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The Importance of Preservation

'i4i' emphasizes need to preserve issues for appeal in patent cases

By Brandon Baum and Donald Falk

The recent decision of the Federal Circuit U.S. Court of Appeals in *i4i L.P. v. Microsoft Corp.*, 589 F.3d 1346 (2009), highlights the importance of trial counsel's close familiarity with the requirements for preserving issues for appeal under Rule 50 of the Federal Rules of Civil Procedure. In *i4i*, the Federal Circuit strongly suggested that it would have sustained Microsoft's challenge to the \$200 million damages award — but for the lack of preservation. Indeed, the same court had granted Microsoft a new trial on damages on similar grounds just a few months earlier in *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1323-1340. Because Microsoft did not adequately preserve its contentions in *i4i*, however, the judgment was affirmed.

The *i4i* panel's views on two topics — (1) preservation of excessive damages arguments, and (2) the boundary between the admissibility of expert testimony on damages and the sufficiency of that same evidence to sustain a

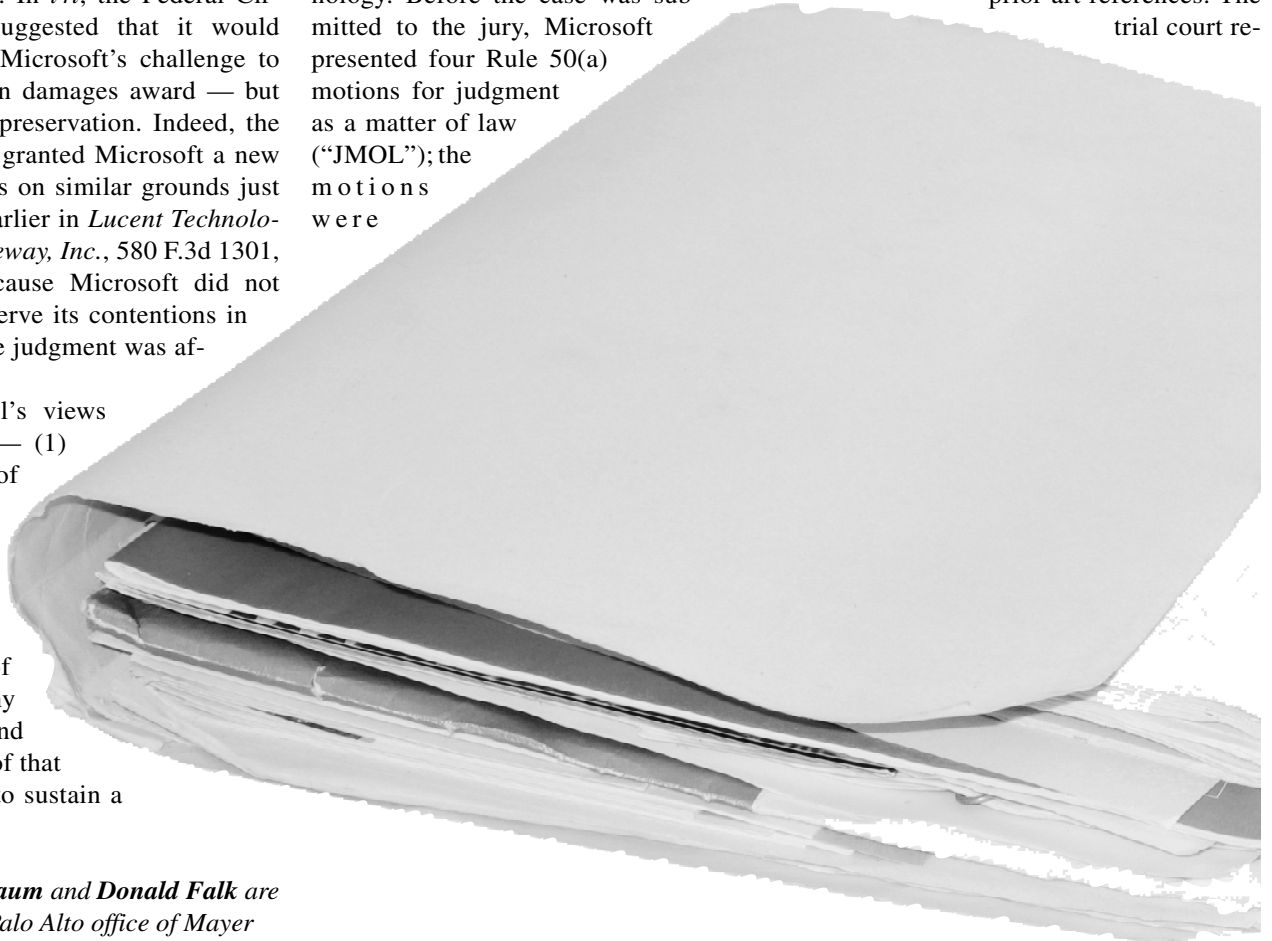
damages verdict — are not without controversy. The preservation standards announced in *i4i* may be subject to alteration on rehearing or to further development in the Fifth Circuit, whose procedural law governed the *i4i* appeal. In the meantime, counsel are well-advised to comply with the *i4i* panel's views on preservation, particularly in patent cases arising in the Fifth Circuit.

