

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

i4i LIMITED PARTNERSHIP and
INFRASTRUCTURES FOR INFORMATION INC.,
Plaintiffs-Appellees,

v.

MICROSOFT CORPORATION,
Defendant-Appellant.

**Appeal from the United States District Court for the Eastern District of
Texas in case no. 07-CV-113, Judge Leonard Davis.**

**RESPONSE TO COMBINED PETITION
FOR REHEARING AND REHEARING EN BANC**

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CERTIFICATE OF INTEREST

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1. The full name of every party or amicus represented by us is:

i4i Limited Partnership and Infrastructures for Information Inc.

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 us is:

N/A.

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

None.

4. The names of all law firms and the partners or associates that appeared for the parties now represented by us in the trial court or are expected to appear in this Court are:

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I. INTRODUCTION

Microsoft's Combined Petition for Panel Rehearing and Rehearing En Banc ("Petition") is a shotgun blast at the panel decision, alleging that three issues deserve en banc review. In discussing those issues, however, Microsoft mischaracterizes what the panel said and did. As shown below, the panel provided Microsoft the review to which it was entitled.

For example, Microsoft alleges that the panel held "that a damages expert's methodology automatically 'satisfie[s] Rule 702 and *Daubert*' if he used (in any fashion) 'a hypothetical negotiation and [the] *Georgia-Pacific* factors.'" Petition at 3 (citing slip op. at 31). But even a cursory reading of the panel's decision reveals that the panel did not hold an expert's damages analysis is "automatically" admissible if it employs a hypothetical negotiation framework and discusses the *Georgia-Pacific* factors. To the contrary, the panel devoted much of its decision to discussing the methodology of i4i's expert, Michael Wagner, how Wagner applied his methodology to the facts, and Microsoft's criticisms of Wagner's analysis. Slip op. at 28-36. Microsoft also argues that the panel failed to "independently analyze the reliability of Mr. Wagner's" testimony. Petition at 5-6; *see also* Washington Legal Foundation Amicus Brief ("WLF Br.") at 3-8. But the panel repeatedly addressed the issue of "reliability." Slip op. at 28, 31, 34-35. In any event, the panel's charge was *not* to "independently analyze" Wagner's testimony, but to

review—under the “abuse of discretion” standard required by the Supreme Court—the district court’s decision admitting his testimony. *Id.*

Microsoft also seeks rehearing en banc to have the jury’s royalty award reviewed for alleged excessiveness. According to Microsoft, the panel “*declined to determine* whether [the damages award] is excessive” (Petition at 13 (emphasis added)); *see also* WLF Br. at 8-9. Once again, Microsoft is wrong. The panel explicitly reviewed the royalty award for alleged excessiveness, explaining that because appellate review of district court determinations of new-trial motions is “highly deferential,” it could “set aside a damages award and remand for a new trial ‘only upon a clear showing of excessiveness.’” Slip op. at 37 (quoting *Duff v. Werner Enters., Inc.*, 489 F.3d 727, 730 (5th Cir. 2007)). The panel accordingly applied governing Fifth Circuit law on the standard of review, concluding:

Under this highly deferential standard, we cannot say that Microsoft is entitled to a new trial on damages. The damages award, while high, was supported by the evidence presented at trial, including the expert testimony—which the jury apparently credited. . . . Here, the jury’s award was supported by the testimony of Wagner, i4i’s damage expert, who opined that a reasonable royalty was between \$200 and \$207 million. The award was also supported by the testimony of Wecker, i4i’s survey expert, who explained that the survey’s conservative assumptions (i.e., that none of the companies who failed to respond infringed) meant the damages figure was “really an underestimate” and “way low.”

Slip op. at 37-38 (citations omitted).

That quoted material plainly exposes the inaccuracy of Microsoft's assertion that the panel did not conduct an excessiveness analysis. Similarly wrong is Microsoft's allegation that the district court also "declined to determine whether [the damages award] is excessive." Petition at 13. Rather, the district court considered the arguments that Microsoft had raised in its motion for new trial or remittitur, concluding that Microsoft "failed to show or even discuss why the verdict was 'clearly excessive.'" A34-42.

What Microsoft is really seeking by petitioning for rehearing en banc is to have the royalty award reviewed *differently*. Microsoft's request is built on the faulty premise that the outcome might have been different if the panel had reviewed the verdict under the standard of review for the denial of Rule 50 JMOL motions, the standard that was applied in *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009). But Microsoft never filed a Rule 50 motion on the damages issues, so whether the outcome would have been different (which is highly unlikely in any event) is a non-issue. Microsoft challenged the damages award only through a new-trial motion, and the panel unquestionably reviewed the district court's order denying that motion under the appropriate standard of review. Accordingly, Microsoft has no legitimate complaint.

