

# Damages Case Law Update by Dwayne Norton

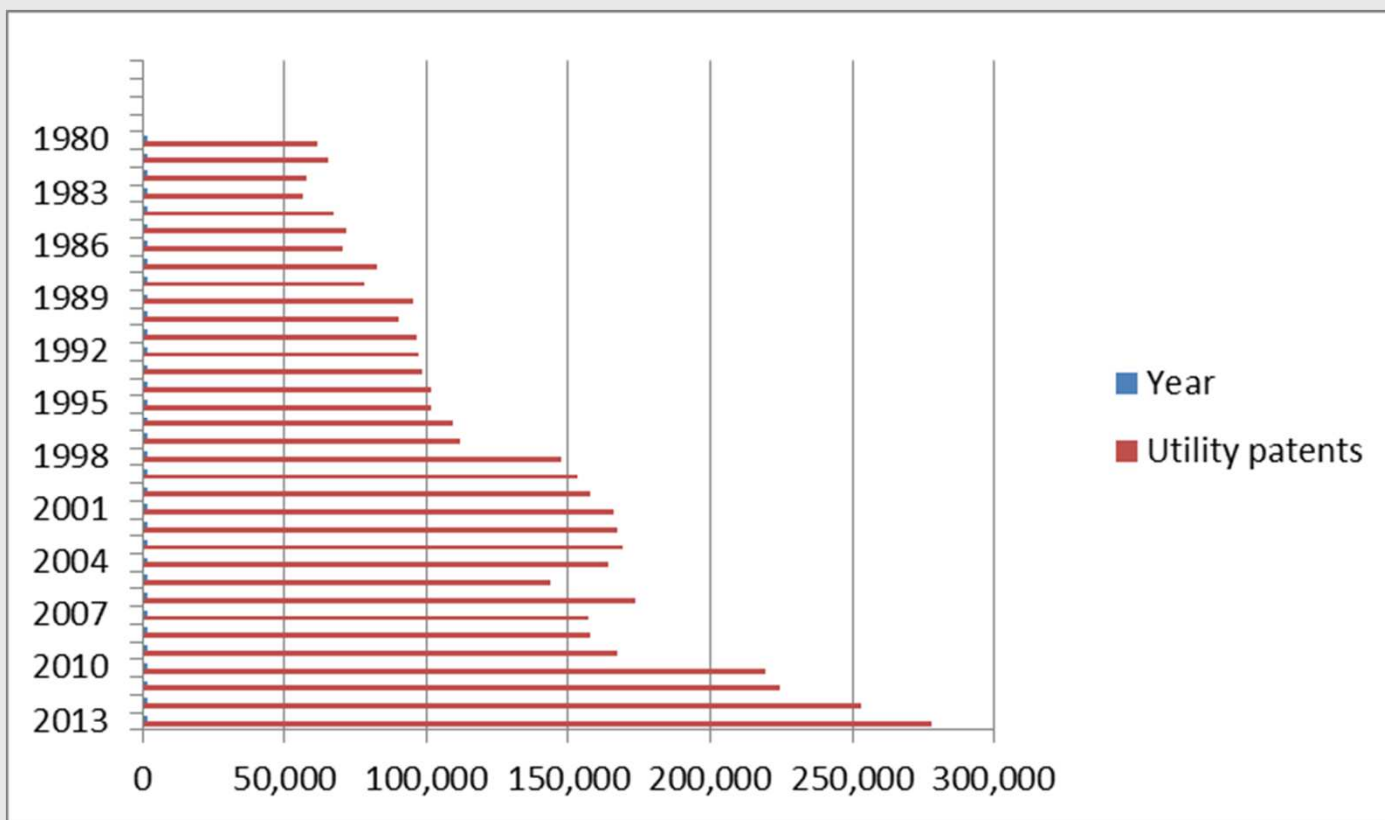
June 27, 2014

Dallas Bar Association IP Section

## Some Context

- Number of utility patents
  - Over 8.5 Million issued U.S. patents
  - U.S. Patent No. 5,000,000 issued in 1991
  - U.S. Patent No. 6,000,000 issued in 1999
  - U.S. Patent No. 7,000,000 issued in 2006
  - U.S. Patent No. 8,000,000 issued in 2011
  - U.S. Patent No. 8,756,000+ as of June 2014

