

Recent Trends in Patent Damages

Presentation for

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Jose C. Villarreal

Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

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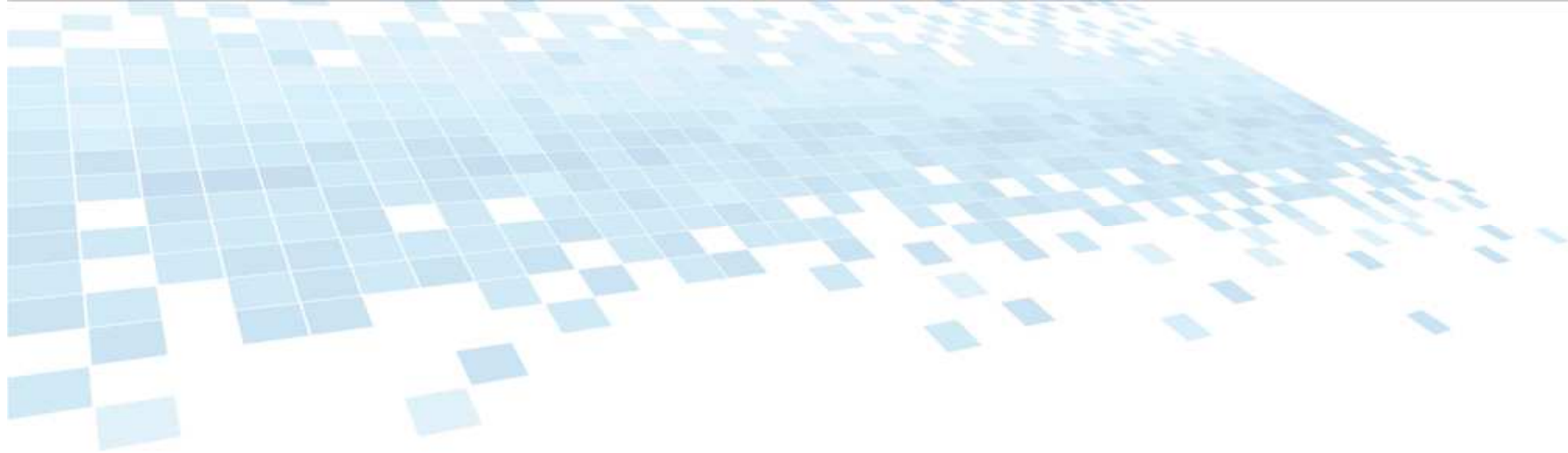
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1.  Extraterritorial Sales

Extraterritorial Sales

CURRENT LAW: Extraterritorial acts – no patent damages

- ***Power Integrations v. Fairchild* (CAFC Mar. 2013)**
 - Rejected argument that infringement acts in the U.S. can create foreseeable losses overseas that entitle a patentee to damages
 - affirmed district court's decision that jury's damages award was contrary to law because it was based on worldwide sales
- ***But CMU v. MARVELL: An Outlier?***
 - \$1.5 billion judgment against Marvell for infringing CMU patents where court rejected Marvell's assertion that it isn't liable for chips made and sold outside the U.S.

CURRENT TREND CONTRARY TO CMU:

- *France Telecom v. Marvell* (N.D. Cal. Apr. 2014)
- *Halo v. Pulse* (CAFC Oct. 2014)

Extraterritorial Sales

CMU v. MARVELL:

- **Hypothetical negotiation for RR damages based on Marvell’s sales resulting from infringing use during “sales cycle.”**
- “Sales cycle” = activities in the U.S. such as marketing meetings, evaluation, testing, development, simulations.
- However, Marvell would send final design to Taiwan for manufacture and actual sales.
- Held: *Power Integrations* distinguishable because damages here are not based on foreign acts but on “sales cycle” in the U.S. which led to all manufacture and sales overseas.
- Marvell provided almost no evidence to rebut CMU’s argument that “all steps of the sales cycle, other than physical production of the chips, occur in the United States”
- No evidence of overseas sales activities or way calculate how many chips sold overseas make it to U.S.

Extraterritorial Sales

CURRENT TRENDS: Foreign sales excluded as a matter of law

- **DISTRICT COURT:**

- ***France Telecom v. Marvell* (N.D. Cal. Apr. 2014):**

- Marvell changes strategy and moves for early summary judgment.
- Court: “Marvell seems to have learned its lesson ... it has now put forward undisputed evidence that the manufacturing, sale, and delivery of the accused chips all occurred outside the United States.” Thus, no damages.

