UT LAW CLE | THE UNIVERSITY OF TEXAS SCHOOL OF LAW

PRESENTED AT

20th Annual
Advanced Patent Law Institute

November 5-6, 2015
Austin, Texas

Damages Update 2015

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There were two important trends in patent damages that came to what could be considered their ultimate resolution in the last year. First, "apportionment", that is the effort to match reasonable royalty to the value of the technology in multifunction devices, came to a crescendo in *Virnetx, Inc. v. Cisco Sys.,* 161 F.3d 1308, 1330 (Fed. Cir. 2014)(royalty must be carefully tailored to technology's value, rather than the smallest salable unit). Two cases decided after *VirnetX* help to shed further light on apportionment, 1) *Ericsson v. D-Link*, 773 F. 3d 1201, 1232 (Fed. Cir. 2014), which requires additional apportionment of technology not just from the device but also any industry standard; and 2) *Summit 6, LLC v. Samsung Elecs. Co. Ltd.*, No. 2013-1648, 2015 WL 5515331, at *13-14 (Fed. Cir. Sept. 21, 2015), which showed apportionment must be done by dividing up the value of the technology, not the cost of hardware. In *Summit 6*, the methodology was based largely on survey evidence to measure value for apportionment.[2] The tendency of courts to favor comparable licenses as a strong measure

[1] Mr. Healey's talk and his paper and slides are for discussion only, and take positions to provoke thought and facilitate dialogue in the area, they do not reflect his views, those of any client, nor of the firm, are not legal advice, and are not authority citable in any sense as the law. Mr. Healey is reached at Healey@fr.com.

[2] The case also is interesting in that in *dicta* it lists various theories for apportionment: "A party may use the royalty rate from sufficiently comparable licenses, value the infringed features based upon comparable features in the marketplace, or value the infringed features by comparing the accused product to non-infringing alternatives. *Id*. A party may also use what this court has referred to as "the analytical method," focusing on the infringer's projections of profit for the infringing product. *Lucent Techs*., 580 F.3d at 1324." This case also allowed use of the Nash Bargaining Solution on a fully developed factual predicate as the end point of the hypothetical negotiation, while other courts had previously rejected the Nash Bargaining Solution when presented as a *per se* starting point for the negotiation. Finally, the case is of interest in that it approves use of a lump sum royalty for a paid up license award that precludes ongoing royalties or injunctive relief.

of patent value remains, and this concept was expressly re-affirmed in *VirnetX* (looking to license for feature embodying the invention as a starting point for valuation of the technology).

Second, the effort to extend damages for U.S. patents to sales and uses outside of the country was soundly turned back in *WesternGeco LLC v. ION Geophysical Corp*., No. 2013-1527, 2015 WL 4032980, at *7–10 (Fed. Cir. July 2, 2015), (no lost profits for wholly extraterritorial use), *rehearing denied* (Fed. Cir. Oct. 30, 2015) and *Carnegie Mellon Univ. v. Marvell Tech. Grp., Ltd.*, No. 2014-1492, 2015 WL 4639309, at *19-24 (Fed. Cir. Aug. 4, 2015) (no reasonable royalty for extraterritorial sales), *motion for rehearing pending*.

Finally, other cases of interest were decided in the past few months, among them *Kimble v. Marvel Ent.*, 135 S.Ct. 2401, 2407 (2015) (royalty payments cannot extend beyond expiration of the patent), *reaffirming*, *Brulotte v. Thys Co.*, 85 S.Ct. 176 (1964).

I. Apportionment: Valuing Technology After *VirnetX v. Cisco*

The *Virnetx* court rejected the idea that reasonable royalties in multi-function devices (there, cell phones and computers) could be computed based on the smallest salable unit. *Virnetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1327 (Fed. Cir. 2014). Indeed, since components for many multi-function consumer devices are not typically purchased by consumers, the complete cell phone is the smallest salable unit most consumers will purchase. *Id.* Even when a multi-functional device can be broken down into subsidiary parts, *VirnetX* does not permit the analysis to stop at the smallest salable unit. Instead the Federal Circuit held that the goal must always be to value the technology and compute a royalty based on the technology's value:

> Where the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature . . . the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology. To hold otherwise would permit the entire market value exception to swallow the rule of apportionment.

Id. at 1327-28.

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First appeared as part of the conference materials for the
20th Annual Advanced Patent Law Institute session
"Damages"