



What In-House Counsel Should Know About Patent Damages and Recent Changes In Apportionment, and How the Changes Affect Their Business

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Presenters:



Teri Evans

Patent Counsel
Comcast Cable
215.286.3499

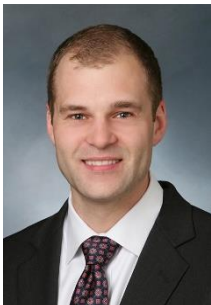
Teri_Evans@Comcast.com



Jenna M. Pellecchia

Counsel | Philadelphia
Akin Gump Strauss Hauer & Feld LLP
215.965.1230

jpellecchia@akingump.com



John Wittenzellner

Counsel | Philadelphia
Akin Gump Strauss Hauer & Feld LLP
215.965.1241

jwittenzellner@akingump.com

Agenda

- Overview of Available Damages for Patent Infringement
 - Lost Profits Damages
 - Reasonable Royalties Damages
- Apportionment in Practice
 - How to Apportion
 - Use of Prior Agreements
- What to Expect in Expert Reports
- How to Protect Experts from *Daubert* Challenges

What Governs Patent Damages?

“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.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.”

35 U.S.C. § 284

What Patent Damages Are Available?

Lost Profits



Reasonable Royalties



Lost Profits Damages

- “But for” Causation = Plaintiff lost money because of infringement
- Plaintiff may prove:
 - Lost sales
 - Future lost profits
 - Unpatented items
 - Price erosion
 - Damage to reputation
 - Other losses
- *Panduit Test*
 - Demand for the patented product
 - No unpatented products that could work as a substitute
 - The ability to exploit the demand
 - The profit that would have been made



Reasonable Royalty Damages

- $\text{Royalty Base} * \text{Royalty Rate} = \text{Reasonable Royalty}$
- Methodologies
 - *Georgia-Pacific* Hypothetical Negotiation
 - Assume patent is valid and infringed
 - Consider 15 *Georgia-Pacific* Factors
 - Book of Wisdom
 - Variation of *Georgia-Pacific* Hypothetical Negotiation that accounts for future events
 - Analytical Approach
 - Damages calculated based on infringer's internal profit projections at time infringement began
 - Projected Profit apportioned between parties as percentage of sales
 - Established Royalty
 - Cost Savings



Georgia-Pacific Factors

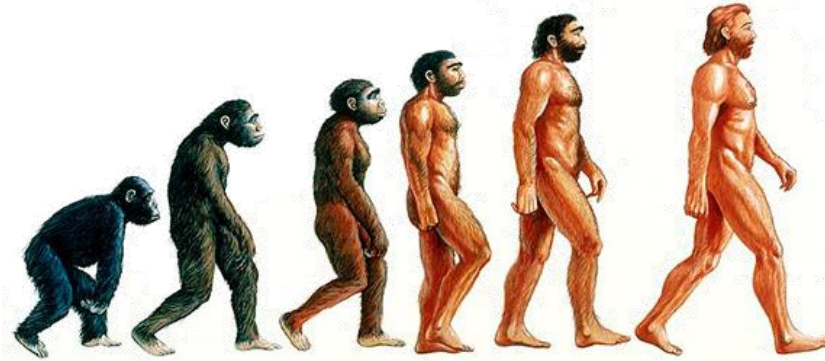
1. Royalties patentee receives for licensing the patent-in-suit
2. Rates licensee pays for use of other comparable to the patent-in-suit
3. Nature and scope of license in terms of exclusivity and territory / customer restrictions
4. Licensor's established policy and marketing program to maintain patent monopoly by not licensing others to use the invention
5. Commercial relationship between licensor and licensee, such as whether they are competitors, or inventor and promoter
6. Effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales
7. Duration of patent and term of license

Georgia-Pacific Factors Continued

8. Established profitability of the products made under the patent, its commercial success and its current popularity
9. Utility and advantages of patent property over old modes and devices
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefit of those who have used the invention
11. The extent to which the infringer has made use of the invention and the value of such use
12. The portion of profit or selling price customarily allowed for the use of the invention
13. The portion of realizable profit attributable to the invention
14. Opinion testimony of qualified experts
15. Outcome from hypothetical arm's length negotiation at the time of infringement began

Where did Apportionment Come From?