- **FEDERAL CIRCUIT:**

- ***Halo v. Pulse* (CAFC Oct. 2014)** affirms D. Nev. Court’s granting of summary judgment of no direct infringement based on extraterritorial sales.
- **US acts:** pricing negotiation, final price approval, marketing meetings, samples, sales meetings, design meetings
- **Extraterritorial acts:** manufacture, ship and actual invoiced sales
- Most important: (i) location of contract with essential terms,
(ii) location of delivery and performance

Extraterritorial Sales

Appeal CMU v. MARVELL:

- **Marvell's appeal in the Federal Circuit is pending.**
 - Briefs filed
 - Amicus briefs filed urging CAFC to undo damages award by
 - Google, Microsoft, Broadcom, Aruba, Dell, HP, Limelight Networks, SAS Institute, and Xilinx
 - 15 law professors
 - Argued on April 7, 2015
 - How to reconcile *CMU* decision with *Power Integrations* and *Halo*?



2.  Entire Market Value Rule

Entire Market Value & Smallest Salable Unit

CURRENT LAW:

- **Entire Market Value Rule:** Damages based on the entire market value of the accused product *only where* the patented feature creates the basis for consumer demand or substantially creates the value of the component parts. *Versata Software v SAP* (Fed. Cir. 2013).
- **Smallest Salable Unit:** Patentee may assess damages based on smallest salable patent-practicing unit. *LaserDynamics v. Quanta* (Fed. Cir. 2012).

CONFUSION IN DISTRICT COURTS:

- What if smallest salable patent-practicing unit is a multi-component device with both patented and unpatented features?

CLARIFICATION: *VirnetX v. Cisco* (Sept. 2014) and *Ericsson v D-Link* (Dec. 2014)

Entire Market Value & Smallest Salable Unit

VirnetX, Inc. v. Cisco Sys., Inc. (Fed. Cir. 2014)

- Federal Circuit explicitly addresses “lower court’s material misstatement of the law”
- Source of confusion: commonly used jury instructions
 - **Jury Instructions**: “In determining a royalty base, you should not use the value of the entire apparatus or product unless either:
 - (1) the patented feature creates the basis for the customers' demand for the product, or the patented feature substantially creates the value of the other component parts of the product; **or**
 - (2) the product in question constitutes the smallest saleable unit containing the patented feature.”
 - **Incorrectly implies**: As long as the accused product is “smallest salable unit”, the entire market value of the product was an appropriate royalty base

Entire Market Value & Smallest Salable Unit

***VirnetX, Inc. v. Cisco Sys., Inc.* (Fed. Cir. 2014)**

- Where smallest salable unit is multicomponent with non-infringing features with no relation to patented feature more must be done to apportion.
- Reliance on the entire market value rule was improper because even if the “smallest salable unit” is the accused iOS devices, multi-component products require further apportionment
- Held: Where smallest salable unit is a multicomponent product with noninfringing features, patentee must estimate portion that is attributed to patented feature.

Entire Market Value & Smallest Salable Unit

Ericsson v. D-Link (Fed. Cir. Dec. 2014)

- **EMVR Evidentiary Principle:**

- D-Link argued on appeal that the damages evidence presented at trial was impermissible because it relied in part on licenses tied to the entire value of the accused product in violation of EMVR.
- Use of evidence tied to entire value of accused product to calculate damages is generally impermissible for multicomponent product and can lead to jury confusion
- However, not reversible error in this case when expert explained to jury the need to discount a license for to account for only for the value of the licensed technology.
- If court's allow this evidence it should give cautionary instruction on the use of the license.
- Court's must use their discretion