Although the bulk of Microsoft's petition relates to its request for rehearing en banc concerning the damages award, Microsoft also seeks en banc review of the

injunction. Petition at 13-14. According to Microsoft, the panel “sustained an injunction based only a showing of distant *past* harm.” *Id.* (emphasis in original). Once again, however, Microsoft mischaracterizes the district court’s decision. The district court specifically found that i4i is suffering “continuing loss of market share, customer goodwill, and brand recognition” (A55) and that “Microsoft’s infringement causes i4i to suffer irreparable harm for every new XML customer that purchases an infringing Microsoft product” (A59). While the district court did rely in part on past events for its finding of continuing harm, doing so was entirely correct. Slip op. at 43. Indeed, the Supreme Court has expressly recognized that “past wrongs are evidence bearing on whether there is a real and immediate threat of repeated injury.” *O’Shea v. Littleton*, 414 U.S. 488, 496 (1974).

Finally, Microsoft asks the panel to revisit willfulness, urging that the panel overlooked Microsoft’s challenge to the jury’s finding of willful infringement. (Petition at 14-15.) While i4i agrees that the panel decision misstated the scope of Microsoft’s challenge, there is no need for rehearing because substantial evidence supports the willfulness verdict.

II. ARGUMENT

A. The Panel Properly Applied the Supreme Court’s Deferential Standard in Reviewing the District Court’s *Daubert* Analysis

Microsoft grossly mischaracterizes the panel’s opinion in stating that the panel found that Wagner’s opinion was “automatically” admissible because he

used the “hypothetical negotiation” approach and cited the *Georgia-Pacific* factors in his analysis. Petition at 3 (citing slip op. at 31); *see also* WLF Br. at 6-7. To the contrary, the panel expressly recognized that it had to consider not only whether Wagner’s “methodology [was] sound” but also whether “the evidence [he] relied upon [was] sufficiently related to the case at hand.” Slip op. at 28 (citing *Knight v. Kirby Inland Marine Inc.*, 482 F.3d 347 (5th Cir. 2007), and *Moore v. Ashland Chem. Inc.*, 151 F.3d 269, 276 (5th Cir. 1998) (en banc)). The panel then devoted the next eight pages of its decision to an analysis of Wagner’s methodology, including his application of the *Georgia-Pacific* factors to the hypothetical negotiation that would have occurred if Microsoft had chosen to license the patent instead of infringe it, as well as Wagner’s reliance on the third-party “XMetaL” benchmark (Petition at 7-8) and i4i’s survey evidence (*id.* at 9 n.3). Slip op. at 28-36. As part of this analysis, the panel expressly considered each of Microsoft’s objections to Wagner’s testimony and explained why “Microsoft’s quarrel with the facts Wagner used go to the weight, not admissibility, of his opinion.” *Id.* at 31.

Microsoft obviously disagrees with the panel’s conclusion, but it has no basis for accusing the panel of failing to “independently analyze the reliability of Mr. Wagner’s” analysis. Petition at 5-6; *see also* WLF Br. at 3-8. The panel referred to *Daubert’s* and Rule 702’s reliability requirement at least six times in considering Wagner’s testimony. Slip op. at 28, 31, 34-35.

Further, Microsoft and WLF fail to recognize that it is not the appellate court's role to "*independently analyze*" an expert's testimony. Instead, an appeals court reviews *the district court's decision*, and that review is quite limited. *See, e.g., General Elec. Co. v. Joiner*, 522 U.S. 136, 143 (1997) (stating that an appellate court reviewing a district court's *Daubert* decision must "give the trial court the deference that is the hallmark of abuse-of-discretion review"). The Supreme Court insists on this limited review because "the trial judge must have considerable leeway in deciding in a particular case how to go about determining whether particular expert testimony is reliable." *Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 152 (1999). Here, there can be no question that the panel reviewed the district court's detailed analysis (A34-42) under the appropriate standard of review and found no abuse of discretion in admitting Wagner's testimony. Specifically, the panel reviewed each aspect of Wagner's opinion that Microsoft finds objectionable and explained why, despite Microsoft's objections, the district court did not abuse its discretion in admitting it. Slip op. at 31-36. Microsoft's petition therefore amounts to a request for the en banc Court to revisit this issue in order to reach a different conclusion by applying an erroneous standard of review.¹

