Damages: Avoiding Exposure and Loss of your Bottom Line

The Changing Patent Landscape

April 20, 2010

GEORGETOWN LAW CLE

Your Authoritative Legal Resource from the Nation's Capital

Introduction

- Staggering trial damages awards
  - ***Lucent v. Gateway***: $ 358 million
  - ***Cornell v. HP***: $ 184 million
  - ***i4i v. Microsoft***: $ 200 million
- Disparity between NPEs and PEs
- Proposed legislation:
  - Gate keeping role for the courts

Calculating Damages: A Primer

- Lost Profits
  - *Panduit* test:
    - (1) demand for patented product,
      (2) absence of acceptable non-infringing substitutes,
      (3) patentee’s ability to exploit the demand, and
      (4) amount of profit patentee would have made.
- Reasonable Royalty (at a minimum)
  - Lump sum
  - Running royalty

Reasonable Royalty: General Rule

"Upon finding for the claimant the court shall award the claimant **damages adequate to compensate for the infringement** but in no event less than a reasonable royalty **for the use made of the invention** by the infringer, together with interest and costs as fixed by the court."

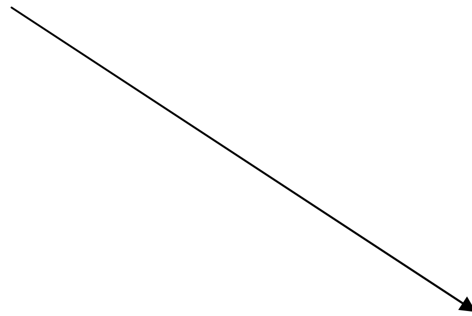
35 U.S.C. §284 (emphases added)

Summary Of Issues

- ***Lucent***
  - Entire Market Value Rule
  - Apportionment
  - Comparable Licenses
- ***i4i***
  - JMOL v. review for denial of motions for new trial
  - *Daubert*
- ***ResQnet***
  - Comparable Licenses
  - Settlement Agreements

Reasonable Royalty Damages

Royalty Base x Royalty Rate



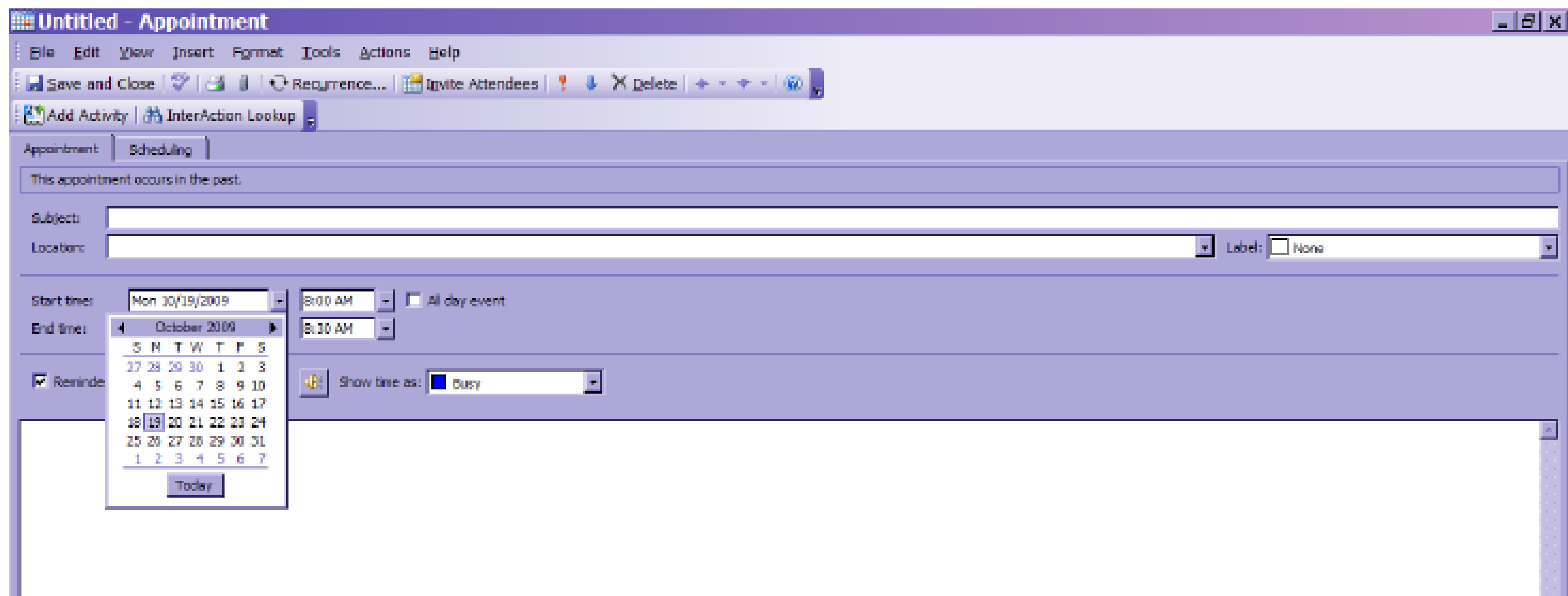
Entire Market Value?

