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RECENT DEVELOPMENTS IN REASONABLE ROYALTY DAMAGES

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ALAN RATLIFF, StoneTurn Group
KAREN VOGEL WEIL, Knobbe Martens

TOPICS

- Entire Market Value Rule (EMVR) / Smallest Salable Patent Practicing Unit (SSPPU)
- Apportionment
- Prior Licenses
- Other Topics

EMVR/SSPPU

EMVR/SSPPU: Background

- The “Entire Market Value Rule” (EMVR) is a narrow “exception” to the rule that royalties must be based on SSPPU. *LaserDynamics* (FC 2012), *VirnetX* (FC 2014)
- Determination “required” in “all” cases involving products with multiple components to limit royalty base to the component(s) most closely related/connected to the invention. *Id.*
- Inherent difficulties exist in determining the SSPPU; absolute precision not required, some degree of approximation and uncertainty allowable. *VirnetX* (FC 2014)
- EMVR is an evidentiary issue, to prevent misleading jury. *Ericsson* (FC 2014)

EMVR/SSPPU: Recent Cases—Federal Circuit

- A comparable license based on total product revenue may support using a royalty base larger than SSPPU: “The rule Cisco advances—which would require all damages models to begin with the smallest salable patent-practicing unit—is untenable. It conflicts with our prior approvals of a methodology that values the asserted patent based on comparable licenses. Such a model begins with rates from comparable licenses and then ‘account[s] for differences in the technologies and economic circumstances of the contracting parties.’” *CSIRO v. Cisco* (FC 2015)

EMVR/SSPPU: Recent Cases—District Courts

- Design around cost still relevant to royalty determinations: As to whether plaintiff's computation violated the EMVR: "If upgrading...is...the 'next best' alternative to the [patent], then the cost of implementing that alternative is equivalent to the cost of avoiding infringement. The fact that one might be motivated to upgrade for reasons unrelated to infringement, or...obtain additional benefits from upgrading, does not mean that this methodology incorporates the value of unpatented features." *Metaswitch v. Genband* (EDTX 3/5/16)
- Marketing materials alone are insufficient to determine patented feature is the basis of demand: "the fact that a company chooses to advertise its products in a certain way says nothing about why a customer chooses to purchase a particular product." *Nortek v. Energy Lab* (NDCA 7/15/16)
- A comparable license does not support using a royalty base larger than SSPPU: Without referencing *CSIRO*, court found that "[a] comparable license is not enough to justify the use of the entire market value rule where 'there was no evidence that the patented feature was the basis of consumer demand.'" *Id.*

EMVR/SSPPU: Recent Cases—District Courts

- Presentation to jury of price of entire product to show not invoking EMVR, violates EMVR: Expert's reference to average price of smartphone to explain that he is not invoking EMVR, i.e., to show that cost of OS is not the same as the cost of the phone, violates EMVR. *Core Wireless v. LG* (EDTX 8/23/16)
- Evidence that a feature is “essential” may be sufficient to satisfy EMVR for single purpose product: “Because the accused chips at issue here, unlike the laptops in LaserDynamics, have a single purpose, ..., which purpose is directly served by the patented technology function..., it is not unreasonable for the jury to have found the patented feature here constitutes the basis for consumer demand for the accused products.” *Power Integrations v. Fairchild Semiconductor* (NDCA 8/24/16)

APPORTIONMENT

APPORTIONMENT: Background

- Broadly refers to separating out the value contributed to the product by the patented vs. the non-patented elements.
- “Ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.” *Ericsson* (FC 2014)
- “[T]he requirement that a patentee identify damages associated with the smallest salable patent-practicing unit is simply a step toward meeting the requirement of apportionment. Where the smallest salable unit is ... a multi-component product ..., the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology.” *VirnetX* (FC 2014)

APPORTIONMENT: Recent Cases

- Extent of use can be used to determine royalty damages: Expert’s apportionment methodology correlating use with value—by using % of production cost attributed to infringing feature and surveys estimating % of use in infringing manner—was not unreliable. *Summit 6 v. Samsung* (FC 2015)
- Word count insufficient: Using a word count based on marketing descriptions insufficient basis for apportioning to patented features. *Omega Patents v. Calamp Corp.* (MDFL 12/23/15)
- Analytical approach is still viable: “...there is nothing about the analytical approach that precludes a comparison between the profit margins on specific products.... So long as the comparison isolates the value of the patented features — and no more — it is immaterial whether the profitability of a specific product or of an industry is used.” *Metaswitch v. Genband* (EDTX 3/5/16)

