together the retail value of XMetaL (a different product, with different features, sold by neither i4i nor Microsoft); the profit margin for Microsoft *Office* (not Microsoft *Word*); and the so-called "25% rule." The result was a jury verdict predicated upon a "reasonable royalty" – \$98/unit – that is between 43% and 101% of the total retail price of Microsoft Word. *See* MS Br. 54-55, 60. This result is implausible on its face. This *amicus* brief is being drafted on Microsoft Word, and no markup language editor, whether based on i4i's technology or otherwise, is making *any* contribution to the word processing. Only a small percentage of Word users even know what a markup language editor is, let alone how to operate it. The jury's award demonstrates precisely why a searching *Daubert* analysis is critically important, not just in this case, but for the proper administration of justice generally. Its award was in no sense "reasonable," *see* 35 U.S.C. § 284, and must be vacated. *See Integra*

*Lifesciences I*, 331 F.3d at 869-72 (reversing unreasonable royalty award of \$15 million that rested on obviously flawed expert testimony).

D. The size of the award, coupled with the plaintiff's innovative methodology for computing it, requires a faithful application of *Daubert* for an additional reason. As the Supreme Court has explained, excessive damages awards raise constitutional concerns. See, e.g., *State Farm Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408 (2003); *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559 (1996). Due Process principles "prohibit[] the imposition of grossly excessive or arbitrary" awards. *State Farm*, 538 U.S. at 416. That holding may have arisen in the context of punitive damages, but the same concerns apply to arbitrary and unjustifiable compensatory awards. In both cases, "[e]lementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice" of the consequences of his conduct. *Id.* at 417 (alteration in original).

The potential for an unconstitutional award is even greater when, as here, the jury is given "wide discretion in choosing amounts" and "the presentation of evidence of a defendant's net worth creates the potential that juries will use their verdicts to express biases against big businesses, particularly those without strong local presences." *Id.* The court below permitted the jury to receive evidence – upon which the court itself repeatedly seized – that "Microsoft is the world's largest software company with yearly revenues exceeding \$60 billion." A55. And,

Microsoft's profits were squarely in the crosshairs – the plaintiffs' putative expert premised his damages model on the profit margin for Microsoft Office. A40-41. There is a real risk that this jury was swayed by the very factors that the Supreme Court has held give rise to constitutional concerns.

It is no answer to presume that jury instructions and cross-examination may have accomplished the task that the district court should have performed. As the Supreme Court explained, “[v]ague instructions ... do little to aid the decision-maker in its task of assigning appropriate weight to evidence that is relevant and evidence that is tangential or only inflammatory.” *State Farm*, 538 U.S. at 418. Damages awards of this magnitude require the district court to take its gatekeeper responsibilities seriously. When, as here, the court does not, reversal is required.

## **II. VALID DEFENSES ARE CRITICAL TO A PROPER ANALYSIS OF WILLFULNESS UNDER *SEAGATE*.**

It is just two years since this Court's decision in *Seagate*, yet the lessons of that decision already are being lost. *See In re Seagate Tech.*, 497 F.3d at 1371. In that case, numerous *amicus* briefs from all segments of the intellectual-property community urged, and this Court's unanimous en banc decision taught, that willful infringement was being too lightly claimed, and too often found, with correspondingly negative effects for the patent system. *See, e.g., id.* at 1369 (“we have recognized the practical concerns stemming from our willfulness doctrine”); *id.* at 1385

(Newman, J., concurring) (“we should reduce the opportunities for abusive gamesmanship that the ‘due care’ standard apparently has facilitated”).

Accordingly, this Court discarded the prior negligence-like “due care” standard for willfulness, and imposed in its place a heightened standard of objective recklessness: “[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *Id.* at 1371. In addition, even “[i]f this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk ... was either known or so obvious that it should have been known to the accused infringer.” *Id.* This was a critical shift in the law. *Seagate* properly imposed upon plaintiffs seeking to show willfulness a substantial burden, as befits a doctrine that can lead to treble damages and attorney’s fees.