## Number of Patents Granted Each Year (Source: USPTO)



## Companies with most utility patent grants in 2013

- IBM (6,788)
- Samsung (4,652)
- Canon
- Sony
- Microsoft
- Panasonic
- Toshiba
- Qualcomm
- LG Electronics
- Google
- Fujitsu
- Apple (1,775)

\* Source: USPTO

([http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports\\_topo.htm](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports_topo.htm))

# Increase in Patent Case Filings (From PWC 2013 Patent Litigation Study)

Chart 1. Patent case filings and grants



Years are based on September year-end.

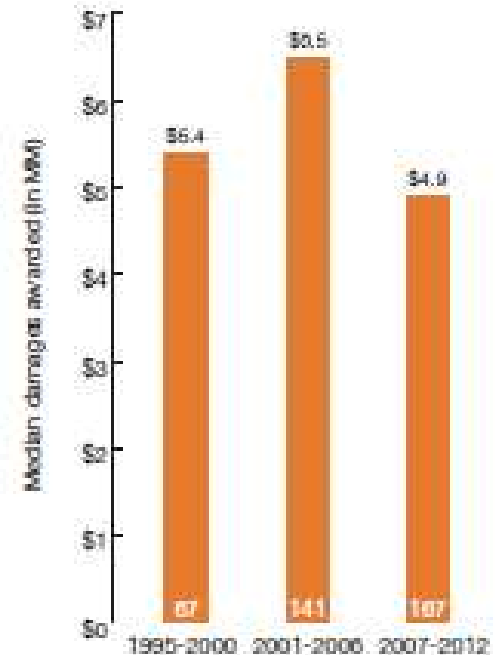
Sources: US Patent and Trademark Office: Performance & Accountability Report and US Courts: Judicial Facts & Figures

## Average Damages Award

- Even though damages awards seem to have stayed steady, median damages award in 2012 spiked to \$9.6 million.

\*Source: PWC 2013 Patent Litigation Study

Chart 2a. Patent holder median damages awarded



Median damages are adjusted for inflation and represented in 2012 US dollars.

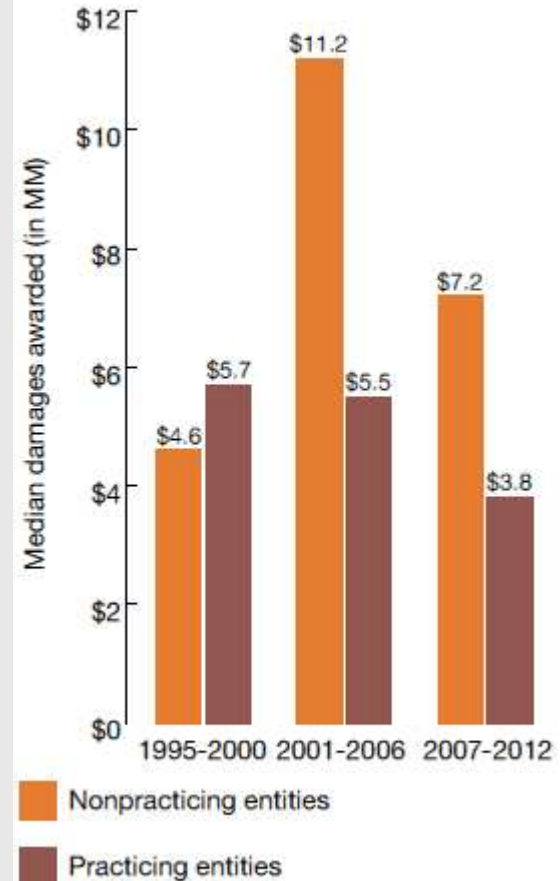
The number of identified decisions is indicated within the respective column.

