

# Patent Infringement:

## *Proving Royalty Damages Amid Increased Scrutiny*

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CONFIDENTIAL AND PROPRIETARY



# Backgrounds and Experience

- **Orion Armon** is a partner in the Intellectual Property Litigation practice group and a member of Cooley's Litigation department. Mr. Armon's practice focuses on patent litigation, with particular emphasis on software and electronics patent litigation cases. Mr. Armon has been recognized repeatedly by Colorado Super Lawyers as one of Colorado's Rising Stars in IP litigation. He has also been recognized in the 2015 edition of The Best Lawyers in America in the category of Litigation - Intellectual Property.
- **Krista F. Holt** is the President and CEO of GreatBridge Consulting. Krista Holt has provided services, including expert testimony, surveys, valuation, strategic counseling, and consulting in over one hundred and seventy-five intellectual property cases in various industries. Ms. Holt has testified on issues informing economic damages, lost profits, reasonable royalties, price erosion, competition, valuation of intellectual property, marketing, and management practices.

# Agenda

## 1. Introduction

2. Comparable Licenses
3. Lump Sum vs. Running Royalty
4. Entire Market Value Rule
5. Smallest Saleable Unit
6. Apportionment
7. Adjustments for Comparable Licenses
8. Discovery
9. Effect on Damages of *Inter Partes* Review
10. Foreign Sales
11. FRAND Licensing
12. Patent Surveys



# Comparable Licenses

- *Georgia Pacific* Factor 1: “the royalties received by the licensor for the licensing of the patents-in-suit, proving or tending to prove an established royalty”
- *Georgia Pacific* Factor 2: “the royalty rates paid by the licensee for use of other patents comparable to the patents-in-suit”

- Market Approach
  - Goal: determine market value of patented technology
  - Values assigned in licenses to patents-in-suit
  - Licenses for similar technologies

- Considerations
  - Technical comparability (threshold issue for *Georgia-Pacific* No. 2)
  - Economic comparability
    - License terms (exclusive? IP at issue? duration?)
    - Litigation vs. non-litigation
    - Positioning of the parties (competitors?)

- *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 870 (Fed. Cir. 2010)
  - Reversing because plaintiff’s expert “used licenses with no relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels.”
- *Wordtech Sys., Inc. v. Integrated Networks Solutions, Inc.*, 609 F.3d 1308, 1320-21 (Fed. Cir. 2010)
  - Emphasizing that without evidence of the economic foundations of the license’s lump-sum value, a license “offers the jury ‘little more than a recitation of royalty numbers.’”



- *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1329-31 (Fed. Cir. 2014)
  - Affirming district court's decision to allow expert to rely on licenses that involved 'related technology' to the patents-in-suit
- *DataQuill Ltd. v. High Tech Computer Corp.*, 887 F. Supp. 2d 999, 1022-23 (S.D. Cal. 2011)
  - Finding that damages expert provided a sufficient 'factual basis and explanation' for his technical comparability conclusion by establishing a 'discernible link' between the licensed technology and claimed invention

- *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1326 (Fed. Cir. 2014)
  - Reversing exclusion of damages expert's testimony regarding prior licenses and noting that "whether these licenses were sufficiently comparable . . . goes to the weight of the evidence, not its admissibility."

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014)
  - “Prior licenses, however, are almost never perfectly analogous to the infringement action. For example, allegedly comparable licenses may cover more patents than are at issue in the action, include cross-licensing terms, cover foreign intellectual property rights, or, as here, be calculated as some percentage of the value of a multi-component product.”
  - “Testimony relying on licenses must account for such distinguishing facts when invoking them to value the patented invention. Recognizing that constraint, however, the fact that a license is not perfectly analogous generally goes to the weight of the evidence, not its admissibility.”

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1228 (Fed. Cir. 2014)
  - “We do conclude, however, that, when licenses based on the value of a multi-component product are admitted, or even referenced in expert testimony, the court should give a cautionary instruction regarding the limited purposes for which such testimony is proffered if the accused infringer requests the instruction.”



# Lump Sum vs. Running Royalty

- Lump sum damages can avoid difficulties associated with calculating royalty rate and base, including EMVR
- If the patent owner has a history of lump sum licenses, it may be stuck with a lump sum
  - *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 30 (Fed. Cir. 2012)
    - “[L]ump sum payments ... should not support running royalty rates without testimony explaining how they apply to the facts of the case.”
- Apportionment is still required
  - *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014)
    - “No matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features.”