It is a matter of common sense – not to mention well-established Circuit law – that the extent to which the defendant succeeded in defending against the infringement suit is vitally important to the objective analysis of whether the defendant “act[ed] ... in the face of an unjustifiably high risk.” *Id.* (omission in original). “Under [*Seagate*’s] objective standard, both legitimate defenses to infringement claims and credible invalidity arguments demonstrate the lack of an objectively high likelihood that a party took actions constituting infringement of a valid

patent.” *Black & Decker, Inc. v. Robert Bosch Tool Corp.*, 260 F. App’x 284, 291 (Fed. Cir. 2008); *see Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1374 (Fed. Cir. 2008) (availability of a “reasonable” although unsuccessful noninfringement defense precluded willfulness); *see also Cybor Corp. v. FAS Techs., Inc.*, 138 F.3d 1448, 1460-61 (Fed. Cir. 1998) (en banc) (affirming, pre-*Seagate*, denial of enhanced damages notwithstanding willfulness; “although [defendant] was found to infringe all twenty of the claims, this result does not mean that the case was not close, particularly in light of its justifiable albeit unsuccessful arguments regarding the prosecution history”).<sup>5</sup> An infringement defendant’s successful defense against related infringement claims provides a clear indication that there was no objectively high likelihood that its actions constituted infringement.

The district court’s analysis of willfulness – and its even more extraordinary decision to impose \$40 million in enhanced damages – departed radically from this Court’s holdings. The court rejected the argument “that successful defenses relating to claims *not asserted at trial* should weigh against enhancement.” A45 (emphasis added). This reasoning, however, has things precisely backwards. If de-

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<sup>5</sup> Just as the alleged infringer’s “good-faith belief that [the patent] was invalid or that it was not infringed” was relevant to the pre-*Seagate* subjective inquiry, *see Read Corp. v. Portec, Inc.*, 970 F.2d 816, 827 (Fed. Cir. 1992), *abrogated on other grounds by Markman v. Westview Instruments, Inc.*, 52 F.3d 967, 975 (Fed. Cir. 1995) (en banc), a defendant’s *actual* success on the merits is highly relevant to the post-*Seagate* objective inquiry.

fenses to certain infringement claims were so successful that the claims were dismissed or abandoned prior to trial, that is a particularly clear indication that there was no objectively high likelihood of infringement (much less by clear and convincing evidence). Perhaps the court meant to suggest that the claims Microsoft successfully defended were unrelated to the claims upon which infringement was found. *Cf.* A22. But that is facially implausible: All of the claims-at-issue are in the '449 patent-in-suit, and i4i's complaint alleged a single cause of action based on infringement of the '449 patent generically by various Microsoft products, not as to specific claims of the patent. At no point did the district court offer anything other than *ipse dixit* to explain how the successful and unsuccessful claims were unrelated, much less the careful analysis that would befit a damages award of this magnitude.

To the contrary, the court's reasoning, if replicated in other cases, virtually ensures improper findings of willful infringement and inappropriate enhanced damages awards. The court held "irrelevant" the defenses upon which Microsoft prevailed, referring to them dismissively as "creative defenses that Microsoft is able to muster ... after years of litigation and substantial discovery." A21. In analyzing "whether, given the facts and circumstances prior to Microsoft's infringing actions, a reasonable person would have appreciated a high likelihood that acting would infringe a valid patent," A22, the court made no effort to explain why this

“reasonable person” would not have been able to identify the defenses upon which Microsoft in fact succeeded. Instead, it erroneously shifted the burden *to Microsoft* to prove that “these ‘defenses’ would have been apparent and considered by a reasonable person in Microsoft’s position prior to its infringing activity.” A22. And, while categorically ignoring the numerous defenses on which Microsoft prevailed as a factor weighing against willfulness, the district court repeatedly relied on the bare fact of Microsoft’s loss on other claims to justify the jury’s finding and its own award. *See* A20, 22. This, too, was error. A finding of infringement is a prerequisite to a finding of willful infringement; it does not by itself demonstrate it.

