

Appeals Court Orders Retrial In \$565M Eolas Suit Vs. Microsoft

In a significant legal victory for Microsoft, the U.S. Court of Appeals for the Federal Circuit has reversed and remanded the validity and inequitable conduct issues in a \$521 million patent lawsuit over the software maker's browser technology.

In a case that hinges on whether another inventor had already demonstrated a technology for embedding interactive elements into web pages, the Federal Circuit chided the lower court for barring Microsoft from presenting evidence for the existence of the earlier browser technology at trial.

The Washington, DC appeals court, which specializes in patent cases, found that the U.S. District Court for the Northern District of Illinois improperly granted judgment as a matter of law in favor of plaintiff Eolas Technologies Inc. on Microsoft's anticipation and obviousness defenses.

The Federal Circuit also determined that the lower court had improperly rejected Microsoft's inequitable conduct defense, but affirmed the district court's claim construction and related jury instruction.

The decision means that the \$565 million judgment is stayed while the case is being sent back to the lower court for a new trial.

Clearly Microsoft's defenses were prejudiced by the Judge's refusal to allow the jury to consider the Viola browser as evidence of the state of the art prior to the Eolas invention. The only correct remedy for this error is to grant Microsoft a new trial, said Richard Turner, a partner at Washington, DC intellectual property firm Sughrue Mion who specializes in computer, optical and electrical equipment patents.

In a statement, Microsoft said it is looking forward to the opportunity to tell the jury the whole story of how this technology was developed and to present evidence that shows that Eolas did not invent this technology.

The patent at the center of the dispute was granted to The Regents of the University of California in November 1998. Researcher Michael Doyle developed the technology covered in the patent and went on to found Eolas.

In its appeal, Microsoft argued that Doyle's technology had been demonstrated as early as May 1993 by Pei-Yuan Wei's Viola browser in a meeting with Sun Microsystems engineers.

Eolas attorneys claimed that Wei abandoned the functionality in later versions of his browser and never demonstrated his browser's ability to run embedded applications to anyone.

But the Federal Circuit appeared to agree with Microsoft's claim that Wei continued to develop Viola after the May 1993 meeting with Sun and even corresponded with Doyle about it.

Because creating an improved version of an invention does not in any sense abandon the original invention, the district court erroneously excluded DX34 as prior art. Improvements may enhance an invention prior to disclosure or patent application. If improvements caused loss of the original invention under the erroneous rule adopted by the district court, the public would lose the benefit of diligent efforts to produce a more useful product, the Federal Circuit wrote in its opinion.

In another victory for Microsoft, the Federal Circuit determined that the lower court had improperly rejected Microsoft's inequitable conduct defense.

One of the inventors knew about the Viola browser but never told the patent office about it. The lower court excluded that evidence and Microsoft's entire inequitable conduct defense, a decision that the Federal Circuit called erroneous.

Again the district court based its inequitable conduct finding on the misunderstanding that Viola could not possibly constitute prior art. Relying on that erroneous determination, the district court concluded that Viola could not be material to patentability, the court said.

In another important decision, the appeals court affirmed the district court's holding that components includes software code on golden master disks.

Microsoft had argued that the district-court judge mistakenly allowed the judgment against the company to include products sold outside the U.S., contrary to previous court cases that established that products assembled overseas with non-U.S. parts do not violate a U.S. patent.

Microsoft had asked that the court ignore non-U.S. Windows sales in determining a fine, which would result in a 64% reduction of the fine.

The software maker argued that operating system code shipped overseas on a so-called golden master disk, used as a master copy of the operating system software, does not constitute a component in a computer assembled overseas.

Microsoft exports a limited number of golden master disks containing the software code for the Windows operating system to Original Equipment Manufacturers abroad who use that disk to replicate the code onto computer hard drives for sale outside the U.S.

The golden master disk itself does not end up as a physical part of an infringing product, but the Federal Circuit sided with the district court's view that source code is the legal equivalent of a piece of computer hardware and that in a legal sense, a [sic] source code is a made part of a computer product.

The next step will likely be a new trial on these issues. The inequitable conduct defense in particular sounds fairly strong for Microsoft, said John F. Rabena, a partner with Sughrue Mion.

Dennis Crouch, a patent attorney with the law firm of McDonnell Boehnen Hulbert & Berghoff LLP in Chicago, said the Federal Circuit's decision highlighted some of the complexities of software patents.

Because patenting software is a relatively new occurrence, the U.S. Patent & Trademark Office does not have an equivalent prior art database as is available for other fields of technology. The Eolas decision affirms that prior art can be found in non-traditional sources, such as a presentation or an internet posting, Crouch said.

At the Federal Circuit, Martin R. Lueck, Robins of Kaplan, Miller & Ciresi L.L.P. argued for Eolas. With him on the brief were Jan M. Conlin, Richard M. Martinez, and Munir R. Meghjee. Of counsel was Emily M. Rome.

Constantine L. Trela, Jr., Sidley Austin Brown & Wood LLP argued for Microsoft. With him on the brief were David T. Pritikin, Richard A. Cederoth, Robert N. Hochman, and Carter G. Phillips. Of counsel on the brief were H. Michael Hartmann, Brett A. Hesterberg, and Steven P. Petersen with Leydig, Voit & Mayer, Ltd. Of counsel was Thomas Andrew Culbert of Microsoft.

The case is Eolas Technologies Inc. v. Microsoft Corp., case no. 04-1234, U.S. Court of Appeals for the Federal Circuit.