¹ Moreover, numerous studies have debunked Microsoft's (and WLF's) portrayal of a broken system in need of fixing (Petition at 8-9; WLF Br. at 3-4). *See, e.g.,* David W. Opderbeck, *Patent Damages Reform and the Shape of Patent Law*, 89 B.U.L. Rev. 127, 130 (2009) ("damage awards are widely and stochastically distributed, suggesting that most cases are being adjudicated according to their

B. The Panel Properly Applied the Fifth Circuit’s Deferential Standard of Review for the Denial of Rule 59 New-Trial Motions in Determining That the Award Was Not “Excessive”

Microsoft also argues that the panel erred in rejecting its assertion that the district court erred in not granting it a new trial or remittitur on the ground that the damages award was excessive. Petition at 9-13. But Microsoft simply ignores the highly deferential nature of the standard of review on this issue, and its argument is meritless.

Initially, Microsoft is wrong in charging (*id.* at 13) that the district court “declined to determine whether [the damages award] is excessive.” As the district court stated, Microsoft advanced no excessiveness arguments beyond those it made in asserting that i4i’s expert testimony on damages should have been excluded. A41; *see also* slip op. at 27-36; Blue Br. at 66-68 (excessiveness arguments based on supposed flaws in experts’ testimony). And the district court spent *seven pages* addressing, and ultimately rejecting, the assertions Microsoft advanced. A34-42. It then stated that Microsoft’s excessiveness claim was rejected for the same

facts rather than according to some predisposition towards large awards”); *A Closer Look, 2008 Patent Litigation Study: Damages Awards, Success Rates and Time-to-Trial*, PricewaterhouseCoopers (2008), at 1 (“The annual median damages award since 1995 has remained fairly consistent, when adjusted for inflation.”); *Moving Beyond the Rhetoric: Jury Damage Verdicts in Patent Infringement Cases 2005-2007* (2008) (“A survey of jury damage awards in 93 patent infringement cases in 2005, 2006 and 2007, demonstrates that there is no pattern of runaway jury verdicts in patent cases. It also confirms that trial judges routinely review those verdicts and set aside awards that are not supported by the evidence.”).

reasons “and for the additional reason that [Microsoft] has failed to show or even discuss why the verdict was ‘clearly excessive.’” A42.

Moreover, there can be no question that the panel performed the traditional excessiveness analysis required by controlling Fifth Circuit precedent. Slip op. at 37-38. Specifically, the panel considered whether the district court abused its discretion in concluding that the damages award was not so excessive as to warrant a new trial on damages. *Id.* Further, as part of its analysis, the panel applied the correct standard set forth in numerous Fifth Circuit decisions for the review of denials of new-trial motions. *Id.*

Microsoft’s treatment of this aspect of the panel’s decision is based almost entirely on Microsoft’s mischaracterization of the decision—in particular, its statement that “[a]lthough Microsoft now objects to the size of the damages award, we cannot reach that question because Microsoft did not file a pre-verdict JMOL on damages.” *Id.* at 36. Microsoft interprets this statement as a holding by the panel that filing a Rule 50(a) motion on damages is a prerequisite to obtaining any appellate review of the “excessiveness” of an award. Petition at 9-10 (stating that the panel held “that a ‘pre-verdict JMOL’ is required to preserve full appellate review of excessiveness challenges”); *id.* at 13 (stating that the panel held that “JMOL motions [are] a necessary prerequisite to excessiveness challenges”); *see also* WLF Br. at 8-9.

The panel held nothing of the kind. Rather, it observed that because Microsoft's only challenge to the verdict was in a Rule 59 new-trial motion, the standard of review had to be far more deferential than if Microsoft had sought JMOL pursuant to Rule 50. But this observation is hardly new or surprising, since it has long been the law. *See, e.g., Whitehead v. Food Max of Miss., Inc.*, 163 F.3d 265, 270 n.2 (5th Cir. 1998) (stating that "the standard of review for appeal from denials of a new trial is far more narrow than that for denials of judgment as a matter of law"). Further, although Microsoft stresses the panel's statement that "the outcome *might* have been different" if it were reviewing the denial of a JMOL motion (slip op. at 37 (emphasis added)), that statement merely reflects the settled principle that appellate review of the denial of a JMOL motion is *de novo*, whereas appellate review of the denial of a new trial is highly deferential. Here, Microsoft waived its right to that more intensive appellate review by failing to file a JMOL motion.²

Because Microsoft challenged the jury's damages award solely through a Rule 59 new-trial motion, the panel properly circumscribed its review, considering only whether the district court abused its discretion in denying Microsoft's request