- ***Cornell Univ. v. Hewlett-Packard Co.***, 609 F.Supp.2d 279, 288 (N.D.N.Y. 2009) (Judge Rader sitting by designation).
 - Introduction of the Smallest Salable Patent Practicing Unit (SSPPU)



- ***Lucent Techs., Inc. v. Gateway, Inc.***, 580 F.3d 1301 (Fed. Cir. 2009) (Michel, Newman, Lourie)
 - Federal Circuit suggested royalty base should be apportioned to SSPPU

Is Apportionment Required?

- ***Finjan, Inc. v. Blue Coat Sys.***, 879 F.3d 1299 (Fed. Cir. 2018).
 - Fed. Cir. rejected the use of an SSPPU containing non-infringing features as the royalty base on the ground that the base was not sufficiently apportioned.
- ***Exmark Mfg. Co. v. Briggs & Stratton Power Prods. Grp., LLC***, 879 F.3d 1332 (Fed. Cir. 2018).
 - Although the infringing feature in *Exmark* was a baffle on a lawnmower, the plaintiff was able to successfully use the revenues from sales of the entire lawnmower as the royalty base.
- ***Power Integrations v. Fairchild***, 904 F.3d 965 (Fed. Cir. 2018), *modified*, 2018 U.S. App. LEXIS 26837 (Fed. Cir. Sept. 20, 2018).
 - “We have articulated that, where multicomponent products are accused of infringement, the royalty base should not be larger than the smallest salable unit embodying the patented invention.”

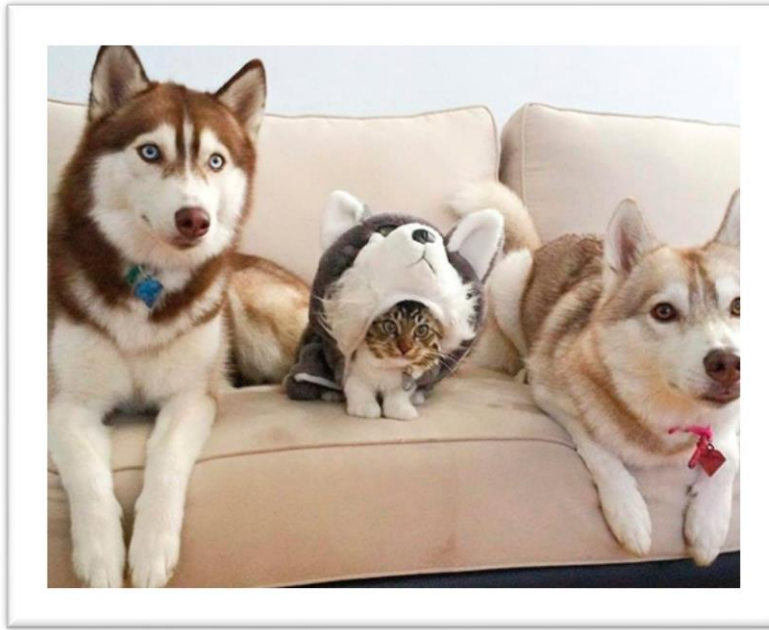
How Do Prior Agreements Fit In?

- Prior agreements are relevant to apportionment under several *Georgia-Pacific* factors:
 - *Georgia-Pacific* factor 1 considers “[t]he royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.”
 - *Georgia-Pacific* factor 2 considers “[t]he rates paid by the licensee for the use of other patents comparable to the patent in suit.”
 - *Georgia-Pacific* factor 12 addresses “[t]he portion of profit or selling price customarily allowed for the use of the invention.”

Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

How Do We Use Prior Agreements?

- Determine if agreements are both:
 - ❑ Technically Comparable
 - ❑ Economically Comparable



Technical Comparability

- Courts will not tolerate “loose or vague comparability” between different technologies.”
 - ***LaserDynamics v. Quanta***, 694 F.3d 51, 79 (Fed. Cir. 2012).
- Licenses in same general computer field not comparable without showing relationship to technology at issue.
 - ***Lucent Techs., Inc. v. Gateway, Inc.***, 580 F.3d 1301, 1325, 1328-29, 1332 (Fed. Cir. 2009).
- Actual licenses to patented technology considered highly probative.
 - ***LaserDynamics***, 694 F.3d at 79
- Must consider extent to which previously licensed patents and patents-in-suit are similarly “fundamental” in field.
 - ***W.L. Gore & Associates, Inc. v. C.R. Bard***, 2015 WL 12731924, at *6 (D. Del. Nov. 4, 2015).