## Average Damages Award: NPE v. PE

- Trend shows larger median damages awards to NPEs compared to PEs since 2001

\*Source: PWC 2013  
 Patent Litigation Study

**Chart 2b. Patent holder median damages awarded: nonpracticing entities vs. practicing entities**



Median damages are adjusted for inflation and represented in 2012 US dollars.

## Overview of Presentation

- Damages Experts
  - *Apple v. Motorola*
- Entire Market Value Rule
  - *Ericsson v. D-Link et al.*
  - *Thinkoptics, Inv. v. Nintendo of America, Inc., et al.*
  - *Network Protection Sciences, LLC v. Fortinet, Inc.*
- F/RAND update



## Sections

- **Damages Experts**
- Entire Market Value
- FRAND

## ***Apple v. Motorola* (Trial Court)**

- Apple asserted patent infringement against Motorola
- Motorola countered with infringement claims of its own
- Both parties seeking findings of infringement and invalidity
  - Two of the Motorola patents were standard essential patent (SEPs)

## ***Apple v. Motorola* (Trial Court)**

- Judge Posner, sitting by designation, made several significant determinations in the case
  - Excluded testimony of damages experts for both parties
  - Injunction was inappropriate for SEP
  - No damages evidence mandated dismissal
- Address each in turn

## ***Apple v. Motorola* (Trial Court)**

- J. Posner's reasons for excluding (1):
  - Experts relied on biased evidence
    - Expert relied on information from technical expert in case rather than from a disinterested source
      - Not best evidence
  - Failed to present survey evidence as to the value of features to consumers

## ***Apple v. Motorola* (Trial Court)**

- J. Posner's reasons for excluding (2):
  - Experts failed to adequately isolate the claimed features at issue
    - Not that they did not do it ...
    - The selection of a comparable feature existing in the marketplace not credible
      - Analysis biased and arbitrary without survey, disinterested evidence, or explanation as to why that information was absent

## ***Apple v. Motorola* (Trial Court)**

- J. Posner's reasons for excluding (3):
  - Experts failed to adequately consider alternative measures of damages
    - For example, rather than practice an essential patent, Apple could have contracted with Verizon instead of AT&T
      - Any loss resulting from that choice could have been quantified
      - If such a change implicated breach, that could also be quantified

## ***Apple v. Motorola* (Federal Circuit)**

- Rejected much of J. Posner’s analysis and reversed on several points
- In the view of the majority:
  - District Court improperly substituted its judgment as to the weight of the evidence and the result of the analysis
  - Trial Court improperly encroached on role of fact-finder
    - The gate-keeper function focuses “solely on principles and methodology, not on the conclusions that they generate”
    - Judge must be mindful not to weigh facts, evaluate correctness of conclusions, and judge credibility of experts beyond its gatekeeping function

## ***Apple v. Motorola* (Federal Circuit)**

- CAFC:
  - Party can chose from among several approaches:
    - Royalty from comparable licenses
    - Valuation based upon comparable feature in marketplace
    - Valuation based on non-infringing alternatives
  - Trial court need only review to ensure that expert uses sound methodology



## ***Apple v. Motorola* (Federal Circuit)**

- J. Posner: Experts relied on biased evidence
  
- CAFC: Not improper for expert to rely on other hired expert, and in fact, routinely done
  - “A rule that would exclude ... evidence simply because it relies upon information from an Apple technical expert is unreasonable and contrary to Rules 702 and 703 and controlling precedent.”
  - Concerns as to bias go to weight, not admissibility
  - Rigorous cross-examination is the appropriate remedy

## ***Apple v. Motorola* (Federal Circuit)**

- J. Posner: Experts failed to adequately isolate the claimed features at issue
- CAFC: Methodology that uses comparable features in the market as a benchmark, then attempts to isolate the claimed elements are reliable
  - Adequately identified the comparable feature in the market
  - Explained basis for doing so
  - Bolstered analysis with support from technical expert
  - Discounted based on differences between features and claimed elements
  - Value consumer attributes to feature is nice, but not required