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# Entire Market Value Rule

## *EMVR*

*“...When using a multi-component product as a royalty base, even if it is the smallest salable unit, a patentee must still show that the patented feature **drives demand** for the entire product.”*

*Network Protection Sciences, LLC v. Fortinet, Inc., No. N.D. of Cal. (Sept. 26, 2013)*



# Entire Market Value Rule

## EMVR

*“The court has held that when small elements of multi-component products are accused of infringement, a patentee ‘may assess damages based on the entire market value of the accused product only where **the patented feature creates the basis for customer demand** or substantially creates the value of the component parts.’”*

*AstraZeneca AB v. Apotex Corp. Fed. Cir. (2015)*

# Entire Market Value Rule

## *EMVR*

*“When a patent covers the infringing product as a whole, and the claims recite both conventional elements and unconventional elements, the court must determine how to account for the relative value of the patentee’s invention in comparison to the value of the conventional elements recited in the claim, standing alone.”*

*AstraZeneca AB v. Apotex Corp. Fed. Cir. (2015)*

# Entire Market Value Rule

## EMVR

*“...It is not that an appropriately apportioned royalty award could never be fashioned by starting with the entire market value of a multi-component product—by, for instance, dramatically reducing the royalty rate to be applied in those cases—it is that reliance on the entire market value might mislead the jury, who may be less equipped to understand the extent to which the royalty rate would need to do the work in such instances...[C]ourts must insist on a more realistic starting point for the royalty calculations by juries—often, the smallest salable unit and, at times, even less.”*

*Ericsson, Inc. v. D-Link Sys., Inc. Fed. Cir. (2014)*

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# Issues And Recent Cases

## *Smallest Saleable Unit*

*“[Defendant] may well use the price of the baseband processor chips **made by a third party** as the starting point from which to apportion the patents’ value”*

*GPNE Corp. v. Apple Inc. ND of Cal. (Aug. 06, 2014)*

# Issues And Recent Cases

## *Smallest Saleable Unit*

*“I gather that dynamic logic circuit(s) may be an important part of a microprocessor. It is completely unclear to me how many other important parts there are, although my sense is that there are many. Assuming for the sake of argument that dynamic logic circuits are the single most important part of Intel’s microprocessors, it is still a long haul to conclude that they “drive demand” for the entire microprocessor.”*

*AVM Tech., LLC v. Intel Corp., Del. District Court (Jan. 4, 2013)*

# Issues And Recent Cases

## *Smallest Saleable Unit*

*“...Logically, an economist could do this in various ways—by careful selection of the royalty base to reflect the value added by the patented feature, where that differentiation is possible; by adjustment of the royalty rate so as to discount the value of a product’s non-patented features; or by a combination thereof. The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.”*

*Ericsson, Inc. v. D-Link Sys., Inc., Fed. Cir. (2014)*

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# Apportionment

## *Federal Circuit Affirms Need to Apportion*

*“...On the contrary, a patentee must be reasonable when seeking to identify a patent-practicing unit, tangible or intangible, with a close relation to the patented feature....The law requires patentees to apportion the royalty down to a reasonable estimate of the value of its claimed technology, or else establish that its patented technology drove demand for the entire product.”*

*VirnetX, Inc. v. Cisco Sys., Inc., Fed. Cir. (Sept. 16<sup>th</sup>, 2014)*

# Apportionment

## *Federal Circuit Affirms Need to Apportion*

*“...VirnetX did neither...In calculating the royalty base, [Virnetx’s Expert] did not even try to link demand for the accused device to the patented feature, and failed to apportion value between the patented features and the vast number of non-patented features contained in the accused products...his testimony on the royalty base under this approach was inadmissible and should have been excluded.”*

*VirnetX, Inc. v. Cisco Sys., Inc., Fed. Cir. (Sept. 16<sup>th</sup>, 2014)*

# Apportionment

## *Need for Apportionment*

*“In calculating the royalty base and rate, [The Expert] failed to apportion Facebook's revenue to BigPipe and Audience Symbol—the features actually causing the alleged infringement... **Because the royalty base is meant to represent value gained from the alleged infringement, and thus the amount that a hypothetical licensor would have paid to license the patent, an apportionment including value attributable to more features than just the improvement overcompensates the patentee”***

*Rembrandt Social Media, LP v. Facebook, Inc., E.D. Va. (Dec. 3, 2013)*

# Apportionment

## *Need for Apportionment*

*“the expert’s apportionment did not go far enough where the accused product was just a component of larger computer programs that could run without the component, and the expert improperly used as the royalty base the revenues from these large computer programs, and therefore failed to sufficiently apportion the revenue to the specific infringing feature, the court ruling that even if the larger computer programs were the smallest saleable unit, the analysis had to apportion for the value of the infringing feature to the larger program and not just use the overall revenues generated by larger program ”*

