



XML Feature in Microsoft Word Permanently Enjoined in US Patent Case

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i4i L.P. v Microsoft Corp., No. 2009-1504, 589F.3d 1246, US Court of Appeals for the Federal Circuit, 22 December 2009

Abstract

The US District Court properly found irreparable harm to a patentee, based on prior injury caused by infringing conduct.

Legal context

An earlier Current Intelligence note (4 *JIPLP* 310–312 (2009)) discussed *Acumed L.L.C. v Stryker Corp.*, 551 F.3d 1323 (Fed. Cir. 2008), a decision of the Federal Circuit affirming entry of a permanent injunction in a US patent case. *Acumed* is instructive on how the Federal Circuit has treated permanent injunctions since the 2006 landmark decision by the US Supreme Court, *eBay Inc. v MercExchange, L.L.C.*, 547 US 388 (2006).

Now, a year later, the Federal Circuit offers further guidance on the application of the four-factor test from *eBay* for a patent infringement action in *i4i L.P. v Microsoft Corp.*, 589F.3d 1246, (Fed. Cir. 2009). While *i4i* offers insight on many issues, including claim construction, direct infringement, contributory infringement, inducing infringement, obviousness, anticipation, determining reasonable royalty rates, and enhancing damages, the present focus of this Current Intelligence is the discussion which affirms the permanent injunction but modifies the date it was to take effect.

Facts

i4i began as a software consulting company in the late 1980s. In June 1994, it applied for a patent concerning a method for processing and storing information about the structure of electronic documents, which issued 4 years later as US Patent No. 5,787,449 (the '449 patent).

Since then, *i4i* has developed several software products that practise the invention. One of these products is 'add-on' software for Microsoft Word, which expands Word's capability to work with documents containing custom XML. Since 2003, versions of Microsoft Word, a word processing and editing software, have had XML editing capabilities. In 2007, *i4i* filed an action



against Microsoft, the developer and seller of Word. i4i alleged that Microsoft infringed claims 14, 18, and 20 of the '449 patent by making, using, selling, offering to sell, and/or importing Word products capable of processing or editing custom XML. i4i further alleged that Microsoft's infringement was wilful. Microsoft counterclaimed, seeking a declaratory judgment that the '449 patent was invalid and unenforceable.

A jury found Microsoft liable for infringement. After trial, the District Court granted i4i a permanent injunction which prohibited Microsoft from:

1. selling, offering to sell, and/or importing into the USA any infringing Word products with the capability of opening XML files containing custom XML;
2. using Word to open an XML file containing custom XML;
3. instructing or encouraging anyone to use Word to open an XML containing custom XML;
4. providing support or assistance that describes how to use Word to open an XML file containing custom XML; and
5. testing, demonstrating, or marketing Word's ability to open an XML file containing custom XML. (589F.3d at 1275, *id.*)

The injunction, however, was narrowly tailored to apply 'only to users who purchase or license Word after the date the injunction takes effect' and does not apply to '[u]sers who purchase or license Word before the injunction's effective date' (*Id.*). The effective date was set for 60 days from the 11 August 2009 order, but was stayed pending the appeal.

Microsoft appealed to the Federal Circuit.

Analysis

After rejecting in turn each of Microsoft's challenges to the underlying jury verdict on issues of claim construction (and infringement), obviousness, anticipation, royalty rate for calculating a reasonable royalty, and enhanced damages, the Federal Circuit discussed and affirmed the grant of a narrowly crafted permanent injunction issued against Microsoft's continued sale of Word with the infringing feature. The Federal Circuit discussed each of the eBay factors and affirmed the District Court's analysis of them, but modified the start date of the injunction. While this decision provides useful instruction on many issues, the present discussion is limited to the injunction aspect.

Irreparable harm

The District Court found that i4i was irreparably injured by Microsoft's infringement, based on its factual findings that

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‘Microsoft and i4i were direct competitors in the custom XML market’;

- ‘i4i lost market share as a result of the infringing Word products’; and
- the infringing Word products rendered i4i’s software obsolete, as a result of which i4i changed its business model to make software that complemented Microsoft’s infringing products’ (589F.3d at 1276.).

The Federal Circuit found ‘[i]t was proper for the district court to consider evidence of past harm to i4i’ since ‘[p]ast harm to a patentee’s market share, revenues, and brand recognition is relevant for determining whether the patentee *has suffered* an irreparable injury’. (*Id.* citation and quotation marks omitted, emphasis added by i4i court).

Thus, the Federal Circuit found that ‘[b]ased on the evidence presented at trial, it was not an abuse for the district court to find that Microsoft’s infringement irreparably injured i4i’ (*Id.*).

