A Penny or Pound:
Apportioning Damages in Patent Cases

LICENSING EXECUTIVES SOCIETY
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Six Years Worth of Damages

- *SCA Hygiene Products v. First Quality Baby Products* (S. Ct. March 21, 2017)
  - Doctrine of Laches Does Not Bar Damages for the Six Years prior to a suit for patent infringement
  - Take away: Even if patent owner delays filing suit, the patent owner can still collect damages for 6 years prior to suit
  - Note: Marking and/or Notice Requirements still apply

Supreme Court Decision May Narrow Available Damages in Design Patent Cases

- *Samsung Elecs. Co., Ltd., v. Apple Inc.*, 137 S. Ct. 429 (2016)
  - Damages in design cases historically could include the infringer's profits on the product sold by the defendant.
  - Held that an "article of manufacture" for purposes of calculating the infringer's profits could be a component of a product, rather than the whole product
  - Declined to set forth a test identifying when to use the whole product versus a component to calculate the infringer's profits

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High Court Relaxes Standard for Enhanced Damages

- *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016)
  - Rejected the old test, which required a patent owner to show by clear and convincing evidence that
    - (1) the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent; and
    - (2) that the risk of infringement was either known or so obvious that it should have been known to the accused infringer.
  - Held that court should consider the particular circumstances of each case, including whether infringer acted with knowledge of the patent, and egregiousness of conduct
  - Lowered burden of proof to preponderance of evidence

Actual Notice Requirement for Pre-Issuance Damages Does Not Require an Accusation of Infringement

- *Rosebud LMS Inc. v. Adobe Systems Inc.*, 812 F.3d 1070 (Fed. Cir. 2016)
  - 35 U.S.C. § 154(d) provides for damages that take place before a patent issues if the infringer "had actual notice of the published patent application."
  - § 154(d)'s Actual Notice Requirement
    - Includes knowledge obtained without an affirmative act of notification.
    - Does not require an affirmative act by the applicant giving notice of the published patent application to the infringer.
    - Is not satisfied by constructive knowledge.

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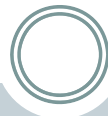
Federal Circuit Endorses Several Methods of Determining Reasonably Royalties



- *Summit 6, LLC v. Samsung Elecs. Co., Ltd.*, 802 F.3d 1283 (Fed. Cir. 2015)
  - Comparable Licenses
  - Value based on "comparable features in the marketplace"
  - Value based on comparing accused product to non-infringing alternatives
  - Analytical Method – based on infringer's projections of profit for the infringing product

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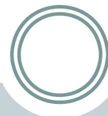
Federal Circuit Endorses Several Methods of Determining Reasonably Royalties



- *Summit v. Samsung* (cont.)

  - “There may be more than one reliable method . . . .”

  - “One or all may produce admissible testimony”

  - “Where the methodology is reasonable and [the] data or evidence are sufficiently tied to the facts of the case . . . the correctness . . . belongs to the factfinder.”

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Federal Circuit Endorses Valuation Based on Usage Data

- *Summit v. Samsung* (cont.)
  - Expert measured cost of camera component, based on cost of production information (6.2% of cost = $14.15 per unit)
  - Expert estimated percentage of camera users who used the infringing method (20.8%, or $2.93 per unit)
    - Relied solely on surveys commissioned by Samsung internally, and one other survey
  - Expert applied Samsung's normal profit margin from annual reports (resulting in $.56 per unit)
  - Expert split the .56 per unit – half to patent owner, half to Samsung
    - Relied on articles about bargaining solutions to support an even split

Settlement Agreement Properly Admitted to Establish Reasonable Royalty Damages

- *Prism Techs. LLC v. Sprint Spectrum LP*, 849 F.3d 1360 (Fed. Cir., March 6, 2017)
  - Court properly admitted Prism's settlement agreement with AT&T to establish the proper amount of reasonable royalty damages against Sprint
    - ATT was a defendant in a related case that settled 6 months prior to trial against Sprint
    - Prism supplied evidence about comparability of Sprint's and AT&T's uses of patented technology

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Federal Circuit Endorses Use of Settlement Agreements and Price Comparisons

- *Rembrandt Wireless Techs., LP v. Samsung Elecs. Co.*, 853 F.3d 1370 (Fed. Cir. April 17, 2017)
  - Settlement agreement with co-defendant could be used as evidence, even though agreement specifically did not include a "per unit" allocation
  - Settlement agreement may undervalue the patents because validity and infringement are not assumed, and because litigation risk and cost may affect the amount
  - Expert Testimony comparing price of chip with patented functionality to price of chip without such technology was admissible to show value of patented technology
  - Expert Testimony attributing entire price differential to patented technology was admissible

Determining the Value Attributable to Patent: Recent Cases Influencing Patent Damages and Valuations

- Lost Profits
- Reasonable Royalty
- Apportionment

Determining the Value Attributable to Patent: Apportionment in Lost Profits

- Lost Profits
  - *Panduit* Factors
    1) Demand
    2) Absence of Non-Infringing Alternative
    3) Capacity
    4) Full Accounting of Lost Profits

  - *Mentor Graphics v. EVE-USA and Synopsys*
    - CAFC March 16, 2017
    - Maintains "but-for" standard for lost profits damages
    - CAFC ruled that factor 2) accounts for the apportionment of damages in lost profits.

