Reasonable Royalty Damages in U.S. Patent Litigation: New Legal Standards Emerge

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Quick Review: The Basics

- 35 U.S.C. § 284:
  - "…damages [1] adequate to compensate for the infringement, [2] but in no event less than a reasonable royalty for the use made of the invention by the infringer, [3] together with interest and costs as fixed by the court."

- Supreme Court (*Aro* (1964)):
  - "The question to be asked in determining damages is '… had the Infringer not infringed, what would [the] Patent Holder-Licensee have made?'"

Quick Review: The Basics

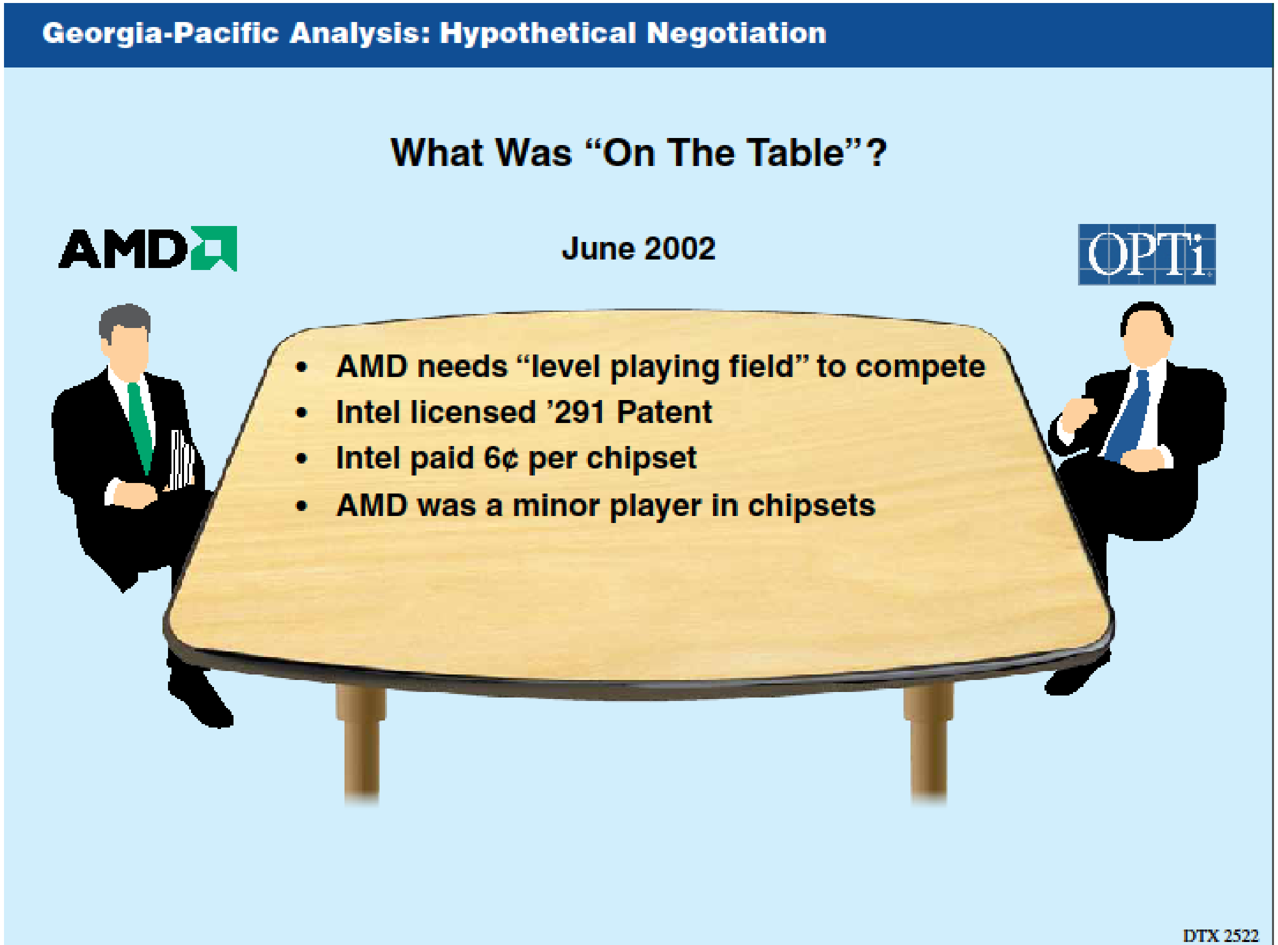
- Reasonable royalty:
  - "The royalty may be based upon an established royalty, if there is one, or if not, upon the supposed result of hypothetical negotiations between the plaintiff and defendant." (*Rite-Hite* (1995))
  - Hypothetical negotiation is done
    - When the infringement began
    - Assuming validity and infringement
- *Georgia-Pacific* (S.D.N.Y. 1970) "provides a useful and legally required framework" (*Lucent* (Fed Cir. 2009))

The issues at trial are more equitable than economic

- Economic evidence is the predicate, but the issues that get tried are:
  - How much did the patent owner lose?
  - What did others pay for using the invention?
  - What is REASONABLE?
  - What is FAIR?