Lack of adequate remedy at law

The District Court found that there were inadequate remedies at law to compensate i4i for its injury based on its findings that:

- before and after Microsoft began infringing, i4i produced and sold software that practised the patented method; and
- i4i had not previously licensed the patent, and instead sought to retain exclusive use of its invention.

The Federal Circuit found that ‘[i]t was not an abuse of discretion for the district court to conclude that monetary damages would be inadequate’ (*Id.*). To support this conclusion, the Federal Circuit explained:

In this case, a small company was practicing its patent, only to suffer a loss of market share, brand recognition, and customer goodwill as the result of the defendant’s infringing acts. Such losses may frequently defy attempts at valuation, particularly when the infringing acts significantly change the relevant market, as occurred here. The district court found that Microsoft captured 80% of the custom XML market with its infringing Word products, forcing i4i to change its business strategy. The loss associated with these effects is particularly difficult to quantify. Difficulty in estimating monetary damages is evidence that remedies at law are inadequate. *Broadcom Corp. v Qualcomm Inc.*, 543 F.3d 683, 703-04 (Fed. Cir. 2008).

Balance of hardships

The District Court found that the balance of hardships favoured i4i, and the Federal Circuit agreed that ‘[e]xcept on the limited issue of timing, the balance of hardships favors i4i’ (*Id.*). In



particular,

- While i4i's business was comprised 'almost exclusively' of products based on the patent-in-suit, Microsoft's infringing custom XML editor was found to be 'merely one of thousands of features' within Word, used by only a small fraction of Microsoft's customers.
- Microsoft's infringement of the patent-in-suit allowed Microsoft to 'corner[] the XML market' (589F.3d at 1277).

The Federal Circuit confirmed that the District Court properly considered as part of its 'balance of hardship' analysis, 'the parties' sizes, products, and revenue sources' (*Id.*). Weighing these factors, the Federal Circuit agreed that '[t]he far greater importance of the patented method to i4i, combined with the demonstrated past effects of infringement on i4i, favors issuance of a permanent injunction' (*Id.*).

The Federal Circuit also confirmed that the District Court's analysis properly ignored such factors as the expenses Microsoft incurred in creating the infringing products and the consequences to Microsoft of its infringement, such as the cost of redesigning the infringing products.

In this regard, the Federal Circuit reiterated 'neither commercial success, nor sunk development costs, shield an infringer from injunctive relief. Microsoft is not entitled to continue infringing simply because it successfully exploited its infringement' (*Id.*, citations omitted).

Public interest

Finally, with respect to the public interest factor, the Federal Circuit found that '[e]xcept as to the injunction's effective date, the district court did not abuse its discretion in finding that the narrow scope of the injunction and the public's general interest in upholding patent rights favor injunctive relief' (*Id.*, citing *Broadcom*, 543 F.3d at 704 (quoting *Rite-Hite Corp. v Kelley Co.*, 56 F.3d 1538, 1547 (Fed. Cir. 1995))).

The Federal Circuit characterized the 'touchstone of the public interest factor' to be 'whether an injunction, both in scope and effect, strikes a workable balance between protecting the patentee's rights and protecting the public from the injunction's adverse effects', (*Id.*, citing *Broadcom*, 543 F.3d at 704). The Federal Circuit found that the District Court's 'carving out users who purchased or licensed infringing Word products before the injunction's effective date' as an effective way to greatly minimize adverse effects on the public, including 'not only individual consumers, but also companies that license infringing Word products and manufacturers that are part of Microsoft's distribution channels' (*Id.*).

Timing



The one issue on which the Federal Circuit objected to the District Court's finding was the timing of when the injunction went into effect. In this regard, '[t]he district court ordered the injunction to go into effect sixty days after August 11, 2009, the date of its order issuing the injunction', but the Federal Circuit found that this order failed to adequately take into account the only evidence submitted on the time it would take for Microsoft to implement an injunction—ie 5 months. Since '[t]he only evidence about how long it would take Microsoft to comply with the injunction was' a declaration by a Microsoft employee estimating that 'it may take five months to implement any injunction', the Federal Circuit modified the injunction's effective date to '5 months from the date of [the District Court's] order', ie 11 January 2010 (589F.3d at 1278). Thus, while the injunction had been stayed during the appeal, Microsoft was given 20 days from the Federal Circuit's 22 December 2009 decision before the injunction went into effect.

Practical Significance

i4i reminds us that while the US Supreme Court's decision in eBay may limit the circumstances in which an injunction will issue in a US patent case, an injunction is still an available and powerful remedy which can and will be implemented by the US Courts.

Stop Press

On 10 March 2010, the U.S. Court of Appeals for the Federal Circuit granted petition for rehearing for the limited purpose of modifying the enhanced damages portion of the opinion. The portion of the opinion discussed above has not been modified.

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