## ***Apple v. Motorola* (Federal Circuit)**

- J. Posner: Experts failed to adequately consider alternative measures of damages
  
- CAFC: There is no requirement that a patentee value every potential non-infringing alternative for its damages testimony to be admissible
  - Expert did “consider and analyze” Verizon alternative but concluded that it was not desirable and did not quantify it
  - The expert’s analysis did put forth an acceptable damages construct—the cost based on a hypothetical license

## ***Apple v. Motorola***

- Differing views as to the court's function
  - J. Posner
    - Appears to be on the side of doing more to help the fact-finder
    - Extremely high bar for damages analysis
  - CAFC
    - More practical approach
    - More room for lawyers to impact jurors

## ***Apple v. Motorola* (Federal Circuit)**

- Other notable questions:
  - If royalty estimate is flawed, zero damages?
  - Injunctions for SEPs?

## *Apple v. Motorola*

- Trial court:
  - Excludes damages experts of both sides
  - Each side moves for summary judgment on damages and injunctive relief
    - notably: posture was that infringement was assumed
  - J. Posner:
    - Neither party was entitled to any damages or an injunction
      - No evidence of damages
      - Neither party entitled to injunction
        - Apple failed to show nexus
        - Motorola not entitled because of prior FRAND commitment
    - Dismissal of all claims appropriate

## ***Apple v. Motorola***

- CAFC reverses summary judgment as to no damages
  
- Federal Circuit:
  - “[A] finding that a [proffered] royalty estimate may suffer from factual flaws does not, by itself, support the legal conclusion that zero is a reasonable royalty.”
  - “If a patentee’s evidence fails to support its specific royalty estimate, the fact finder is still required to determine what royalty is supported by the record.”
  - A zero royalty only appropriate when supported by the record

## ***Apple v. Motorola***

- CAFC acknowledged abuse of discretion standard for review of denial of injunction, and affirmed the court's no injunction holding but ...
  - To the extent the district court applied a *per se* rule that injunctions are unavailable for SEPs, it erred
  - *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) is standard for injunction – period.
    - Irreparable harm
    - Monetary remedy at law inadequate
    - Equitable remedy appropriate balancing hardships
    - Public interest



## ***Apple v. Motorola***

- Dissent-in-part (Rader)
  - Sufficient evidence in record to allow Motorola to make its case for an injunction (Apple may have been a “hold out”)
- Dissent-in-part (J. Prost)
  - In general, more deferential to district court’s analysis in excluding testimony of damages expert
  - Sided with district court on exclusion of certain expert testimony as unreliable because of unreliable comparison in determining value of patented feature
  - Injunction rarely appropriate for FRAND patent, but disagreed with majority that a party’s refusal to take license justifies an injunction

## ***Apple v. Motorola***

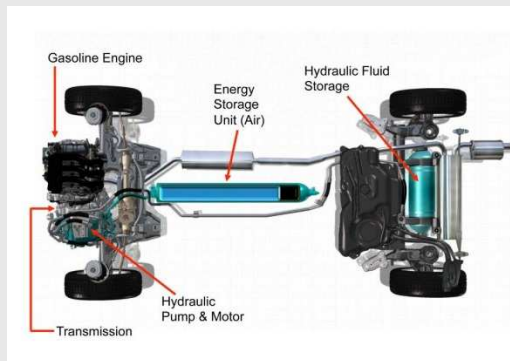
- Court's gate-keeping function—not as stringent as addressed by Posner
- Once infringement is found, fact-finder must determine what royalty is supported by the record
- Application of *eBay* factors likely prevent injunctive relief for SEPs subject to FRAND, but no *per se* rule

## Sections

- Damages Experts
- **Entire Market Value Rule (“EMVR”)**
- FRAND

## Royalty Base Calculations

- **Entire Market Value Rule:** allows damages calculation to be based on entire value of a product, i.e., includes infringing and non-infringing features