² Moreover, it is difficult to see how the outcome would have been different in this case, since the outcome could have been different only if the panel had ruled that the evidence was legally insufficient to support the damages award, and here, the panel correctly concluded that i4i's expert testimony on damages was properly admitted (slip op. at 27-36).

for a new trial. *See, e.g., Cozzo v. Tangipahoa Parish Council-President Gov't*, 279 F.3d 273, 294 (5th Cir. 2002) (“This court will reverse a jury’s assessment of damages only for clear error. . . . When, as in the instant case, the district court has approved the award, the balance is tipped even more heavily against appellate reconsideration.” (internal quotation marks omitted)). Given its failure to pursue relief under Rule 50, Microsoft cannot now be heard to complain about the panel’s scope of review, which fully complied with Fifth Circuit law for determining excessiveness under Rule 59. Slip op. at 37.³

Moreover, while Microsoft’s strategic decision to challenge the damages award only under Rule 59 renders the workings of Rule 50 irrelevant in this case, Microsoft’s view that a defendant cannot file a Rule 50(a) motion challenging damages before the verdict has been returned (Petition at 9-10) is also wrong. Obviously, a pre-verdict JMOL motion cannot challenge an actual damages award, or any other aspect of an actual jury verdict. But the whole idea of requiring a pre-verdict JMOL motion is to afford a party ample opportunity to introduce the quantum of evidence needed to support the verdict it seeks from the jury. And nothing prevented Microsoft from filing a pre-verdict JMOL motion contending

³ Microsoft nevertheless contends that the panel improperly denied Microsoft’s request for a *Lucent*-like sufficiency-of-the-evidence analysis on appeal. Petition at 12-13. But the panel explained that such an analysis was simply unavailable to Microsoft under the law because, in this case, Microsoft chose not to file a Rule 50 motion, whereas in *Lucent*, a Rule 50 motion had been filed. Slip op. at 36.

that substantial evidence did not support i4i's claim for damages or that there was no substantial evidence supporting a damages award in the amount proposed by i4i's expert.⁴ Microsoft, however, filed no such motion.

In sum, while Microsoft asserts that “[e]n banc review is warranted to ensure that patent defendants receive the post-verdict review of damages awards to which they are entitled” (Petition at 9), the panel provided the review to which Microsoft was entitled—the highly deferential review required by Fifth Circuit precedent.

C. The Panel Decision Applied the Correct Standard in Assessing the Irreparable Injury Microsoft Inflicted Upon i4i

Microsoft attacks the injunction on a single ground: that there was only a “showing of distant *past* harm.” Petition at 13-14 (emphasis in original). But, once again, Microsoft materially misrepresents the panel's and the district court's decisions. Contrary to Microsoft's assertion, the district court made specific findings that i4i is suffering “continuing loss of market share, customer goodwill, and brand recognition” (A55) and that “Microsoft's infringement causes i4i to suffer irreparable harm for every new XML customer that purchases an infringing Microsoft product” (A59). These findings are amply supported by record evidence. For example, there was evidence that several of i4i's current products, including two (S4/Text and x4o) that compete directly against the infringing

⁴ Indeed, the jury awarded the *exact* amount that i4i's expert proposed, and he relied on the same evidence that Microsoft now challenges. *Compare* A1418-19;A7808 *with* A236-67.

versions of Microsoft's Word, practice the '449 patent's invention. A1653-56; A992-96; A1399-401; A1676-77; A2314-18; A7367; A7747; A7753-55; A7633-35. Evidence also showed that by including the infringing functionality in Word, Microsoft rendered i4i's product obsolete in "80% of the market." A1200-02; A1476; A7302-03; A7367. Finally, evidence supported the common-sense idea that customers are generally unwilling to buy products, like i4i's, that offer functionality similar to that already available in Word. A1676-77; A1765-66.

As the panel properly determined, there was nothing wrong with considering Microsoft's past conduct in assessing whether the harm to i4i continues. *See* slip op. at 43 ("It was proper for the district court to consider evidence of past harm to i4i."). The panel's decision in this regard is supported both by the decisions of this Court that the panel cited (*id.*) and by well-settled Supreme Court precedent. *See, e.g., O'Shea*, 414 U.S. at 496 ("Of course, past wrongs are evidence bearing on whether there is a real and immediate threat of repeated injury."); *United States v. Oregon State Med. Soc.*, 343 U.S. 326, 333 (1952) (stating that an injunction's purpose "is to undo existing conditions, because otherwise they are likely to continue" and recognizing that considering the past is proper "when it illuminates or explains the present and predicts the shape of things to come").