The district court’s evaluation of willfulness and enhanced damages does not display the careful analysis required before assessing a \$40 million penalty. To be sure, it is possible – although unlikely – that certain claims within a patent are so different from others that their successful defense sheds no light upon objective recklessness. But in a litigation context in which 9- and 10-figure judgments are common (as evidenced by the outsized award here), and in which damages may further be trebled and attorney’s fees awarded, it is incumbent upon a district court to explain *why* it is dismissing such an obvious indicator that culpability is lacking. This Court should use this case to articulate clearly the need for careful analysis before claims of willful infringement can be submitted to a jury, and enhanced damages based on such claims may be awarded.

### III. THE PERMANENT INJUNCTION IS BASED ON BROAD PRESUMPTIONS THAT ARE CONTRARY TO SUPREME COURT PRECEDENT.

The injunction issued by the district court likewise was in error, and also in ways that give rise to broader concerns about proper remedies in patent cases. As the Supreme Court recently has explained, an injunction is an “extraordinary remedy,” which cannot be granted unless the plaintiff makes a “clear showing” of entitlement. *Winter*, 129 S. Ct. at 375-76. The plaintiff cannot rest on “broad classifications,” “categorical rule[s],” or “expansive principles,” but must show with particularity that: (1) it has suffered an irreparable injury, (2) remedies at law, such as monetary damages, are inadequate to compensate for that injury, (3) an injunction is warranted given the balance of hardships between the plaintiff and the defendant, and (4) an injunction would not disserve the public interest. *See eBay*, 547 U.S. at 391, 393.

Early returns raise serious questions, however, whether *eBay* is being given proper heed.<sup>6</sup> This is due at least in part to decisions like the one in this case, in which rather than applying the careful analysis mandated by *eBay*, courts apply

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<sup>6</sup> For instance, far from “extraordinary,” injunctions are granted in 80% of patent cases in which they are requested. *See Intellectual Property Owners Assoc., Trends in Federal Circuit Damages Decisions*, Mar. 2008, at 23 (30 of 37 cases), available at <http://www.ipo.org/AM/Template.cfm?Section=Home&Template=/CM/ContentDisplay.cfm&ContentID=17641>; Andrew Beckerman-Rodau, *The Aftermath of eBay v. MercExchange*, 126 S. Ct. 1837 (2006): *A Review of Subsequent Judicial Decisions*, 89 J. Pat. & Trademark Off. Soc’y 631, 634-54 & n.346, app. fig. 1-2 (2007) (22 of 28 cases studied).

flawed “presumptions” that are virtually irrefutable in practice. Here, the district court based its decision to issue a permanent injunction on no fewer than three such presumptions, with the effect of absolving i4i of its responsibility to make a “clear showing” that it is entitled to equitable relief. None of these presumptions is warranted, and this recreation of the pre-*eBay* world that the Supreme Court emphatically rejected mandates reversal.

**A. The Bare Fact Of Competition Does Not Mean That There Is Irreparable Injury Not Compensable By Monetary Damages.**

1. In issuing its injunction, the district court placed undue weight on the premise that “there is direct competition” between Microsoft and i4i in the market for custom XML software. Even if the premise were correct – and it is not, *see infra* at 23-24; MS Br. 76-77 – it would not justify the court’s nearly conclusive presumption of irreparable injury. A52. In the district court’s words, competition “weighs heavily in favor of a finding of irreparable injury.” A52 (citing *Brooktrout, Inc. v. Eicon Networks Corp.*, No. 2:03-CV-59, 2007 WL 1730112, at \*1 (E.D. Tex. June 14, 2007)). In application, however, the district court accorded this factor paramount significance. The court’s only other suggestion of harm was a bald assertion about i4i’s possible “loss of market share and brand recognition,” A54, and, as Microsoft explains, the record does not sustain this unadorned conclusion. MS Br. 76. At bottom, the district court’s determination of irreparable harm

rested, not on any “clear showing” by plaintiff, but on a virtually absolute rule that a plaintiff suffers such harm whenever there is direct competition.