Patented Feature “Hybrid Drive”  
(Standard Analysis)



Value of Product  
“Prius”  
(EMVR Analysis)

## ***Royalty Base Calculations***

- EMVR Requires:
  - Infringing Component Must be Basis for Customer Demand for Entire Machine;
  - Infringing and Non-Infringing Components Must be Sold Together; AND
  - Infringing and Non-Infringing Components Must be Analogous to a Single Functioning Unit (Not for Mere Business Advantage).
  - Narrow exception to use of the “Smallest Saleable Unit”

## Recent Cases

- *Cornell Univ. v. Hewlett-Packard* (N.D.N.Y. 2009) (CAFC Judge Rader sitting by designation)
  - Jury award of \$184 Million (0.8% of \$23B royalty base)
  - On JMOL, Judge Rader rejected jury's application of EMVR
  - EMVR was not new, but it was applied by Judge as "gate-keeper"
- *Lucent Tech. v. Gateway et al.* (Fed. Cir. 2009)
  - Lucent sought \$562 Million based on an 8% running royalty on price of Outlook that included date picker feature, Microsoft argued for \$6.5 Million lump sum
  - Jury awarded lump sum of \$358 Million
  - CAFC rejected application of EMVR to Outlook
  - No evidence demonstrating date picker was basis for demand

## Recent Cases

- *LaserDynamics v. Quanta Computer* (Fed. Cir. 2012)
  - Jury awarded \$52 M based on a 2% royalty applied to \$2.53B in laptop sales that had the infringing disc drive
  - District court determined that cost of laptop should not have been included in royalty base
  - CAFC agreed with district court that EMVR did not apply
  - Cannot avoid requirement to prove the patented feature drives demand for the entire product by using very low royalty rate

## Since *LaserDynamics* . . .

- Does reliance on license that calculates a royalty by multiplying a rate by the entire value of an end product violate EMVR?
- If the end product is the smallest saleable unit, market demand necessary?



## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex.)
  - Jury found three of five asserted SEPs relating to 802.11n (Wi-Fi) infringed
  - Jury awarded damages of 15 cents per accused device
    - Ericsson sought damages of 50 cents per accused device

## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex.)
  - In *Daubert* and post-trial motions, Defendants argued that Ericsson's expert violated the EMVR
  - Expert calculated damages by multiplying a per unit royalty times the number of computers and routers sold
  - It was not disputed that the smallest salable patent practicing unit was a Wi-Fi chip, not the computer or router
  - The patented features in the chip did not drive demand for the end products

## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex. 2013)
  - Defendants argued that Ericsson's \$0.50 per unit royalty was derived from the value of end products (computers and routers) instead of being derived from the value of the a Wi-Fi chip
  - Ericsson witnesses were permitted to reference profits on the end product as compared to profits on the chip to rebut argument that a \$0.50 royalty would erode all of the chip suppliers' profits
  - **Ericsson relied on existing agreements that were based on licensed end products rather than the Wi-Fi chips**
  - Jury instructions allowed jury to consider value of the invention to the overall device and did not provide an EMVR instruction

## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex. 2013)
  - The Court rejected Defendants' arguments finding no EMVR violation because:
    - Ericsson's royalty base was not the market value of end products, rather it was the market value of the contribution of the asserted patents to the end products
    - The royalty rate remained constant independent of the value of the end product

## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex. 2013)
  - Defendants also claimed that Ericsson's expert violated the EMVR due to a failure to properly apportion
  - Judge Davis rejected Defendants' argument finding that Ericsson provided two proper levels of apportionment because
    - Apportion 1: analysis was limited to revenue from the licensing of Ericsson's 802.11 portfolio
    - Apportion 2: revenue was apportioned to extract the value attributed to non-asserted patents (for example, portfolio wide licenses v. asserted patents in case)

## EMVR

- *Ericsson v. D-Link et al.* (E.D. Tex.)
  - Currently before the CAFC
    - Awaiting decision