Microsoft further distorts the panel's decision in arguing that the panel "*agreed* with Microsoft that i4i could not prove future harm since its software now

‘complement[s]’ (rather than competes) with Microsoft’s products.” Petition at 14 (quoting slip op. at 43; emphasis in original). Far from “agreeing” that i4i could not show future harm, the quoted portion of the panel’s decision references the district court’s finding that Microsoft’s infringement virtually destroyed the market for i4i’s patented software. As the district court explained, “that i4i is capable of existing in a marketplace where Microsoft is infringing does not negate the injury incurred as a result of Microsoft’s infringement”:

Simply because i4i adapted to a market where Microsoft fills 80% of the market space does mean that i4i has not suffered an irreparable injury. The evidence shows that i4i lost a, perhaps irretrievable, opportunity in the early days of the custom XML market. *See* PX 172. This continuing loss of market share and brand recognition is the type of injury that is both incalculable and irreparable.

A53-54. Thus, in proving its past harm, i4i demonstrated the type of future harm that supports granting permanent injunctive relief.

Of course, the injunction achieves something monetary damages cannot: a leveling of the playing field so that i4i might be able to pursue its original plans of selling not just the version of its software it created in response to Microsoft’s infringement but also the software it was originally selling in the market as it existed before Microsoft’s infringement. i4i would not realistically be able to do that if Microsoft were allowed to continue selling the “infringing Word products [that] rendered i4i’s software obsolete.” Slip op. at 43. The panel therefore

correctly recognized that i4i showed the requisite irreparable injury, in both past and future forms, that justified an injunction.

D. The Panel Harmlessly Overlooked Microsoft’s Challenge to the Jury’s Willfulness Finding

i4i agrees that in stating that Microsoft was not challenging the sufficiency of the evidence supporting the jury’s finding of willfulness (slip op. at 38), the panel misstated the scope of Microsoft’s appeal. But that amounts to a harmless oversight because, as i4i explained previously, the relevant evidence plainly supported the verdict. Red Br. at 72-75. Accordingly, if the panel had addressed the evidentiary support for the verdict, the holding would be no different.

Specifically, substantial evidence supported both *Seagate* prongs. As i4i demonstrated in its brief, the record shows that Microsoft not only knew of the ’449 patent, but also knew that its actions would be an infringement. *Id.* at 72-75. The record also contains substantial evidence regarding the strength of the parties’ positions. *Id.*; *see also* slip op. at 25 (holding, in the context of contributory infringement, that “the jury could have reasonably concluded that Microsoft knew that use of the editor would infringe the ’449 patent”); *id.* at 26 (holding, in the context of induced infringement, that “a reasonable jury could have concluded that Microsoft had the ‘affirmative intent to cause direct infringement’”). The petition points to “five different reasons” the objective prong should not have been met (Petition at 15), but that misses the mark because the question on appeal is whether

substantial evidence supports the jury's verdict, not whether it would have supported Microsoft's position. Moreover, i4i rebutted or explained the irrelevance of each of Microsoft's five purported "reasons." Red Br. at 73.

The petition further incorrectly asserts that the panel recognized a "relatively 'close[] question' of claim construction." Petition at 15. That implies that the claim construction issue was close in some absolute sense, when instead the panel merely characterized it as "closer" than Microsoft's other argument. Slip op. at 10. Regardless, i4i submits that the question was not close enough to overcome the abundant evidence of objective willfulness.

The claim construction issue is inapposite for another, independent reason: if Microsoft had prevailed with its claim construction, that would only have left disputed facts for resolution at trial. Red Br. at 50. This case therefore stands apart from *Cohesive Technologies*, in which the asserted construction would have precluded infringement as a matter of law. *Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1374 (Fed. Cir. 2008). In short, Microsoft failed to show that the jury's verdict lacked substantial evidentiary support.

III. CONCLUSION

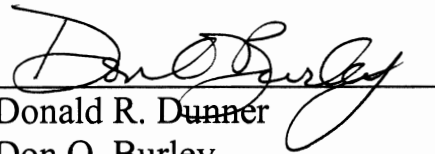
For the reasons stated above, i4i respectfully asks the Court to deny Microsoft's combined petition for panel rehearing and rehearing en banc.

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I hereby certify that on this 26th day of January, 2010, two true and correct copies of the foregoing RESPONSE TO COMBINED PETITION FOR REHEARING AND REHEARING EN BANC were served by e-mail and overnight courier to:

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