'I4I V. MICROSOFT' TRIAL AND APPEAL

At trial in the Eastern District of Texas, *i4i* contended that Microsoft Word infringed an *i4i* patent related to Extensible Markup Language ("XML") editing technology. Before the case was submitted to the jury, Microsoft presented four Rule 50(a) motions for judgment as a matter of law ("JMOL"); the motions were

oral and unaccompanied by any briefing. Microsoft argued that it was entitled to judgment invalidating the patent as anticipated by a single prior art reference ("S4"), and finding no direct, indirect, or willful infringement.

After those motions were denied, the jury returned a general verdict finding the patent valid and willfully infringed, and awarding \$200 million in damages. Microsoft then renewed its JMOL motions under Rule 50(b). This time, Microsoft filed three written motions on invalidity, asserting anticipation and obviousness based on various combinations of six prior art references. The trial court re-



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fused to consider the combinations because Microsoft had not raised them in its pre-verdict Rule 50(a) motion. The court instead considered (and again rejected) only the claim of anticipation by the S4 reference. The trial court also rejected Microsoft's motion under Rule 59 for new trial or remittitur, which asserted that the damage award was excessive because it was based on expert testimony adopting a \$98 royalty rate that exceeded the total price of Word. Finally, the district court imposed an additional \$40 million in enhanced damages for willful infringement and improper litigation conduct, and permanently enjoined future sales of Word.

Microsoft raised several invalidity and damages issues on appeal, but the oral argument focused on preservation. Judge Kimberly Moore commented that the general verdict rejecting invalidity implicitly rested on a factual determination that the cited prior art references were not analogous prior art. "[M]aybe I would agree with you," she explained, "but it's all fact and that's off-limits because you didn't move for [pre-verdict] JMOL." As to Microsoft's complaints over the amount of damages, Judge Moore acknowledged, "[Y]ou've got me 'hook, line and sinker.' But here's the problem, how do I get there? Again, we have no JMOL motion," admitting to "frustration" at her inability "to reach and get into this stuff."

Those questions foreshadowed the panel's unanimous affirmance. The opinion explained that, while obviousness is a question of law, the court was bound by the "jury's implicit factual findings" concerning the scope and content of the prior art, and the motivation to combine. Those findings, and all implicit findings regarding any references or combination of references apart from S4, compelled rejection of Microsoft's obviousness challenge.

Microsoft's attack on damages suffered a similar fate. The Federal Circuit rejected Microsoft's *Daubert* challenge to the testimony of i4i's damages expert. The court then concluded that, without a pre-verdict JMOL motion on damages, it could not closely scrutinize the factual underpinnings of the damages award. The Federal Circuit characterized the applicable Fifth Circuit standard of review of new trial motions based on gross excessiveness of damages as requiring affirmance unless there was "no evidence" to support the jury's verdict. In the Federal

Circuit's view, because i4i's damages expert had testified that \$200 million was a reasonable amount, there was *some* evidence supporting the award and requiring affirmance. Yet, "[h]ad Microsoft filed a pre-verdict JMOL ... the outcome might have been different." 589 F.3d at 1271.