## EMVR

- *Thinkoptics, Inv. v. Nintendo of America, Inc., et al.*, Case No. 6:11-cv-455 (E.D. Tex., June 21, 2014)
  - Accused products: Nintendo Wii consoles that operate with the Wii Remote, Wii Remote Plus, and Wii Sensor Bar
  - During prosecution, all elements of claims except for three image processing steps were found in the prior art
  - The Wii Remote's direct point device ("DPD") is accused of practicing the three image-processing steps in combination with a Bluetooth microcontroller
  - Nintendo's expert prepared damages analysis based on the DPD alone, or alternatively DPD in combination with sensor bar
    - Limits base to products infringing the ***inventive aspects*** of patents

## EMVR

- *Thinkoptics, Inv. v. Nintendo of America, Inc., et al.*, Case No. 6:11-cv-455 (E.D. Tex., June 21, 2014)
  - Expert's analysis excluded because
    - Royalty base excludes the value of claimed elements and thus did not carefully tie proof of damages to the claimed invention's footprint in the market place
    - Does not attempt to compensate for infringement for use of the invention
  - Analysis must include the value of *all* claimed elements



## EMVR

- *Network Protection Sciences, LLC v. Fortinet, Inc.*, Case No. 12-cv-1106 (N.D. Cal., Sept. 26, 2013)
  - Accused products: a computer software product FortiOS 4.0 MR2 (which is generally installed onto hardware)
  - The accused software was not sold separately from its hardware chassis
  - Plaintiff Network Protection Sciences (NPS) concluded that the smallest saleable unit was the product that utilizes the accused software (software *and* the hardware it was installed on)
    - Includes “substantial non-accused components”

## EMVR

- *Network Protection Sciences, LLC v. Fortinet, Inc.*, Case No. 12-cv-1106 (Sept. 26, 2013)
  - Expert's analysis excluded because
    - Relying on the entire market value of the accused products as a base requires the showing that the patented components drive demand
    - Assertion that smallest saleable unit with proportionality of the alleged invention calculated as a safeguard not sufficient

## Sections

- Damages Experts
- Entire Market Value Rule (“EMVR”)
- **FRAND**

## F/RAND

- *Microsoft v. Motorola* (W.D. Wash.) (Robart)
  - Rate for H.264 SEP portfolio is 0.555 cents per unit, with a range of 0.555 to 16.389 cents per unit
  - Rate for 802.11 SEP portfolio: 3.471 cents per unit, with a range of 0.8 to 19.5 cents per unit
  - CAFC transferred appeal to Ninth Circuit (contract, not patent)
- *In re Innovatio IP Ventures, LLC Patent Litigation* (N.D. Ill.) (Holderman)
  - Rate: 9.56 cents per unit (for a portfolio of 19 patents essential to 802.11)
  - settled

## F/RAND

- *Realtek Semiconductor Corp. v. LSI Corp., et al.* (N.D. Cal.)
  - Rate: 0.19 % of the total sales price of Realtek's wifi chips
    - 0.07% for one patent, 0.12% for another
    - \$3,825,000 against LSI for breach of RAND contract
    - Unclear, but to the extent this case is appealed, may go to Ninth Cir.
- *Ericsson v. D-Link, et al.* (E.D. Tex.)
  - Rate: 15 cents per unit for three 802.11 patents
  - Presently before the CAFC

## Developments in the Federal Circuit

- Judge Rader stepping down, effective the end of June 2014; Judge Prost will be Chief Judge.
- Limiting damages
  - Under Chief Judge Rader, the Fed. Cir. limited various mechanisms used by plaintiffs to increase damages. See, e.g., *Lucent v. Gateway*.
  - Judge Prost may be even more critical on the issue. See *Apple v. Motorola*.
- Deference to the lower courts
  - However, opinions authored by Judge Prost indicate a high deference for the lower court. See *i4i v. Microsoft*.

**Thanks for your attention!**