*Rembrandt Social Media, LP v. Facebook, Inc., E.D. Va. (Dec. 3, 2013)*

# Apportionment

## *Need for Apportionment*

*“[The Expert] attempts no apportionment analysis, nor does he even consider whether apportionment is appropriate. Instead, [he] cloaks his lack of a methodology in a list of considerations that relate to the value of 3G and 4G LTE technology generally...However, GPNE's three patents do not cover all of 3G and 4G LTE technology—far from it. The Court found in its claim construction order that the Patents-in-Suit relate primarily to pager technology, which is just one aspect of 3G and 4G LTE technology...”*

*GPNE Corp. v. Apple Inc. ND of Cal. San Jose (Aug. 06, 2014)*

# Apportionment

## *Need for Apportionment*

*“...GPNE must make some attempt to distinguish the allegedly infringing features of 3G and 4G LTE from the non-infringing features, so that [GPNE’s expert] may apportion value between them. Yet GPNE presents and [GPNE’s expert] cites no evidence indicating the value of the specific technology claimed by GPNE's patents.”*

*GPNE Corp. v. Apple Inc. ND of Cal. San Jose (Aug. 06, 2014)*

# Apportionment

## *Arbitrary Apportionment*

*“When determining what portion of profits are properly attributable to a patented feature, ‘the patentee... must in every case give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative...”*

*Atlas IP, LLC v. Medtronic, Inc., S.D. Fla. (Oct. 6, 2014)*

# Apportionment

## *Arbitrary Apportionment*

*“...the apportionment he conducts does not withstand scrutiny. His report does not explain how he determines seventy percent is an appropriate amount by which to apportion the profits attributable to the patented technology at issue...This conclusory analysis does not provide the requisite ‘reliable and tangible, and not conjectural or speculative’ evidence required.”*

*Atlas IP, LLC v. Medtronic, Inc., S.D. Fla. (Oct. 6, 2014)*



# Apportionment

## *Apportionment when Lacking Data*

*“[The Expert] used this comparative worldwide use to estimate comparative domestic use between an infringer (Google) and a licensee (Microsoft). Google’s attack on [his] testimony is based on a faulty premise: that an infringer’s use cannot be reliably compared to a licensee’s use unless the plaintiff obtains precise figures for each entity’s use of the claimed technology solely within the United States...”*

*SimpleAir, Inc. v. Google Inc., E.D. Tex. (Dec. 10, 2014)*

# Apportionment

## *Apportionment when Lacking Data*

*“A reasonable royalty analysis ‘necessarily involves an element of approximation and uncertainty.’ Moreover, an expert may properly estimate the extent of infringing use in the United States where, as here, the actual data is unavailable. In today’s global marketplace, the ability to obtain domestic-only data is an increasing rarity...Such gaps in the data make it impossible to establish Google’s precise domestic use.”*

*SimpleAir, Inc. v. Google Inc., E.D. Tex. (Dec. 10, 2014)*

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# Adjustments for Comparable Licenses

*“...we have cautioned that ‘district courts performing reasonable royalty calculations... ‘**must account for differences** in the technologies and economic circumstances of the contracting parties.’”*

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

# Adjustments for Non-Comparable Licenses

*“...where expert testimony explains to the jury the need to discount reliance on a given license to account only for the value attributed to the licensed technology, as it did here, the mere fact that licenses predicated on the value of a multi-component product are referenced in that analysis—and the district court exercises its discretion not to exclude such evidence—is not reversible error.”*

*Ericsson, Inc. v. D-Link Sys., Inc., Fed. Cir. (2014)*

# Adjustments for Comparable Licenses

*“Though the agreements only supplied Citrix with distribution rights to the Smartgate software product and provided no patent license, the court found the agreements ‘sufficiently ‘comparable’ to be probative of the hypothetical negotiation” as they involve the actual parties, relevant technology, and were close in time to the date of the hypothetical negotiation.”*

*SSL Services, LLC v. Citrix Sys., Inc., Fed. Cir. (2014)*

# Adjustments for Comparable Licenses

*“The Federal Circuit recently reiterated in *VirnetX, Inc. v. Cisco Systems, Inc.* that, ‘in attempting to establish a reasonable royalty, the licenses relied on by the patentee in proving damages [must be] sufficiently comparable to the hypothetical license at issue in suit,’ but ‘**identity of circumstances**’ is not required...Similarly, here, the license between Plaintiffs [expert] used in his comparable licenses analysis involved the Patents-in-Suit, and [he] did discuss the payment terms and scope and the commercial relationship between the parties...**Plaintiffs may challenge [his] opinion during cross-examination and may present the differences between the actual license and the hypothetical negotiation situation to the jury.**”*