PRESERVATION AND WAIVER IN LIGHT OF 'I4I'

The principal lesson of *i4i* is that trial counsel must be closely familiar with the requirements of Rule 50 to ensure a favorable standard of appellate review. Because Rule 50 protects the right to jury trial, its procedural requirements are strictly enforced. Accordingly, a party's failure to make a pre-verdict motion for JMOL under Rule 50(a) on an issue precludes a post-verdict JMOL motion under Rule 50(b) on that ground.

Although a Rule 50(a) motion may be oral, it should be written to ensure that it is sufficiently specific and comprehensive to provide notice of the alleged deficiencies in the evidence and a fair opportunity to fill any gaps.

The *i4i* decision suggests the following preservation guidelines in patent cases:

- A pre-verdict JMOL motion on anticipation should address all tenable theories and all prior art references.
- A pre-verdict JMOL motion on obviousness should address all underlying factual disputes, including (1) the scope and content of the prior art; (2) differences between the prior art and asserted claims; (3) motivation to modify prior art references; and (4) the level of ordinary skill in the pertinent art.
- Specific grounds should be asserted on any other issue where the sufficiency of evidence may be challenged, such as direct and indirect infringement, the doctrine of equivalents, damages, and willfulness. This need for preservation applies equally to patentees challenging unsupported defenses. It is always a good idea to preserve objections to erroneous claim constructions at trial. It also may be prudent to file pre-verdict JMOL motions asserting that the evidence does not support a result under the proper claim construction.
- Damages issues present particular puzzles. In the typical patent case, the accused infringer presents its own damages expert, who assumes infringement and presents an alternative damages figure. Presenting such evidence tends to undercut a pre-verdict JMOL asserting

that there is insufficient evidence of any damages. Nonetheless, a "belt-and-suspenders" approach to preservation is imperative. Parties should consider JMOL motions aimed at particular categories of damages, the sufficiency of the evidence to support damages above a certain amount, and the application of a particular theory or method such as lost profits or the entire market value rule. It was on the latter ground that Microsoft moved (and prevailed on appeal) in the *Lucent* case.

Similar principles apply in other types of cases. It's better to file a seemingly excessive and premature Rule 50(a) motion than to forfeit an argument. Counsel should identify and include all meaningful factual twists on the sufficiency of liability theories and affirmative defenses. The motions must put the other side on notice of the areas that may need further evidentiary support.

A federal court of appeals reviews the denial of a properly preserved Rule 50(b) motion *de novo*, but reviews denial of a Rule 59 motion only for abuse of discretion. Thus, the effect of a failure to preserve a JMOL argument in a Rule 50(a) motion may be substantial. Moreover, failing to preserve a sufficiency question in a pre-verdict Rule 50(a) motion puts an appellate reversal with directions to enter judgment beyond reach. At best, the party is left with an argument, under more deferential new trial standards, that damages were excessive in light of the evidence and therefore a new trial is warranted. On liability issues, a new-trial argument based on the great weight of the evidence is nearly hopeless.

Failing to file a Rule 50(a) motion may not preclude relief under Rule 50(b), however. The party opposing a Rule 50(b) motion must raise the forfeiture argument or risk waiving the issue on appeal. But jurisprudence on waiving the waiver is spotty and inconsistent, and some appellate courts may enforce the letter of Rule 50 notwithstanding the opposing party's failure to raise the forfeiture issue in the trial court.

How to preserve the right to challenge a not-yet-rendered damages award as excessive as a matter of law presents a conundrum that may confuse courts as well as litigants. As an instructive example of preservation, the *i4i* court pointed to *Lucent*. In *Lucent*, however, the court blended the new trial and JMOL motions, "revers[ing] the district court's de-

fused to consider the combinations because Microsoft had not raised them in its pre-verdict Rule 50(a) motion. The court instead considered (and again rejected) only the claim of anticipation by the S4 reference. The trial court also rejected Microsoft's motion under Rule 59 for new trial or remittitur, which asserted that the damage award was excessive because it was based on expert testimony adopting a \$98 royalty rate that exceeded the total price of Word. Finally, the district court imposed an additional \$40 million in enhanced damages for willful infringement and improper litigation conduct, and permanently enjoined future sales of Word.

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