Rite-Hite on EMVR 56 F.3d 1538

- "[T]he entire market value rule permits recovery of damages based on the value of a patentee's entire apparatus containing several features when the patent-related feature is the basis for customer demand."
- To qualify for the EMVR, "[a]ll the components together must be analogous to components of a single assembly or be parts of a complete machine, or they must constitute a functional unit."

The *Lucent* Case 580 F.3d 1301

- Technology: Date-Picker in Microsoft Outlook



GEORGETOWN LAW CLE

Your Authoritative Legal Resource from the Nation's Capital

The *Lucent* Case 580 F.3d 1301

- "The evidence can support only a finding that the infringing feature contained in Microsoft Outlook is but a tiny feature of one part of a much larger software program."

- "[T]he only reasonable conclusion is that most of the realizable profit must be credited to non-patented elements, such as 'the manufacturing process, business risks, or significant features or improvements added by [Microsoft].' "

The *i4i v. Microsoft* Case 589 F.3d 1246

- Technology: Custom XML editor in Microsoft Word
- $ 200 million jury award
- Permanent injunction
- Methodology:
  - Benchmark Product XMetal with retail price of $499
  - Microsoft's profit margin = 76.6%
  - Apply 25% Rule
  - Adjust using GP Factors
  - $ 98 per unit royalty

The 25% Rule

Standard Mfg. Co. v. United States, 42 Fed. Cl. 748 (1999)

- "The 25% rule is a shorthand phrase for a method of dividing expected profit between a licensor and licensee. It divides net pretax profit with normally 25% of that profit being paid to the licensor as a reasonably royalty, while 75% is reserved to the licensee as its profit for the risks attendant manufacturing and marketing."

Daubert Challenges

i4i v. Microsoft, 2010 WL 801705 (Fed. Cir. 2010)

- "*Daubert* requires the district court ensure that any scientific testimony 'is not only relevant, but reliable.' When the methodology is sound, and the evidence relied upon sufficiently related to the case at hand, disputes about the degree of relevance or accuracy (above this minimum threshold) may go to the testimony's weight, but not its admissibility."

The *i4i v. Microsoft* Case 589 F.3d 1246

- "Though Microsoft could have [ ] filed a pre-verdict JMOL, for whatever reason, it chose not to. *See* Fed.R.Civ.P. 50(a). On appeal, what that strategic decision means for Microsoft is that we cannot decide whether there was a sufficient evidentiary basis for the jury's damages award … Had Microsoft filed a pre-verdict JMOL, it is true that the outcome might have been different."

Entire Market Value: Key Cases

- ***IP Innovation, LLC v. Red Hat, Inc.*, No. 2:07-cv-447 (E.D. Tex. Mar. 2, 2010)**
- ***Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009)**
- ***Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279 (N.D.N.Y. 2009)**
- ***Imonex Servs. v. W.H. Munzprufer Dietmar*, 408 F.3d 1374 (Fed. Cir. 2005)**
- ***Juicy Whip, Inc. v. Orange Bang, Inc.*, 382 F.3d 1367 (Fed. Cir. 2004)**
- ***Bose Corp. v. JBL, Inc.*, 112 F. Supp. 2d 138 (D. Mass. 2000)**
- ***Fonar Corp. v. General Electric Co.*, 107 F.3d 1543 (Fed. Cir. 1997)**
- ***Rite-Hite Corp. v. Kelly Co.*, 56 F.3d 1538 (Fed. Cir. 1995)**
- ***State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573 (Fed. Cir. 1989)**

Potential Apportionment Factors

- Incremental performance
- Cost differential
- Surveys on how often the patented feature is used
- Surveys on the importance of the patented feature
- Semiconductors
  - Proportion of source code, die space, transistors
- Pharmaceuticals
  - Improvement in one step of manufacturing process

Georgia-Pacific Factor 13

13. The portion of the realizable profit that should be credited to the invention as distinguished from nonpatented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

The *Lucent* Case 580 F.3d 1301

- "The damages award ought to be correlated, in some respect, to the extent the infringing method is used by consumers."