The decision below is not the first to make this mistake. To the contrary, it is illustrative of a pattern of decisions that have effectively reinstated the kind of “categorical rule” that *eBay* squarely rejected. 547 U.S. at 393-94. As reviews of post-*eBay* decisions have shown, “[t]here is a strong, almost perfect, correlation between competition between the parties and injunctive relief.” Benjamin Petersen, Note, *Injunctive Relief in the Post-eBay World*, 23 Berkeley Tech. L.J. 193, 194 (2008); Beckerman-Rodau, *The Aftermath of eBay*, *supra*, at 632-33 (“Whether the patent owner is a direct marketplace competitor ... is the most determinative factor with regard to obtaining injunctive relief.”).<sup>7</sup> Thus, despite lip service to *eBay*, many lower courts are reviving their former practice, under which an injunction was the default in a large swath of patent cases.

The trend toward using competition as a conclusive proxy for irreparable injury is on full display in the Eastern District of Texas, infringement plaintiffs’ fo-

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<sup>7</sup> See also Andrew Beckerman-Rodau et al., *eBay v. MercExchange and Quanta Computer v. LG Electronics*, in Symposium, *The New Private Ordering of Intellectual Property: The Emergence of Contracts as the Drivers of Intellectual Property Rights*, 4 J. Bus. & Tech. L. 5, 35-36 & n.84 (2009); Jeremy Mulder, Note, *The Aftermath of eBay: Predicting When District Courts Will Grant Permanent Injunctions in Patent Cases*, 22 Berkeley Tech. L.J. 67 (2007).

rum of choice.<sup>8</sup> Courts in the Eastern District routinely issue injunctions after finding that the parties are in direct competition, with little or no explanation of how the fact of competition shows irreparable harm, much less a finding that any such harm in fact occurred. *See* A52 (citing *Brooktrout*, 2007 WL 1730112, at \*1); *Mass Engineered Design, Inc. v. Ergotron, Inc.*, – F. Supp. 2d – , 2009 WL 1035205, at \*24 (E.D. Tex. April 17, 2009) (same); *see also, e.g., CSIRO v. Buffalo Tech., Inc.*, 492 F. Supp. 2d 600, 603 (E.D. Tex. 2007) (collecting cases), *aff’d in part, rev’d in part*, 542 F.3d 1363 (Fed. Cir. 2008).

To be clear, this practice is problematic not because competition is categorically *irrelevant* to the irreparable-injury inquiry. The fact of competition may be relevant in a particular case – for instance, when infringement in a competitive market caused unquantifiable harm to a business’s goodwill. *See, e.g., Acumed LLC v. Stryker Corp.*, 551 F.3d 1323, 1328 (Fed. Cir. 2008); *Broadcom Corp. v.*

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<sup>8</sup> Patentees choose to litigate their infringement suits in the Eastern District of Texas based on the well-accepted understanding that the jurisdiction is plaintiff-friendly. *See, e.g.,* Brief of Business Software Alliance et al. as *Amici Curiae* in Support of Petitioners at 17, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130) (plaintiffs prevail in almost 90% of jury trials and three of every four bench trials in the district), *available at* 2006 WL 207730; Petersen, *supra*, at 196-97 (district has “a reputation for favoring patent holders and thus presides over a significant percentage of patent litigation in the United States”); Douglas C. Muth et al., *The Local Patent Rules Bandwagon*, 21 No. 8 *Intell. Prop. & Tech. L.J.* 19, 19 (2009) (patent filings went from 23 in 2000 to 368 in 2007); *cf. In re Genentech, Inc.*, 566 F.3d 1338, 1348 (Fed. Cir. 2009) (mandamus decision concerning transfer of venue from the Eastern District of Texas); *In re TS Tech USA Corp.*, 551 F.3d 1315, 1319 (Fed. Cir. 2008) (same).