*Ecolab USA Inc. v. Diversey, Inc. D. Minn. (May 14, 2015)*

# Adjustments for Comparable Licenses

*“[Ultratec’s expert] subtracted the fee portions from the 2011 agreements devoted to the marketing and production boxes. He also excluded certain technology box components that went beyond patent licensing, such as the phone subsidy, customized software licenses and speech recognition software licenses. He acknowledged that he did not quantify the royalty rate for individual patents but considered the non-asserted patents and non-patent technology licenses qualitatively, as a downward adjustment of the overall royalty rate.”*

*Ultratec, Inc. v. Sorenson Commun’s, Inc. W.D. Wis.*

*(Oct. 9, 2014)*



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# Discovery

## *Calculating Damages Early in the Case*

*“Just a few months from trial, and a few weeks from the close of fact discovery, the parties in this patent case are working hard. They have exchanged reams of data. They have scheduled certain fact depositions and scheduled many more. **They have retained multiple experts who are furiously scribing reports with scores of exhibits and schedules.** All of this, undoubtedly, is costing a small fortune.*

*And yet, remarkably, neither side has any firm sense of whether this is a \$1 case or a case worth billions. Even more remarkable, the parties here are not unusual. For years it has been the norm in patent cases to bludgeon first and value second.”*

*Corning Optical Communications Wireless Ltd. v. Solid, Inc., N.D. Cal.  
(Apr. 14, 2015)*

# Discovery

## *Calculating Damages Early in the Case*

*“Defendants Solid, Inc. and Reach Holdings LLC d/b/a Solid Technologies served a typical patent damages interrogatory... The response from Plaintiff Corning Optical Communications Wireless Ltd. was, essentially, ‘wait until we serve our expert report.’ ... This is plainly insufficient. Even if Solid were willing to wait to find out what this case is worth—which it is not—the court still needs to know as it resolves the parties’ various discovery-related disputes. Proportionality is part and parcel of just about every discovery dispute. To be sure, new information may come to light as the case proceeds that might drastically alter Corning’s positions. But Rule 26(e) provides a solution for that: **supplementation.**”*

*Corning Optical Communications Wireless Ltd. v. Solid, Inc., N.D. Cal.  
(Apr. 14, 2015)*

# Discovery

## *Submitting Reports After Daubert*

*“The Court finds that the AT&T Documents constitute new evidence. This evidence was unavailable prior to the experts’ original reports and prior to the Court’s ‘common’ Daubert motion excluding [Prism’s expert]. The new evidence is relevant to the remaining ...**The Court finds that the inclusion of some damages model is certainly preferable to the absence of one and, therefore, there would be a benefit, and no disruption, at trial.**”*

*Prism Techs. LLC v. Sprint Spectrum L.P., D. Neb. (Jan. 23, 2015)*



*Inter Partes* Review

# IPR can materially limit the patent owner's remedies

- Reasonable Royalty
  - Reduce Base – Limit “patented feature” for EMV, SSPPU, and apportionment
  - Reduce Rate – Define “old modes” for GP 13
- Injunctive Relief
  - Create “substantial question” of invalidity
  - Limit “patented feature” for nexus requirement
- Lost Profits
  - Invalidating some claims creates non-infringing alternative

# IPR results can be used in each step of the royalty base analysis

- For royalty base, patentee must either:
  1. show that the entire value of the whole machine, as a marketable article, is attributable to the patented feature

OR

  2. determine the smallest salable patent-practicing unit (SSPPU);

IPR Results May Provide  
New Strategies for  
Limiting EMV and  
SSPPU Analysis

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AND

separate or apportion the defendant's profits and the patentee's damages between the patented and unpatented features using reliable and tangible evidence

IPR Results Provide  
Further Evidence for  
Recognized  
Apportionment Analysis

# IPR results should help isolate the point of novelty in the asserted claims

The goal of patent damages analysis is pinpointing (and valuing) what the inventor contributed over the prior art

If you timely file your petition, IPR results will provide objective evidence of what the invention is – and isn't

For example, invalidating independent claims limits alleged invention to features added by dependent claims