The *Lucent* Case 580 F.3d 1301

Damages = (royalty rate) x (royalty base) x (apportionment factor)

- "[T]he base used in a running royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as determined by the evidence)."
- "There is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature."

GEORGETOWN LAW CLE
Your Authoritative Legal Resource from the Nation's Capital

Reasonable Royalty Damages

Royalty Base x **Royalty Rate**

Reasonable Royalty Damages

To set an **established royalty**, the prior royalties must have been:

- paid or secured before the infringement complained of;
- paid by such a number of persons as to indicate a general acquiescence in its reasonableness;
- uniform at the place where the licenses are issued;
- paid without threat of suit and not in settlement of litigation; and
- for comparable rights under the patent

Chisum on Patents 20.03[2][b]

The *Georgia-Pacific* Factors

2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

Georgia-Pacific Factor 2

- # 2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.

The *Lucent* Case 580 F.3d 1301

- "First, some of the [eight] license agreements are radically different . . . ."

- "Second, with the other agreements, we are simply unable to ascertain from the evidence presented the subject matter of the agreements, and we therefore cannot understand how the jury could have adequately evaluated the probative value of those agreements."

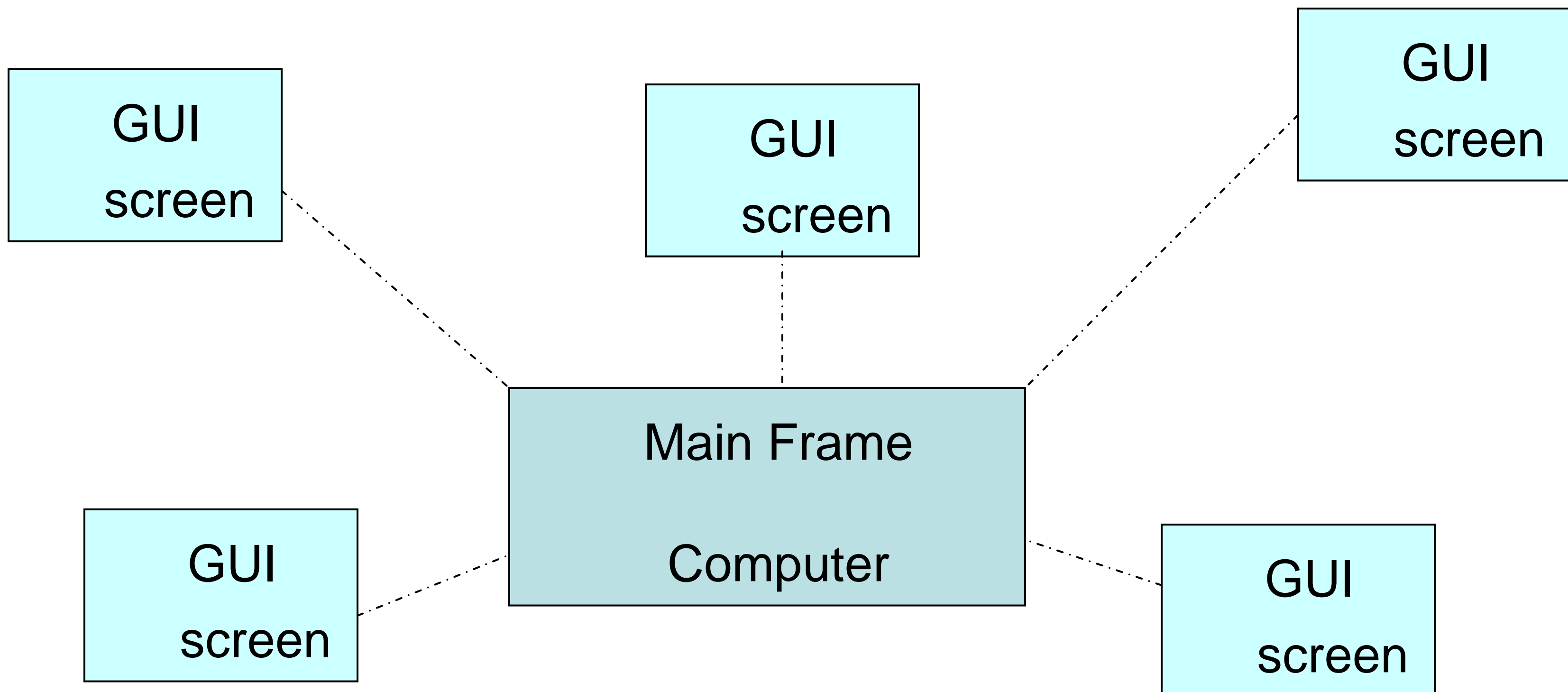
GEORGETOWN LAW CLE
Your Authoritative Legal Resource from the Nation's Capital