*Qualcomm Inc.*, 543 F.3d 683, 703 (Fed. Cir. 2008). But, “direct competition” has become more than just a relevant factor; it is now a talisman whose invocation means that an injunction is almost sure to follow.<sup>9</sup> This is improper, because direct competition is not a proxy for irreparable harm. The analysis of competition, after all, is normally used to determine whether the patentee is entitled to lost profits as a measure of *damages*. A patentee can establish an entitlement to lost profits, this Court has held, by proving that patented and infringing products are interchangeable in the marketplace in terms of price, characteristics, and marketing channels – that is, that they are in direct competition. *See, e.g., Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc). And, when damages suffice to compensate for infringement, an injunction is inappropriate. *See eBay*, 547 U.S. at 391. Absent a specific finding that some irreparable harm actually occurred, the district court’s presumption cannot be sustained.

2. This case is an especially poor one for inferring irreparable harm from the bare supposition of direct competition. The reasons are threefold. *First*, i4i did not

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<sup>9</sup> This Court has viewed as an open question “whether there remains a rebuttable presumption of irreparable harm following *eBay*.” *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1359 n.1 (Fed. Cir. 2008); *see Sanofi-Synthelabo v. Apotex, Inc.*, 470 F.3d 1368, 1383 n.9 (Fed. Cir. 2006). An affirmative answer to that question would be inconsistent both with *eBay*’s emphatic rejection of categorical rules and with traditional equitable principles, which likewise reject any “presumption” of irreparable injury. *See Amoco Prod. Co. v. Vill. of Gambell, Alaska*, 480 U.S. 531, 544-45 (1987).

even seek lost profits, which is the typical measure of damages where the patentee and infringer are competitors, but instead sought and was awarded a reasonable royalty, which is the standard measure of damages where they are not. *See Mitutoyo Corp. v. Cent. Purchasing, LLC*, 499 F.3d 1284, 1291 (Fed. Cir. 2007) (absent proof of “market overlap,” patentee limited to royalty and could not reach jury with lost-profits theory). In a case in which i4i did not even attempt to prove that it was entitled to the usual measure of damages where the parties truly compete, there is good reason to doubt the soundness of basing an injunction on the mere fact of competition.<sup>10</sup>

*Second*, the damages award itself indicates that any injury to i4i was not irreparable. If, as the jury found, damages for past harm can be calculated on a straightforward per-unit basis, then there is no reason to believe that any analogous future harm could not be compensated in the same manner, via an ongoing royalty. *See Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007), *cert. denied*, 128 S. Ct. 2430 (2008). Indeed, the district court approved a post-verdict per-day royalty of \$144,060. A48-50; *see* MS Br. 16. Because any ongoing injury is compensable and calculable, there is no basis to issue an injunction,

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<sup>10</sup> Of course, lost profits and injunctive relief may be awarded in the same case – for instance, when the lost profits do not compensate for all past and future harm that the patentee could prove. What is critical for present purposes is that competition in the relevant market is a factor in assessing one form of *damages*, which undercuts the notion that the same factor *per se* mandates *injunctive* relief.

which serves as “a substitute for an award of damages in situations in which damages are difficult to calculate or are otherwise inadequate as a remedy.” *Smith-Kline Beecham Corp. v. Apotex Corp.*, 247 F. Supp. 2d 1011, 1045 (N.D. Ill. 2003), *aff’d on other grounds*, 403 F.3d 1331 (Fed. Cir. 2005).

To be sure, a damages award does not categorically foreclose injunctive relief. But such relief does require additional findings – the findings required under traditional equitable standards and reaffirmed in *eBay* – that demonstrate the monetary award did not suffice to compensate for the harm to the plaintiff. *See* 547 U.S. at 391. Here, the district court did not make those findings in any meaningful fashion. *See* MS Br. 76. It pointed in the most cursory fashion to i4i’s supposed “loss of market share and brand recognition.” A54-55. As Microsoft explains, labels such as loss of market share, customer goodwill, and brand recognition do not, without more, show irreparable harm. Mot. to Stay at 10; *see Atlanta Pharma AG v. Teva Pharms. USA, Inc.*, 566 F.3d 999, 1010-11 (Fed. Cir. 2009); *Abbott Labs v. Andrx Pharms., Inc.*, 452 F.3d 1331, 1348 (Fed. Cir. 2006); *Eli Lilly & Co. v. Am. Cyanamid Co.*, 82 F.3d 1568, 1578 (Fed. Cir. 1996). An “extraordinary remedy” should not issue based on a bald (and unjustified) conclusion.