# IPR results may provide new strategies for limiting EMV and SSPPU analysis

- IPR provides evidence courts can use to define “patented feature” (EMV) and identify the SSPPU that actually practices invention
  - Patentees will continue to draft omnibus claims with additional limitations unrelated to patentability
    - Invention is a transistor configuration for a transceiver, claims are directed toward entire smartphone
    - Invention is video driver, claims are directed toward a monitor
- In many cases, a final written decision from the PTAB will provide an objective, admissible decision from a respected authority that defines the patented feature

# Narrowing scope of invention during IPR also helps limit damages royalty rate

- IPR results can also provide evidence to limit royalty rate
  - *Georgia-Pacific* factor 13

The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.
  - *Georgia-Pacific* factor 9

The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results;
- IPR results can provide concrete evidence of what the “invention” is “as distinguished from non-patented elements”

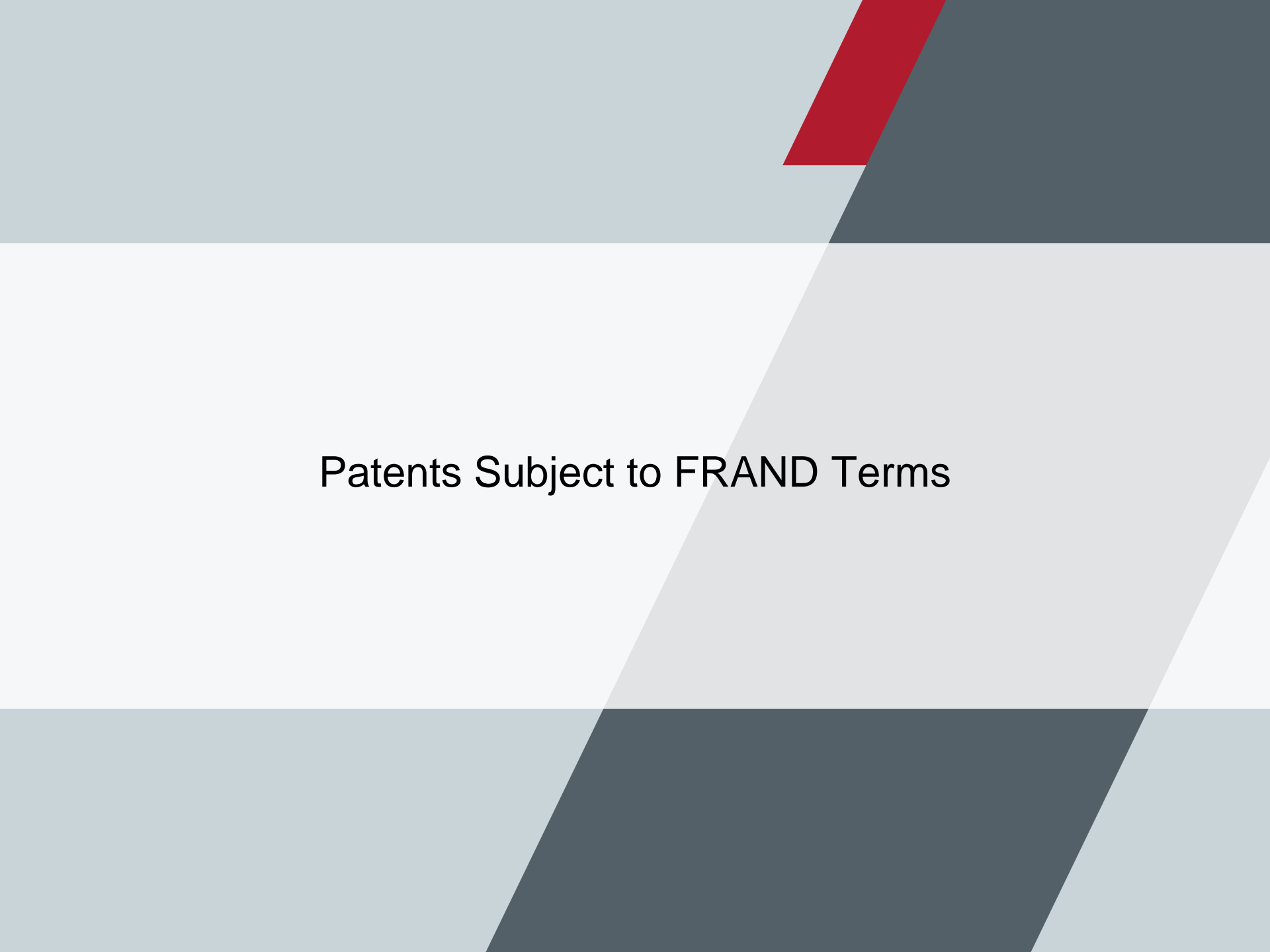


Foreign Sales

- *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013)
  - “Our patent laws . . . do not [ ] provide compensation for a defendant’s foreign exploitation of a patented invention, which is not infringement at all.”
  - “Extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.”