The *Lucent* Case 580 F.3d 1301

- "[A] lump-sum damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers, one of which is arguably in the ballpark of the jury's award, particularly when it is doubtful that the technology of those license agreements is in any way similar to the technology being litigated here."

The *ResQNet* Case   594 F.3d 860

- Technology: Terminal emulation software



GEORGETOWN LAW CLE
Your Authoritative Legal Resource from the Nation's Capital

The ***ResQNet*** Case 594 F.3d 860

- "The majority of the licenses on which ResQNet relied in this case are problematic for the same reasons that doomed the damage award in Lucent."

- "Notably, none of the licenses even mentioned the patents in suit or showed any other discernible link to the claimed technology."

The *ResQNet* Case 594 F.3d 860

- "Any evidence unrelated to the claimed invention does not support compensation for infringement but punishes beyond the reach of the statute."

- "[T]he trial court must carefully tie proof of damages to the claimed invention's footprint in the market place."

The *ResQNet* Case

594 F.3d 860

- "In simple terms, the '075 patent deals with a method of communicating between host computers and remote terminals – not training, marketing, and customer support services. The re-bundling licenses simply have no place in this case."

- "[T]he district court's award relied on speculative and unreliable evidence divorced from proof of economic harm linked to the claimed invention . . ."

Post-Verdict Relief

- Permanent Injunction
  - Post-*eBay* application
  - Effect on amount of damages?
- Ongoing Royalty
  - When appropriate?
  - How is the royalty rate determined?

Permanent Injunction

- Four-factor test, in which plaintiff must show that:
  - (1) it has suffered an irreparable injury
  - (2) remedies available at law are inadequate to compensate for that injury
  - (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted
  - (4) the public interest would not be disserved by a permanent injunction

eBay Inc v. MercExchange, L.L.C.

547 U.S. 388 (2006)

- The district court “appeared to adopt certain expansive principles suggesting that injunctive relief could not issue in a broad swath of cases. Most notably, it concluded that a ‘plaintiff's willingness to license its patents’ and ‘its lack of commercial activity in practicing the patents’ would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue … But traditional equitable principles do not permit such broad classifications.”

eBay Inc v. MercExchange, L.L.C.

547 U.S. 388 (2006)

- "For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so."

Ongoing Royalty

- *Paice LLC v. Toyota Motor Corp.*
  504 F.3d 1292 (Fed. Cir. 2007)
- *Amado v. Microsoft Corp.*
  517 F.3d 1353 (Fed. Cir. 2008)
- *Boston Scientific Corp. v. Johnson & Johnson*
  2008 WL 5054955 (N.D. Cal. Nov. 25, 2008)
- *CIAC v. Yahoo*
  674 F. Supp. 2d 847 (E.D. Tex. 2009)

Ongoing Royalty

- "The district court erred by beginning its analysis with the royalty rate set by the jury for pre-verdict infringement. In light of the 'fundamental difference' between 'a reasonable royalty for pre-verdict infringement and damages for post-verdict infringement,' the court should have taken into account the change in the parties' bargaining power after liability has been determined."

  Boston Scientific, citing Amado v. Microsoft.

Georgetown University Law Center Conference

The Changing Patent Landscape

April 20, 2010

GEORGETOWN LAW CLE

Your Authoritative Legal Resource from the Nation's Capital