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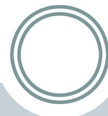
Determining the Value Attributable to Patent: Recent Cases Influencing Patent Damages and Valuations

- Reasonable Royalty
  - *Georgia-Pacific* Factors – Multivariate Analysis
  - Hypothetical Negotiation – Ex-post v. Ex-ante Data
  - Valuation Approaches
    - Cost Approach
    - Income Approach
    - Market Approach
      - Settlement vs. License Agreements



- Apportionment in reasonable royalty calculations
  - Proportional Use
  - Surveys
  - Forward Citation Analysis

Apportionment in Reasonable Royalty Calculations: Proportional Use

- Accepting proportional use as the basis of apportionment
  - *Summit 6, LLC v. Samsung Electronics Co. Ltd., et al.,* CAFC. Sept. 21, 2015.
  - *Comcast Cable Communications LLC et al. v. Sprint Communications Co. LP et al.* EDPA Daubert Opinion Nov.21, 2016

- Rejecting proportional use as the basis of apportionment
  - *Sprint Communications v. Comcast IP Holdings, et al.*, D. Del. Order Jan. 29, 2015.

Apportionment in Reasonable Royalty Calculations: Proportional Use

SPRINT COMMUNICATIONS COMPANY L.P., Plaintiff

COMCAST IP HO

Civil A

United State

MEMORANDUM OR

RICHARD G. ANDREWS, Distri

Presently before the Court is Co
of Sprint's experts, Dr. Arthur B
was included in Comcast's Motio
2014, but is addressed separate
(D.I. 171, 196 & 220), and the pa
2015 (D.I. 239). The parties app
on January 16, 2015. (D.I. 229).
ORDERED that Comcast's Motio

Federal Rule of Evidence 702 se
testimony, stating that:

> A witness who is qualified
> experience, training, or ed
> or otherwise if: (a) the exp
> knowledge will help the tri
> determine a fact in issue;
> or data; (c) the testimony i
> methods; and (d) the expe
> methods to the facts of the

Fed. R. Evid. 702. The Third Cir
restrictions on expert testimony:

I think an analogy may be helpful. Let's assume there is a company that uses a local area network computer system. It costs $1,000,000 per year to operate. The company decides to upgrade. It gets a new local area network computer system. The new network system has upgraded routers. The upgrades to the routers are protected by a patent. A technical expert concludes that the new network system performs 5000 different functions. The technical expert also concludes that the routers perform 250 different functions. (Or that the upgrades to the routers perform 250 different functions. The point will be the same.). After the new system is in use, the company calculates that it now only costs $800,000 per year to operate the local area network system. What is the contribution of the routers (or the upgrades to the routers) to that $200,000 per year that is being saved? There is insufficient information to make a reasonable estimate. Saying that the new routers (or the upgrades to the routers) are responsible for *25015000* (or 5%) of the savings is not based on science. It is not a reasonable estimate. It is simply a guess.

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Apportionment in Reasonable Royalty Calculations: Surveys

- Inappropriate Use of Surveys

- Conjoint Surveys

Apportionment in Reasonable Royalty Calculations: Surveys

- Inappropriate Use of Surveys
  - *Fujifilm Corp. v. Motorola Mobility LLC,* NDCA "Order On Defendant's Motion to Exclude" April 8, 2015
  - *Radware, Ltd., et al. v. F5 Networks, Inc.*, NDCA "Order Granting Motion For Reconsideration," February 3, 2016
- Conjoint Surveys
  - *Apple v. Samsung Electronics Co., Ltd., et al.,* NDCA, 2012
  - *TV Interactive Data Corp. v. Sony Corp.* NDCA, "Order Re Daubert Motions," March 11, 2013.

Apportionment in Reasonable Royalty Calculations: Patent citation analysis in the courts.

- ***GlobespanVirata v. Texas Instruments and Stanford University***, 03-2954, NJDC Jan. 2006,
  - Results of patent citation analysis presented in court.
- ***Oracle America, Inc. v. Google Inc.*** "Order Granting in Part and Denying in Part *Daubert* Motion To Strike Google's Supplemental Expert Damages Reports," March 15, 2012. (NDCA)
  - Expert failed to account for the fact that one patent had been reissued twice.
- ***Finjan, Inc., v. Blue Coat Systems, Inc.*** 13-cv-03999-BLF, "Order On *Daubert* Motions," July 14, 2015, NDCA
  - Plaintiffs' expert had failed to correct for age of the patents.
- ***Better Mouse Company, LLC v. Steelseries APS, et al.*** 2:14-cv-198-RSP, "Daubert Order," Jan. 4, 2016 EDTX
  - *Daubert* Motion to exclude citation analysis denied.
- ***Good Technology Corp. et al. v. MobileIron Inc.*, NDCA**
- ***Comcast Cable Communications LLC et al. v. Sprint Communications Co. LP et al., EDPA***

Other Recent Court Cases Affecting Patent Value

- ***Nichia Corp v. Everlight Americas***, Fed Cir. 2016-1585, -1618 (Fed. Cir. Apr. 28, 2017)
  - Plaintiff needs to show (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction."
  - Nichia "failed to establish that [Everlight was] responsible for causing a single lost sale in the U.S."
  - Nichia failed to demonstrate price erosion
  - Nichia was willing to license to others

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