- 271(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.
- 271(f)(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial noninfringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

- *Promega Corp. v. Life Techs. Corp.*, 773 F.3d 1338, 1352-53 (Fed. Cir. 2014)
  - “Congress enacted § 271(f) in response to a ‘loophole’ brought to its attention by the Supreme Court’s decision in *Deepsouth Packing Co.*”
  - “Section 271(f) closed the *Deepsouth* ‘loophole’ by expanding the reach of the patent statute to capture certain domestic precursors to extraterritorial activity not previously considered as infringing.”
- Supplying a single component for combination outside the United States can create liability if it is a substantial portion of the patented invention
- 271(f)(1) requires knowledge and intent for inducement
- 271(f)(2) requires knowledge and contributory infringement



# Patents Subject to FRAND Terms

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014)
  - “SEPs pose two potential problems that could inhibit widespread adoption of the standard: patent hold-up and royalty stacking. Patent hold-up exists when the holder of a SEP demands excessive royalties after companies are locked into using a standard. Royalty stacking can arise when a standard implicates numerous patents, perhaps hundreds, if not thousands. If companies are forced to pay royalties to all SEP holders, the royalties will “stack” on top of each other and may become excessive in the aggregate.”



- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1209 (Fed. Cir. 2014)
  - “To help alleviate these potential concerns, SDOs often seek assurances from patent owners before publishing the standard. IEEE, for example, asks SEP owners to pledge that they will grant licenses to an unrestricted number of applicants on “reasonable, and nondiscriminatory” (“RAND”) terms.”

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1230-31 (Fed. Cir. 2014)
  - “In a case involving RAND-encumbered patents, many of the *Georgia-Pacific* factors simply are not relevant.”
  - “[T]he trial court must carefully consider the evidence presented in the case when crafting an appropriate jury instruction. In this case, the district court erred by instructing the jury on multiple *Georgia-Pacific* factors that are not relevant, or are misleading, on the record before it, including, at least, factors, 4, 5, 8, 9, and 10 of the *Georgia-Pacific* factors.”

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1231 (Fed. Cir. 2014)
  - “Trial courts should also consider the patentee's actual RAND commitment in crafting the jury instruction.”
  - “Rather than instruct the jury to consider ‘Ericsson's obligation to license its technology on RAND terms,’ the trial court should have instructed the jury about Ericsson's actual RAND promises. ‘RAND terms’ vary from case to case. A RAND commitment limits the market value to (what the patent owner can reasonably charge for use of) the patented technology. The court therefore must inform the jury what commitments have been made and of its obligation (not just option) to take those commitments into account when determining a royalty award.”

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1232 (Fed. Cir. 2014)
  - “When dealing with SEPs, there are two special apportionment issues that arise.”
    - “First, the patented feature must be apportioned from all of the unpatented features reflected in the standard.”
    - “Second, the patentee's royalty must be premised on the value of the patented feature, not any value added by the standard's adoption of the patented technology.”
  - “These steps are necessary to ensure that the royalty award is based on the incremental value that the patented invention adds to the product, not any value added by the standardization of that technology.”

- *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1234 (Fed. Cir. 2014)
  - “In deciding whether to instruct the jury on patent hold-up and royalty stacking, again, we emphasize that the district court must consider the evidence on the record before it.”
  - “The district court need not instruct the jury on hold-up or stacking unless the accused infringer presents actual evidence of hold-up or stacking. Certainly something more than a general argument that these phenomena are possibilities is necessary.”

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# Patent Surveys

## *Use of Surveys Endorsed*

### Use of Survey Data Endorsed

*“[C]onsumer surveys designed to determine the value of a particular feature or property of a consumer product are a common and acceptable form of evidence in patent cases. Such a survey might well have dispelled the uncertainty . . .”*

*“[Apple’s expert] has provided no evidence on which to base an estimate of a reasonable royalty for that program, let alone for the subprogram applicable only to the Kindle application. So far as it appears, the only evidence that could be provided would be consumer-survey evidence; it is much too late for Apple to be permitted to conduct a survey.”*

*“[Apple’s expert] provided no estimate of how many such ignorant consumers there are, still another question that could be answered within the limits of tolerable uncertainty by a competently designed and administered consumer survey.”*

*Apple, Inc. v. Motorola, Inc., N.D. Ill. (May 22, 2012)*

# Patent Surveys

## *Use of Surveys Endorsed*

Use of survey endorsed during discovery stage:

- Pacing Technologies requested that a survey of Garmin's customers be used to gather information regarding how Garmin customers interacted with the Garmin website and used the allegedly infringing patented feature.
- Garmin expressed privacy concerns, among others. However, Magistrate Judge McCurine, Jr. reasoned that, since the survey would yield information that only Garmin's customers possessed, the survey would be allowable.