Entire Market Value & Smallest Salable Unit

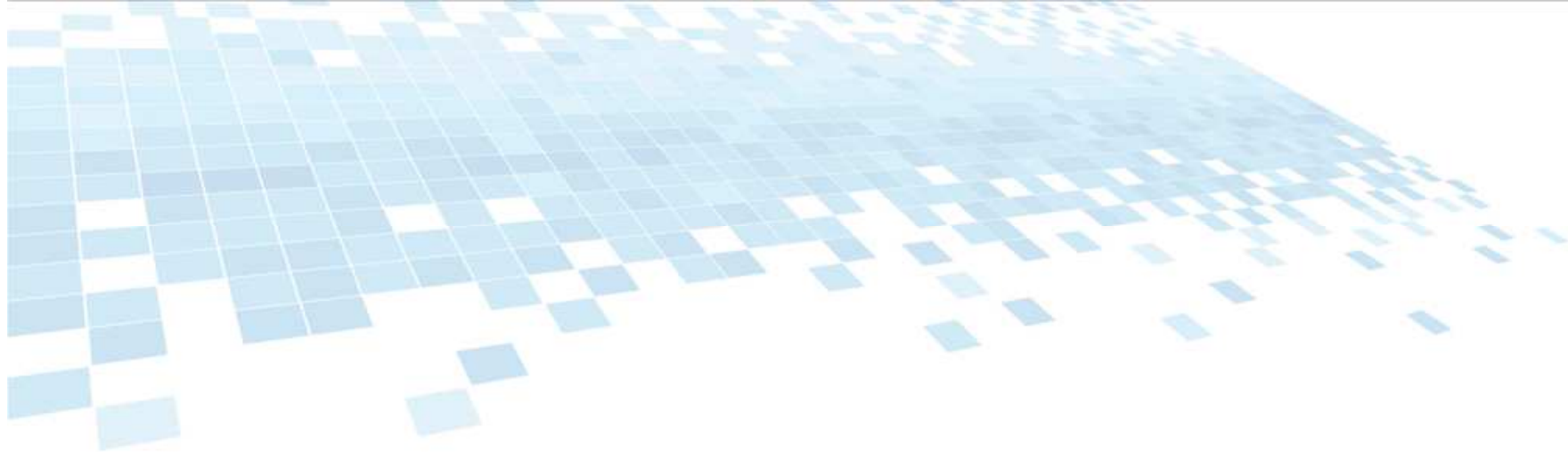
Caltech v Hughes Communications (CD Cal) May 5, 2015:

- Defendant's move for summary judgment of Caltech's damages theory for violating EMVR
- Caltech's RR damages theory is based on the entire value of the accused product despite the patents applying only to a component
- Caltech argues royalty rate already apportioned and adjusted so it is acceptable to use base of entire product.
- Held: Theory violates EMVR. Generally must apportion base to avoid jury confusion when patent relates to a component of accused product.
- Held: insufficient evidence to show product's demand was due to patented feature.

Entire Market Value & Smallest Salable Unit

IMPACT OF *VIRNETX and Ericsson*:

- For sophisticated technology, difficult to argue royalty base should be the Entire Market Value of the accused device, without compelling evidence that the patented feature is the basis for consumer demand of the device
- Even for smallest salable unit argument apportionment may be necessary where there are many unpatented features or where demand is from unpatented feature
- Defendants should proffer evidence that smallest saleable unit does not provide basis for consumer demand



3. Standard Essential Patents

Standard Essential Patents

- **Standard Essential Patents (“SEPs”)**
 - Patents that cover technology incorporated in a standard such that standard compliant devices necessarily infringe the patent.
- **Question: How to Apply EMVR to SEPs?**
 - ***Ericsson v. D-Link* (Fed. Cir. Dec. 2014)**: Clarifies application of EMVR and application to SEPs.
 - ***Apple v. Motorola* (Fed. Cir. April 2014)**: addresses injunctions for SEPs
 - **IEEE Bylaws** change effective Q1 2015.
 - **DOJ Antitrust Division.**

Standard Essential Patents

Ericsson v. D-Link (Fed. Cir. Dec. 2014)

- **SEP Patent Royalties**

- May be improper to use all Georgia Pacific factors (such as Nos. 4, 5, 8, 9, and 10)
- Jury should consider actual RAND terms patentee agreed to.