*Third*, Microsoft and i4i are not in direct competition in any meaningful sense of the word. MS Br. 76-77. It is more than passing strange to think of Word as being in competition with a software add-on that functions as a tiny component

of Word and that most users do not even know exists, let alone have any idea how to use. The district court, however, gave this issue manifestly insufficient attention. Indeed, when Microsoft’s counsel made arguments about the very real differences between the use and function of Microsoft Word and i4i’s XML editor, the district court took the extraordinary step of enhancing damages to punish those arguments. *See* A47. In short, the court increased damages as a sanction for counsel addressing the very issue that the court should have, but failed to, consider.

**B. The Public Interest Is Not Limited To Health And Safety.**

The district court compounded its errors when it turned to the public-interest prong of the *eBay* analysis. As it has done in other cases, the court placed undue “weigh[t]” on the fact that an injunction would have no effect on “health or safety.” A57; *see also Mass Engineered Design*, – F. Supp. 2d – , 2009 WL 1035205, at \*25 (same). According to the court, “where products do not relate to a significant compelling public interest, such as health or safety, this factor weighs in favor of an injunction.” A57. This cramped view of the public interest – which is rooted in pre-*eBay* authorities<sup>11</sup> – cannot be reconciled with the traditional equitable principles reaffirmed in *eBay* or with post-*eBay* precedent.

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<sup>11</sup> *See Rite-Hite Corp.*, 56 F.3d at 1547-48; *see also CSIRO*, 492 F. Supp. 2d at 607 (relying on case law cited in *Rite-Hite* for proposition that health and safety exception is one of the “rare and limited circumstances” where a patent injunction is contrary to the public interest) (Davis, J.).

As an initial matter, *eBay* unanimously held that district courts must exercise their discretion “consistent with traditional principles of equity.” 547 U.S. at 394. Under these traditional principles, which apply “in patent disputes no less than in other cases,” *id.*, the public interest is not narrowly limited to health and safety, but rather is a wide-ranging construct that is fluid and “supple.” *R.R. Comm’n v. Pullman Co.*, 312 U.S. 496, 500 (1941). The public interest may include, for example, preserving constitutional protections, *e.g.*, *Sammartano v. First Judicial Dist. Court*, 303 F.3d 959, 974 (9th Cir. 2002), and advancing the objectives embodied in federal legislation. *See, e.g.*, *Va. Ry. v. Sys. Fed’n No. 40*, 300 U.S. 515, 551-52 (1937); *Johnson v. Couturier*, 572 F.3d 1067, 1082 (9th Cir. 2009).

Of particular significance here, the public interest also includes “the consequences of granting or denying the injunction to non-parties.” *Abbott Labs. v. Mead Johnson & Co.*, 971 F.2d 6, 11-12 (7th Cir. 1992). “The frequent references to ‘public interest,’” Judge Posner has explained, “invariably are references to third-party effects,” which “in some cases may require that the [injunctive] remedy be withheld.” *N. Ind. Pub. Serv. Co. v. Carbon County Coal Co.*, 799 F.2d 265, 280 (7th Cir. 1986); *see also* *Miss. Power & Light Co. v. United Gas Pipe Line Co.*, 760 F.2d 618, 626 (5th Cir. 1985); *Dotster, Inc. v. Internet Corp. For Assigned Names & Nos.*, 296 F. Supp. 2d 1159, 1166 (C.D. Cal. 2003); *In re Qwest Commc’ns Int’l Sec. Litig.*, 243 F. Supp. 2d 1179, 1187-88 (D. Colo. 2003).