PRIOR LICENSES

PRIOR LICENSES: Background

- Well-established that licenses of the patent-in-suit are the most relevant to determining a reasonable royalty. *Georgia-Pacific* (US 1971)
- Licenses must be “sufficiently” comparable. *Lucent* (FC 2009)
This includes technological and economic comparability. *Finjan* (2010)
- Rarely is there a completely analogous license; experts may rely on licenses that differ in some respects from the hypothetical license as long as adjustments are made to account for the differences. *Ericsson* (FC 2014) But “loose” or “vague” comparability is not enough. *LaserDynamics* (FC 2012)
- Determining the SSPPU is not required when using a comparable license approach to determine the royalty. *CSIRO* (FC 2015)

PRIOR LICENSES: Recent Cases

- In the absence of comparable bare license agreements, experts allowed to rely on other types of agreements: “plaintiffs' expert resorted to using distributor fees ... and defendants' expert resorted to using collaboration agreements and cross-license agreements.... With the exception of [an] acquisition agreement and [a] settlement agreement, I am satisfied that the experts have adequately explained” the relevance of these agreements. *Amgen v. Sanofi* (DDE 2/18/16)
- SEP FRAND portfolio rate not allowed as a cap on the rate for an individual patent not in the portfolio: “bare assertion that these standard-essential, FRAND portfolios should intuitively be worth far more than a single asserted patent ... [is] fatally insufficient.” *M2M v. Motorola* (DDE 2/25/16)

PRIOR LICENSES: Recent Cases

- Reliance on settlements not permitted where expert failed to make showing of technological comparability and failed to account for lack of a willing licensor. *M2M v. Enfora* (DDE 3/9/16)
- Settlements involving patent-in-suit are discoverable. *Sanofi v. Genentech* (CDCA 3/30/16)
- Reliance on settlement agreements requires “some analysis on the litigation underlying the agreement”: “Without this information, the factfinder cannot assess to what degree the settlement agreement license was ‘tainted by the coercive environment of patent litigation.’” *Baltimore Aircoil v. SPX Cooling* (DMD8/22/16)

OTHER TOPICS

OTHER TOPICS: Recent Cases

- Royalties cannot include foreign sales of products not made, delivered or imported into US: “it was not enough ... that the damages-measuring foreign activity have been factually caused ... by domestic activity.... We ... vacate the portion of the damages award ... which apply the royalty rate to chips not made or used in, or imported into, the United States. A new trial is required to determine whether those chips were sold in the United States.” *Carnegie Mellon v. Marvell* (FC 2015)
- WACC-adjusted “Nash” modification called “Muthoo” insufficient: Where, absent an arbitrary adjustment for the parties’ comparative cost of capital model would yield a 50/50 profit split, methodology insufficiently tied to facts of case. *Omega Patents v. Calamp Corp.* (MDFL 12/23/15)

OTHER TOPICS: Recent Cases

- Damages based on post-expiration sales allowable under an accelerated market entry theory: “*Brulotte* ... ‘bars ... royalties for using an invention after it has moved into the public domain’.... [I]n the hypothetical negotiation, [the parties] could have agreed to enter into a lump sum royalty paid before patent expiration. . . . [Plaintiff] has shown that other courts ... have allowed an ‘accelerated market entry’ theory.... [H]owever, ... [plaintiff] faces a steep climb under this theory [including whether] estimates of future sales are sufficiently reliable to use them as a basis” for damages. *Magna Electronics v. TRW* (WDMI 12/31/15)
- Royalty rate based on R&D expenditures and savings is allowable: *3M v. GDC* (DMN 7/22/16)
- Does a *Georgia-Pacific* analysis need to begin with a starting point?:
 - YES: “Without a relevant starting point, a *Georgia-Pacific* analysis is not a reliable methodology.” *Baltimore Aircoil v. SPX Cooling* (DMD 8/22/16)
 - NO: “There is no legal requirement that an expert begin with a particular ‘starting point’ and then use the fifteen factors to nudge the royalty up or down.” *Core Wireless v. LG* (EDTX 8/26/16)

THANK YOU