



EASTERN DISTRICT OF TEXAS BAR ASSOCIATION



Patent Damages: A 2015 Primer

Judge Bryson
Chief Judge Clark
Judge Gilstrap
Judge Love
Steve Williams



Bo Davis & Alan Ratliff, Moderators

OUTLINE



- 2015 Federal Circuit Patent Damages Roundup: 8 in :08
- Reasonable Royalty: Trends in Apportionment
- Lost Profits: Do EMVR and apportionment concepts apply?
- Discovery: Streamlining & the increased burden of proof

Warsaw (Medtronic) v. Nuvasive (3/2/15)



- Two patents on methods and devices relating to spinal implant surgery
- Warsaw did not practice the patents, but claimed lost profits for lost: (1) royalties from related companies on lost sales of patented products, (2) sales on related parts by Warsaw, and (3) transfer pricing true up payments from Medtronic
- Jury awarded \$101 million in unspecified lost profits/royalty
- Damages reversed/remanded because: (1) lost product sales are required for lost profits, (2) lost part sales were not convoyed sales with required functional relationship to patented products, and (3) true ups not shown related to patented technology/products
- As to the reasonable royalty: Generally “royalties paid by related parties have little probative value as to the patent’s value,” and here “true-up payments have no relevance to the calculation of the reasonable royalty...” *Slip op. at 16-22*

Astrazeneca v. Apotex (4/7/15, Bryson)



- Astra sued on two patents related to pharma formulations relating to heartburn medication Prilosec; based on a bench trial, royalty = 50% of gross profits awarded by trial court
- Among other things, Apotex contends that the district court improperly based damages on the value of the product as a whole vs. apportioning between the active ingredient (which was off patent) and the “inventive element” (the subcoating)
- Held: where patent covers entire product but recites conventional and unconventional elements, court must determine relative value of inventive elements... however, conventional element can be rendered more valuable by its use in combination with an invention...thus, the question is how much new value is created by the novel combination, beyond the value conferred by the conventional elements alone
- Trial court did not clearly err in finding subcoating so important to commercial omeprazole that it was substantially responsible for value of the product

Slip op. at 20-25

Info-Hold v. Muzak (4/24/15)



- Single patent directed to systems, apparatuses and methods for playing music and messages through telephones and public speaker systems
- Trial court granted Muzak's MSJ on inducement and lost profits. As to reasonable royalty, court struck Info-Hold's damages expert for lack of qualifications and using the 25% rule; absent evidence of damages, court granted MSJ awarding no reasonable royalty damages
- As for inducement, Court found material issues of fact still existed regarding intent; as to the reasonable royalty, although exclusion of plaintiff's damages expert was affirmed, held, the trial court is still required to determine a reasonable royalty based on record evidence available, which may include opposing expert's determinations (i.e., 1% to 2% based on other licenses)

Slip op. at 11-14

Apple v. Samsung (5/18/15)



- Based on trial and partial re-trial, juries awarded \$900 million+ in design patent, utility patent, and trade dress infringement damages
- An ongoing saga, but in this appeal, issues relating to trade dress infringement and apportionment of defendant's profits with respect to design patent damages
- Trade dress: appellate court found undisputed evidence of the functionality of the registered trade dress, shifting the burden to prove non-functionality back to Apple, which failed to show that there was substantial evidence in the record to support a jury finding in favor of non-functionality
- Design patent damages: no apportionment required where damages based on defendant's profits – statute provides “entire profit” on “article of manufacture”
 - Possible exception if product consists of multiple articles of manufacture

Slip op. at 17, 25-28

WesternGeco v. ION (7/2/15)



- Jury awarded lost profits + royalty of \$93.4 + \$12.5 million for four system patents relating to marine seismic energy exploration
- ION makes accused DigiFINs in the U.S. then ships them overseas to customers who compete with WG for survey work overseas; WG's lost profits related to 10 lost non-U.S. survey contracts (WG does not sell its patented Q-Marine product)
- ION appealed lost profits, WG appealed exclusion of its royalty expert opinions
- Court reversed lost profits on grounds U.S. patent law does not cover entirely overseas infringing use; affirmed damages expert exclusion where royalty exceeded 4x revenue
- Dissent on foreign sales: (1) some Supreme Court cases support lost profits on foreign sales; (2) overseas surveys are convoyed sales; and (3) infringement on high seas could escape any territorial patent protections