- **Further Apportionment for SEPs may be necessary**

- Further apportionment for value added by standard.
- Further apportionment for SEPs that cover only a part of a standard

Standard Essential Patents

Apple v Motorola (Fed. Cir. April 2014)

- **Injunctions for SEPs**

- No *per se* rule that injunctions unavailable to SEPs, use **eBay** factors
- BUT circumstances supporting Injunction may be narrower, e.g.:
 - potential licensor refuses to pay FRAND; or
 - unreasonably delays negotiation
- Public interest in encouraging standard-setting organizations

Standard Essential Patents

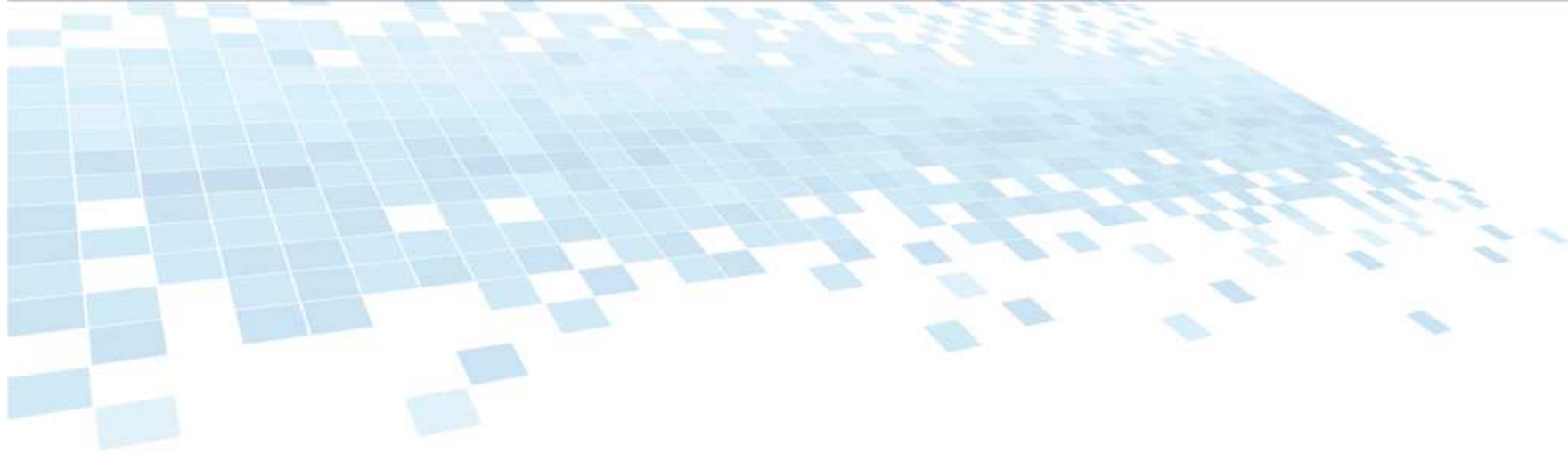
IEEE Standards, Bylaws for Patents (Effective 2015)

- Before standard is approved IEEE will seek Letter of Assurance from patentee requiring:
 - Declaration of non enforcement of patent for practicing standard or agreement to license “Essential Patent Claims” under “Reasonable Rates” free of “unfair discrimination”
 - Agreement to not seek injunction, unless implementer fails to participate in negotiation or adjudication including “first level appellate review”.
- “Reasonable Rate:” appropriate compensation:
 - Excluding value of inclusion of patented feature in standard
 - Considering value of invention relevant to functionality of smallest salable compliant implementation
 - Considering value contributed by all “Essential Patent Claims” for same standard
 - Considering other licenses sufficiently comparable and under no threat of injunction

Standard Essential Patents

IEEE Standards, Bylaws for Patents (Effective 2015)

- **DOJ Antitrust Division** released a business review letter on 2/2/15 declining to challenge the amendments to the IEEE Bylaws.
 - Criticism: The Antitrust Devaluation of Standard Essential Patents, 104 Georgetown Law Journal Online 48 (2015).
<http://www.criterioneconomics.com/docs/antitrust-divisions-devaluation-of-standard-essential-patents.pdf>
- Qualcomm press release of 2/11/15
 - No licensing commitments under new policy