- The uses and misuses of *Georgia-Pacific*

What did others pay?



What is fair?

Damages Should Be Zero

What Is Reasonable?

	Royalty Rate	X	AMD Chipsets	=	Damages	
Intel	17¢	X	16.1 million	=	$2,737,000	
Donaldson	**50¢**	X	**16.1 million**	=	**$8,070,879**	**OR LESS**
OPTi	$3.86	X	16.1 million	=	$62,349,114	

Calculations not exact due to rounding.

AMD Closing

DTX 3067

Federal Circuit has sought to limit large judgments on small inventions

- Evidentiary limits on permissible arguments
  - Using the “entire market value” (EMV) as a base is the exception, not the rule
  - Rigorous review of whether licenses used for hypothetical royalty are truly comparable
  - Cannot improperly “skew the damages horizon”
- Touchstone became “economic evidence” of invention’s “footprint in the marketplace”
  - *Lucent v. Gateway* (2009)
  - *ResQNet.com v. Lansa* (2010)
  - *Uniloc v. Microsoft* (2011)

LaserDynamics v. Quanta Computer (2012)

- Error to use EMV of laptop, instead of ‘smallest saleable unit”: disk drives with the patented feature
- Error to apportion 1/3 of laptop royalty to patented invention without “economic evidence” as to why
  - Expert’s general “licensing experience” is not enough
- Error to derive running royalty from lump sum agreements
  - “Comparable” includes comparable *structure*

Apple v. Motorola (2014)

- Not an exact science. Several approved methods:
  - Sufficiently comparable licenses
  - Value of comparable features in the marketplace
  - Value to infringer, including cost of design-around
- That one method may be better than others does not make other approved methods inadmissible.
  - Issues of weight and correctness are for finder of fact.
- Error to find "zero damages" simply because expert opinion was excluded

VirnetX v. Cisco Systems (2014)

- “Smallest saleable unit” is *one step* towards *apportionment*.
  - Value of unpatented features must be eliminated.
- Licenses are *sufficiently comparable* if they cover (1) patents in suit or (2) closely related technology
  - Other arguments go to weight, not admissibility
- Nash Bargaining Solution is generally inadmissible to derive a royalty rate

Ericsson v. D-Link Systems (2014)

- If closest comparable licenses were based on value of a product that includes unpatented features, must further apportion the royalty rate.
  - Trial court must issue cautionary jury instructions

- Patents subject to RAND obligation:
  - Some *Georgia-Pacific* factors are irrelevant
  - Instructions should recite the patentee's commitment
  - Must eliminate from royalty the added value of the patent being part of a standard

Carnegie Mellon Univ. v. Marvell (2015)

- Permissible to introduce prior lump sum agreements and argue to the jury that they should be accorded little weight because of changed circumstances
- Permissible to seek a running royalty based on:
  - Absence of non-infringing alternative
  - Wide acceptance by rest of industry
  - Market pressure on the infringer
  - Failure to design around
  - Proposed royalty is still profitable for the infringer

Summit 6 v. Samsung (2015)

- *Daubert* does not require that expert's methodology have been published and/or peer reviewed
- Permissible to value patented component based on
  - Relative production cost of the patented component; and
  - Third party survey evidence of infringing use
- Jury may be asked to award a lump sum royalty for the life of the patent

CSIRO v. Cisco (2015)

- Permissible to base hypothetical royalty on actual royalty rate and license negotiations
  - Permissible even if those negotiations were not based on the smallest saleable unit

- Reasonable royalty for SEP patents must apportion for the value created by the patent being part of a standard.

What are the new rules?

- Apportionment is always required
- Touchstone of value is real-world comparability
- Can use non-identical technology or licenses, but must account for the differences
- “How close is close enough?” is still a blurry line
- *Georgia-Pacific* is a catalog of evidentiary possibilities, not a required framework