Carnegie Mellon U. v. Marvell Tech. (8/4/15)



- Jury awarded royalty of \$1.17 billion (\$0.50/chip) for two hard disk drive patents relating to methods, devices, and systems for improved accuracy in the detection of recorded data when certain types of errors are likely
- Award affirmed as to (1) royalty rate and (2) base where chips made/delivered abroad and (based on industry data) imported into the U.S. (\$278 million), but reversed/remanded for new trial as to base consisting of non-imported chips in order to determine place(s) of sale.

To the extent, and only to the extent, that the United States is such a location of sale, chips not made in or imported into the United States may be included in the past-royalty award and ongoing-royalty order.

- All of Marvell's sales were strongly enough tied to U.S. infringement as a causation matter to have been part of the hypothetical-negotiation agreement, but that conclusion is not enough...one must examine the location of steps in sales cycle, the place of the “design win”

On this record, we cannot say that a jury could not find the chips to have been sold in the United States...

Slip op. at 3-4, 39-44

Summit 6 v. Samsung (9/21/15)



- Jury awarded \$15 million “lump-sum license through the life of the patent” for a patent on a computerized method for processing (i.e., resizing) digital content (i.e., photos)
- On appeal, Summit 6 sought an ongoing royalty for future infringement and argued that the lump-sum award could not be for the life of the patent because all the record evidence, the jury instructions, and verdict form related to past infringement
- Held, trial court did not abuse its discretion in denying Summit’s ongoing royalty request since (1) both Summit and Samsung’s experts agreed that a lump-sum would compensate Summit through the life of the patent, (2) all of the existing license agreements offered as evidence were lump-sum licenses, and (3) the jury actually wrote the term “lump-sum” on the verdict form
- Further, Court affirmed royalty based on apportionment from device price to patented feature using: (1) proportionate cost of the component, (2) surveyed usage of accused feature, (3) profit % and (4) 50/50 profit split.

Slip op. at 20-21, 24-28

Nordock v. PowerAmp (9/29/15)



- Jury awarded Nordock a royalty of \$46,825 for a design patent on “the ornamental design of a lip and hinge plate for a dock leveler”
- On appeal Nordock argues it was entitled to recover defendant’s profits for sales of infringing devices and did not have to prove its own lost profits
- Held, district court erred in assessing damages; instead of using “the gross profits methodology required by law and described in the jury instructions,” the district court relied on and limited damages based on the so-called “cost savings” defendant received from using the patented design
- On remand, Nordock is entitled to total profits on the entire article of manufacture (dock leveler device), noting defendant’s damages expert had determined there were operating profits on defendant’s accused levelers of over \$400/unit vs. less than \$15 or \$0

Reasonable Royalty: Trends in Apportionment



- How are surveys used in connection with apportionment?
- What is the role of the technical expert in apportionment?
- What is the role of the damages expert in apportionment?

Lost Profits: Do EMVR and apportionment concepts apply?



- *Panduit* factor 1 (“demand”): Is it demand for the patented product (e.g., *DePuy Spine* 2009) or patented feature (e.g., *Calico Brand* 2013)?
- *LaserDynamics & Ericsson* citing *Garretson*: Do you have to apportion lost profits?
- *Panduit* factor 2 (“acceptable non-infringing alternative”): Isn’t this a sufficient check and balance to assure the patented feature is “important enough” to establish “but for” causation?

Discovery: Streamlining vs. Burden of Proof



- Early disclosures: When used? What's worked?
- Accelerated/targeted discovery: When used? What's worked?
- Streamlined discovery vs. increased burden of proof on damages: How do you balance efficiency and burden of proof?