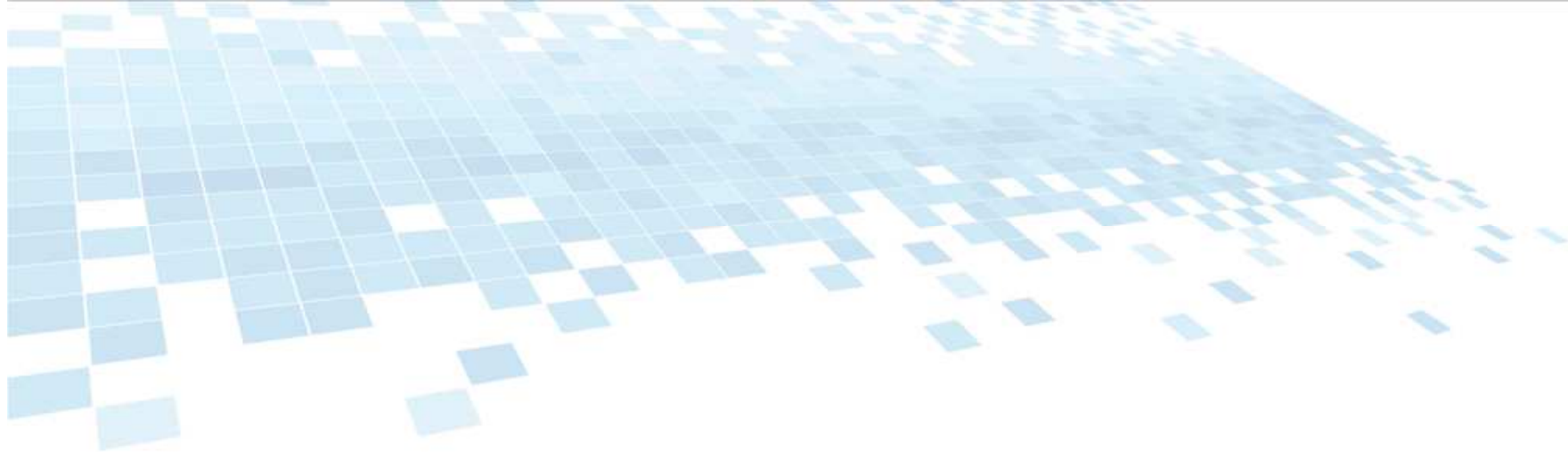


4. ▶ Lump Sum Damages

Lump Sum Damages – Future Trend?

***Open Text v Box* (NDCA January 2015)**

- Box intended to present to the Jury with a damages model that consisted of a fully paid-up lump sum covering the life of the patents-in-suit
- Open Text filed a motion to preclude because a lump-sum award could foreclose additional relief such as injunctive relief.
- **Court: Testimony allowed**
 - No case law precludes lump-sum damage.
 - Could be the result of a hypothetical negotiation
- **Conclusion:**
 - Defendants: Consider arguing plaintiff has history of licensing for lump sum payments, a lump-sum damages model should be considered to avoid potential injunction
 - Plaintiffs: Will lump-sum damages model be advantageous for plaintiffs to avoid apportionment?



5.  Biography

IP Litigation



Jose C. Villarreal
Partner

900 South Capital of Texas Highway, Las Cimas IV, Fifth Floor, Austin, TX 78746 Phone | 512-338-5424 |
Email: jvillarreal@wsgr.com

Jose Villarreal is a partner in the intellectual property litigation practice at Wilson Sonsini Goodrich & Rosati. He specializes in litigation and dispute resolution, investigations, and strategic counseling relating to patent, other intellectual property matters. He is also experienced in all phases of litigation from pre-trial through trial in federal courts and the hearings before the International Trade Commission (ITC). Jose has also appeared before the Court of Appeals for the Federal Circuit, involving interpretations of first impression under the America Invents Act. In addition, he has experience leading patent disputes involving coordinated strategies in district court and the Patent Trial and Appeal Board.

Jose also has broad experience negotiating licensing agreements and advising on intellectual property matters related to private company investments, public offerings, mergers and acquisitions.

Jose has worked with varied technologies including IEEE 802.11, CDMA, Ethernet, Asynchronous Transfer Mode, ESD protection circuits, semiconductor processes and packaging, DVD/CD technologies, and flash memory. In addition, he is experienced with patents involving software technologies for customer relationship management, content delivery, and business methods, among others.

Prior to his legal career, Jose worked at Bell Communications Research (Bellcore) in the area of network infrastructure and telecommunications protocols.

Jose is fluent in Spanish.

Full biography at <https://www.wsgr.com/WSGR/DBIndex.aspx?SectionName=attorneys/BIOS/6897.htm>

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