*Pacing Technologies, LLC v. Garmin International, Inc., CASD (June 28, 2013)*



# Patent Surveys

## *Admissibility of Survey*

### Survey Evidence's Bar of Admissibility:

*“...Survey evidence should ordinarily be found sufficiently reliable under Daubert. Unlike novel scientific theories, a jury should be able to determine whether asserted technical deficiencies undermine a survey's probative value. Treatment of surveys is a two-step process. First, is the survey admissible? That is, is there a proper foundation for admissibility, and is it relevant and conducted according to accepted principles? This threshold question may be determined by the judge. Once the survey is admitted, however, follow-on issues of methodology, survey design, reliability, the experience and reputation of the expert, critique of conclusions, and the like go to the weight of the survey rather than its admissibility.’*

*Sentius Int'l., LLC v. Microsoft Corp., N.D. Cal. (Jan. 23, 2015)*

# Patent Surveys

## *Types Of Surveys And Their Applications*

### Usage Survey

- Determines the extent to which a patented attribute might be used

### Demand Survey

- Determines the extent to which consumers demand the patented feature and would not buy the product without that feature

### Conjoint Survey

- Determines consumer preferences by means of selecting between product combinations possessing (or not) patented features and other marketable features
- Can include price as a feature, which can be used to determine relative value between different features

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

- The court granted defendant's motion to exclude plaintiff's damages expert's use of another expert's conjoint analysis to determine market share.
- Consumer surveys are **not** “*inherently unreliable,*” but may become so when the experts (as in this case) “*artificially forced*” the participants or the data to a desired outcome.

*Oracle America, Inc. v. Google, Inc.*, N.D. Cal (Mar. 13, 2012)

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

Specifically, the court stated –

*"[Plaintiff's expert] had no reasonable criteria for choosing the four non-patented features to test; instead, he picked a low number to force participants to focus on the patented functionalities, warping what would have been their real-world considerations. . . . If the conjoint analysis had been expanded to test more features that were important to smartphone buyers (instead of the four non-patented features selected for litigation purposes), then the study participants may not have placed implicit attributes on the limited number of features tested."*

*Oracle America, Inc. v. Google, Inc. (March 1, 2012)*

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

### Interpreting a CBC Survey: Willingness to Pay v. Demand

*“The Court agrees with Samsung that evidence of ‘the price premium over the base price Samsung consumers are willing to pay for the patented features,’ PX30, is not the same as evidence that consumers will buy a Samsung phone instead of an Apple phone because it contains that feature.”*

*“... the survey does not measure willingness to pay for products; it measures willingness to pay for features within a particular product amongst consumers who have already purchased the particular product... To establish a causal nexus, Apple would need to show not just that there is demand for the patented features, but **that the patented features are important drivers of consumer demand** for the infringing products.”*

*Apple Inc. v. Samsung Electronics Co. Ltd. et al, N.D. Cal. (Dec. 17, 2012)*

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

In the **TV Interactive Data Corp. v. Sony Corp.** case, conjoint analysis was used to estimate the “market’s willingness to pay” (MWTP) for plaintiff’s patented technology as an incremental benefit in defendant’s accused products.

- The estimated MWTP was used as a baseline by plaintiff’s other expert in his calculation of a reasonable royalty rate.
- Criticisms in *Daubert motion* deemed survey “fundamentally flawed and unreliable,” but Court ruled that defendant’s criticisms were more appropriate for jury consideration.

*TV Interactive Data Corp. v. Sony Corp.*, N.D. Cal. (March 11, 2013)

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

In the Apple v. Samsung case, a conjoint survey was proffered by the patentee to try to prove there was a nexus between the patent infringement and the irreparable harm, and more specifically to show that the consumers wanted the patented feature. The court found that the survey was not adequate to support the contentions.