Consistent with these decisions, this Court has recognized the breadth of the public-interest inquiry in the wake of *eBay*. In patent infringement cases, the public interest includes the effects of a permanent injunction on the defendant's customers and on other businesses. *E.g.*, *Broadcom Corp.*, 543 F.3d at 701-02. Other courts have held likewise. *See, e.g.*, *MercExchange, L.L.C. v. eBay, Inc.*, 500 F. Supp. 2d 556, 586-87 (E.D. Va. 2007), *on remand from* 547 U.S. 388 (2006); *Paice LLC v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 WL 2385139, at \*6 (E.D. Tex. Aug. 16, 2006), *aff'd in part, vacated in part*, 504 F.3d 1293 (Fed. Cir. 2007); *see also Joyal Prods., Inc. v. Johnson Elec. N. Am., Inc.*, Civ. A. No. 04-5172, 2009 WL 512156, at \*12-13 (D.N.J. Feb. 27, 2009); *Smith & Nephew, Inc. v. Synthes (U.S.A.)*, 466 F. Supp. 2d 978, 985 (W.D. Tenn. 2006).

The district court here, however, ignored much of the public impact of forcing a redesign of Word. Although the court asserted that the injunction would have little effect on “current customers,” the opinion is silent regarding the potential impact on future customers. A57. The court acknowledged that the task of reissuing Word without the infringing component would be “enormous,” but said nothing about what this may mean for those who would like to purchase Word before Microsoft is able to complete the Herculean task. A56-57. And for that group, as *amici* make clear, the effects are palpable and profound. *See* Briefs of Dell Inc. & Hewlett-Packard Co. as *Amici Curiae* in Support of Defendant-Appellant's Emer-

gency Motion to Stay Permanent Injunction (Aug. 24, 2009). But instead of requiring a clear showing that “the public interest would not be disserved,” *eBay*, 547 U.S. at 391, or making any effort to assess whether Microsoft can redesign Word before October 10, A56-57, 60, the district court simply asserted that “this factor ... favors an injunction.” A57.

**C. The Relative Size Of The Parties Cannot Be Given Undue Weight In Balancing Hardships.**

Finally, the district court erred in balancing the hardships. The court began by articulating the consideration that evidently drove its analysis and conclusion: “Microsoft is the world’s largest software company with yearly revenues exceeding \$60 billion.” A55. It may not always be error to consider the relative size of the parties, *see Bell & Howell Document Mgmt. Prods. Co. v. Altek Sys.*, 132 F.3d 701, 708 (Fed. Cir. 1997), but the court here abused its discretion by resorting to a David-and-Goliath caricature while failing to take meaningful account of the extraordinary burdens that its sweeping injunction would impose on Microsoft – burdens that the district court itself acknowledged were “enormous.” A56. Such a facile analysis is guaranteed to lead to substantial economic distortions – not least, the danger that the threat of such injunctions will lead to extortionate licensing. *See eBay*, 547 U.S. at 396-97 (Kennedy, J., concurring). Nothing in this Court’s precedents or in the law of equity justifies any such result.

## CONCLUSION

For the reasons set forth above and those in Microsoft's opening brief, this Court should reverse the damages award and permanent injunction entered by the district court, and remand for further proceedings on an appropriate remedy, if any.

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Respectfully submitted,

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## CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of September, 2009, two copies of the foregoing Brief of Washington Legal Foundation as Amicus Curiae in Support of Defendant-Appellant Supporting Reversal were served by first-class mail on:

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**CERTIFICATE OF COMPLIANCE WITH  
FRAP 29(d) AND 32(a)(7)(B)**

Counsel for *Amicus* certifies that the body of this brief, beginning with the “Interests of *Amicus Curiae*” on page 1 and ending with the last line of the “Conclusion” on page 28, contains 6862 words, as measured by the word-processing system used to prepare this brief, and has a 14-point Times New Roman typeface, in compliance with Federal Circuit Rule 32(b) and Federal Rules of Appellate Procedure 29(d) and 32(a)(5), (6), (7)(B)-(C).

September 3, 2009

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