Economic Comparability

- Relationship between the parties
- Identity of parties in prior agreement
- Finality of agreement
- Comparability of structure of prior agreement
- Scope of agreement
- Context of prior agreement and bargaining positions of parties
- Timing of prior agreement in relation to hypothetical negotiation
- Volume of expected licensed products and materiality of expected royalty income
- Other factors



How to Apportion when Comparable Licenses are Involved?

- ***Ericsson, Inc. v. D-Link Sys., Inc.***, 773 F.3d 1201 (Fed. Cir. 2014)
 - Fed. Cir. addressed the issue of EMVR and prior agreements, and explained that EMVR has 2 parts:
 1. A substantive legal rule; and
 2. An evidentiary principle.
 - The Fed. Cir. found no legal error in admitting prior licenses “predicated on the value of a multi-component product” even though the technology being licensed related to only a component of that product.
 - Expert testimony is required, however, to explain “to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology.”

How to Apportion when Comparable Licenses are Involved?

- ***CSIRO v. Cisco Sys, Inc.***, 809 F.3d 1295 (Fed. Cir. 2015)
 - The court opined that royalty models may start with either the SSPPU OR Comparable Licenses
 - The court affirmed the district court's damages analysis wherein the hypothetical negotiation royalty base was not apportioned because the district court began with the parties' negotiations.
- ***Intel Corp. v. Future Link Sys.***, 2017 WL 2482881 (D. Del. June 1, 2017)
 - The court allowed an expert to testify to his reasonable royalty opinion that included no apportionment of the royalty base and no application of the entire market value rule.
 - Instead, the royalty opinion depended on comparisons to prior licenses.
- ***Exmark Mfg. Co. v. Briggs & Stratton Power Prods. Grp., LLC***, 879 F.3d 1332 (Fed. Cir. 2018)

What to Expect in Expert Reports?



Argument: Royalty Base Should be the Entire Device

- The patented feature drives consumer demand, as such, apportionment of the base is unnecessary under EMVR.
 - ***Rite-Hite Corp. v. Kelley Co., Inc.***, 56 F.3d 1538, 1549 (Fed. Cir. 1995)
- Comparable licenses cover the entire device, not just a component.
- There is no rigorous, justifiable method for apportionment so any apportionment would be arbitrary at best.
- Synergies arise when the value of a combination of two components is greater than the sum of values of the two components separately.
- A single component of a multi-component product may enable other components or other features of the entire product.
- Uniform pricing of the smallest salable unit eliminates recovery of high valued use.

Counter-argument: Royalty Base Should be the SSPPU

- When the patented feature of a multi-feature device does not drive consumer demand, the royalty base must be the SSPPU
- “Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product.”
 - ***LaserDynamics***, 694 F.3d at 67.
- Using the SSPPU instead of the entire product as the royalty base reduces the likelihood that a larger royalty base would bias the jury towards a larger damages award.
 - ***CSIRO***, 809 F.3d at 1302.

Counter-argument: Royalty Base Should be the Single Component

- In multi-feature SSPPUs, where only one feature is patented, the royalty base should be apportioned down from the cost of the SSPPU to reflect the value of the SSPPU that is attributable to the patented feature.
 - ***VirnetX, Inc. v. Cisco Systems, Inc.***, 767 F.3d 1308, 1327-28 (Fed. Cir. 2014).
- The patentee “must separate [the patented improvement’s] results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated.”
 - ***Garretson v. Clark***, 111 U.S. 120 at 121 (1884).
- Patent damages “must reflect the value attributable to the infringing features of the product, and no more.”
 - ***Ericsson***, 773 F.3d at 1226; reaffirmed in ***Finjan, Inc. v. Blue Coat Sys.***, 879 F.3d 1299 (Fed. Cir. 2018).

How to Survive *Daubert* Challenges

- ❑ Identify Sound Methodology
- ❑ Account for all aspects of Methodology
- ❑ Give your expert all the facts
 - Technical aspect cannot be ignored
- ❑ Don't ignore the bad facts
- ❑ Tie Damages to Infringement and Novel Patent Features
- ❑ Account for differences between proving infringement and proving damages

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