*“Apple must ‘show that the infringing feature **drives** consumer demand for the accused product.’ ” (quoting Apple II, 695 F.3d at 1375) (emphasis added). “[R]ather than show that a patented feature is the exclusive reason for consumer demand,” however, “Apple must show **some connection** between the patented feature and demand for Samsung's products.”*

*Apple v. Samsung, N.D.Cal. (2014)*

# Patent Surveys

## *Use Of A Choice Based Conjoint Survey In Litigation*

The Court concluded that the survey **results failed to show the “requisite causal nexus”** between Samsung's infringement and Apple's claimed irreparable harm.

### Criticisms:

- Survey evaluated relative willingness to pay for features rather than effect on product prices
- Limited features in survey provided insufficient information as to whether any price increase was significant
- Survey inflates the value of the patented features

However, the court denied Defendants’ subsequent motion to exclude the expert’s survey evidence

*Apple v. Samsung, N.D. Cal. (2014)*



# Patent Surveys

## *Demand And Usage Surveys*

*The survey failed to establish the Entire Market Value Rule rule because it **did not prove that the patented technology was the basis of demand** for the software and hardware. The survey focused only on the software and ignored the hardware.*

*Mirror Worlds, LLC v. Apple, Inc., E.D. Tex. (2011)*

# Patent Surveys

## *Demand And Usage Surveys*

*“...the surveys do not measure the value of Plaintiff’s technology [Multiband Functionality and small size], but merely measure the perceived consumer value of cell phones with any internal antennas.”*

*“Survey evidence purportedly demonstrating the value of internal antennas not tied directly to Plaintiff’s [patented] technology...must be excluded.”*

*Fractus, S.A. v. Samsung, et al., E.D. Tex. (Apr. 29, 2011)*

# Patent Surveys

## *Demand And Usage Surveys*

- Plaintiff's expert conducted three surveys asking customers and advertisers to **rank each of twenty-one features** in order of importance. Each feature's weighted percentage of importance was said to represent the demand for Defendant's product driven by that feature. Among the features were News Feed; Timeline; Like (external); Friend Request; Personal Profile; etc.
- Based on the survey results, the expert excluded an amount of revenue attributable to the features not causing Defendant to infringe from the royalty base.

*Rembrandt Social Media, LP v. Facebook, Inc. (2013)*

# Patent Surveys

## *Demand And Usage Surveys*

*“...an expert’s reliance upon some facts but not others is not always cause to exclude such testimony under Daubert...while the expert may have relied upon an incomplete list of facts in conducting his consumer surveys, **such matters could be brought to a jury’s attention** ... and expert’s testimony is not excluded on this basis alone”*

*Rembrandt Social Media, LP v. Facebook, Inc. (2013)*

# Patent Surveys

## *Demand And Usage Surveys*

*“[The Expert] admitted that his survey was just meant to determine the features that most drive Facebook’s usage, and that ‘the link between this [usage] data and the revenue question has to be the subject of a separate analysis...[The Expert] did not perform that analysis, and did not explain why the weighted importance of some features to a user directly correlates to a certain percentage of Facebook’s advertising revenue...”*

*Rembrandt Social Media, LP v. Facebook, Inc. (2013)*

# Patent Surveys

## *Demand And Usage Surveys*

### Damages Experts Improperly applying Survey Results

*“...the claimed invention relates to only one of hundreds of features of the accused smartphones and tablets and was not even marketed. [The] surveys asked if the feature ‘motivated’ respondents to purchase, but it did not ask if the feature was the ‘only’ or even a ‘significant’ motivation for purchase...”*

*Smartflash LLC v. Apple, Inc., E.D. Tex. (Dec. 23, 2014)*

# Patent Surveys

## *Demand And Usage Surveys*

### Dealing with Affirmative response

*“...[The Expert] assumed the patented features alone motivated the purchasers. [He] based this **assumption on affirmative survey responses to questions asking if the patented capabilities ‘motivate[d] [consumers] to buy the device.’**”*

*‘Q5 For each device listed below, did the capability to rent or download (which allows viewing whether or not you have an internet connection) movies and TV shows from iTunes or Google Play motivate you to buy the device? ...’*

*“Affirmative responses are insufficient evidence to show that the patented feature alone motivated survey respondents to purchase the accused devices because the questions did nothing to distinguish those features as the sole motivating factor.”*

*Smartflash LLC v. Apple, Inc., E.D. Tex. (Dec. 23, 2014)*

# Patent Surveys

## *Litigation Survey Design Standards*

- Although there are differences dictated by individual Circuit Courts, the basic standards for the admissibility of surveys are states in the Reference Manual On Scientific Evidence within the Manual For Complex Ligation, published by the Federal Judicial Center.



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