

APLISV Presentation:

Current Trends in Patent Damages

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Patent Damages

“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.” 35 U.S. Code § 284.

“...the court may increase the damages up to three times the amount found or assessed. *Id.*”

2015 Damages Update Overview

- *Daubert*: multi-theories and "do-overs"
 - *Dynetix, Golden Bridge, Network Protection, Hughes*
- Apportionment
 - *CSIRO v. Cisco*, Fed. Cir. 2015-1066
- Extraterritoriality
 - *Carnegie Mellon v. Marvell*
- Willful Infringement
 - Sup. Ct. Grants Cert. in *Halo* and *Stryker*

Damages Expert Testimony

- Fiercest litigation in patent infringement cases often revolves around admission of expert testimony for calculating damages
- *Daubert v. Merrell Dow Pharms.*, 509 U.S. 579 (1993) sets the standard for admitting expert testimony
 - District courts act as “gatekeepers” in ensuring expert testimony is both “relevant” and “reliable”
 - *Daubert* challenges generally center on the expert’s qualifications and quality of analysis
 - Testimony that fails *Daubert* standard is excluded as inadmissible

Pre-Daubert Decisionmaking

Multiple Theories

- Given adverse decisions on non-apportioned and/or untested damages theories, trend toward multiple damages theories
 - Credibility hit to damages expert?
 - Will jury ever award higher damages opinion?
- Multiple damages experts?
 - Expensive, but may be safest path for plaintiff
 - Need to isolate to be effective

Daubert: "Do-Over"

- Courts have varied in deciding how to proceed when damages theories are excluded by *Daubert* motion
- No consensus among trial courts, but three-routes:
 - (1) allow plaintiff to submit a supplemental report, but place no express limitations on the number of times the expert can try again;
 - (2) give plaintiff one chance at an admissible theory of damages; or
 - (3) give plaintiff no further “bites” of the apple.

Daubert: "Do-Over"

- *Dynetix v. Synopsys* (NDCA 2013)
 - Judge Grewal excludes damages report on eve of trial because of “impermissible and arbitrary methodologies,” but allows the plaintiff another chance: “. . . in consideration of its due process rights, the court is loathe to leave Dynetix stripped of any damages expert testimony whatsoever . . . Because Dynetix would otherwise be left without any real evidence of damages, the court will permit it one more opportunity to offer a new expert on damages.”
- *Golden Bridge v. Apple Inc.* (NDCA 2014)
 - Judge Grewal holds firm at a single do-over, reasoning that “Apple would suffer undue prejudice if [plaintiff] were to offer a new damages expert with yet a third theory, to which it would have had no meaningful time to respond.”

Daubert: "Do-Over"

- *Oracle America, Inc. v. Google, Inc.* (N.D.C.A. 2012)
 - Judge Alsup rejects first damages expert report, warns: “the next bite will be for keeps. If the next and final report fails to measure up in any substantial . . . way . . . then it may be excluded altogether without leave to try again.” Next report does not “measure up,” but Judge Alsup nonetheless allowed a third opportunity to repair the testimony
- *Network Protection Sciences, LLC v. Fortinet, Inc.*, (N.D.C.A. 2013)
 - Judge Alsup draws a bright line at the first report and explains, “[o]ver the course of many years and more than a dozen patent trials, [I] have concluded that giving a second bite simply encourages overreaching on the first bite (by both sides).”

Final *Daubert* Granted – Now What?

- “The court may receive expert testimony as an *aid* to the determination of damages or of what royalty would be reasonable under the circumstances.” 35 U.S.C. § 284.
- Federal Circuit case law holds that the use of expert testimony is *permissive*, and thus the exclusion of a damages expert does not automatically deny a patentee a right to recover damages

Final *Daubert* Granted – Now What?

- *Dow Chemical Co. v. Mee Industries* (Fed. Cir. 2003)
 - District Court excluded plaintiff’s expert under *Daubert* and held the plaintiff was not entitled to damages because it “failed to provide expert testimony on the damages issue.” Circuit Court reversed, noting “section 284 is clear that expert testimony is not necessary to the award of damages, but rather *may* be received as an aid.”
- *Unicom Monitoring, LLC v. Cencom, Inc.* (D.N.J. 2013)
 - “Competent evidence of damages for a reasonable royalty rate does not necessarily require expert testimony . . . If the plaintiff proved infringement of its patent, the district court should consider the so-called *Georgia–Pacific* factors in detail, and award such reasonable royalties as the record evidence will support.”
- *ePlus, Inc. v. Lawson Software, Inc.* (Fed. Circ. 2012)
 - “Trial management is particularly subject to the wide latitude of the district court. Here the district court [had] sufficient basis to preclude ePlus from presenting any evidence of damages at trial.”

Apportionment--*Breaking News*:

- *CSIRO v. Cisco*, ___ F.3d ___ (Fed. Cir. Dec 3, 2015)
- Continued support for *Ericsson v. D-Link* and requirement that damages must "reflect the value attributable to the infringing features of the product and no more" but not a strict adherence to "smallest saleable patentable unit"
- Facts:
 - Radiata licensed the patent in suit in late '90's on a chip revenue x % royalty rate basis and Cisco acquired Radiata in 2001
 - License ended in 2007 when Cisco stopped paying
 - License negotiation in 2009 was conducted on a per product basis x fixed per unit royalties. At similar volumes, CSIRO offered \$1.90 per unit and Cisco suggested \$0.90 might work.
 - Negotiations appeared to occur after the date of "first infringement" as typically required for the timing of hypothetical negotiation

Apportionment--*Breaking News*

- District Court never performed any apportionment
- Fed. Cir. decision found that the parties actual discussions had taken "apportionment" into account and was appropriate starting point for analysis
- CSIRO's offer of \$1.90 per unit and Cisco's "informal suggestion" of \$0.90 for the patent is suit accepted the idea that using the entire market value of the product as a royalty base was acceptable to both parties.
 - Claim that all damages models must begin with SSPU was "untenable"
 - Alternative models exist but *Ericsson* is still good law

Apportionment--*Breaking News*

- Pre-complaint activities between patentee and defendant are now more critical
- Hypothetical negotiation can include actual negotiation occurring after the date of first infringement
- Alternatives to SSPU analysis are now viable but they must take into account the incremental value of the invention including RAND value
- Case remanded to consider RAND value not attributable to the invention itself even though the patent in suit was not "RAND-encumbered"

Extraterritoriality: *CMU v. Marvell*

- Carnegie Mellon University (“CMU”) sued Marvell in alleging infringement of two patents related to methods for improving the accuracy of data read from hard-disk drives (“HDDs”).
- Marvell manufactured read channel chips for use in HDDs
- CMU presented evidence of Marvell “sales cycle” leading to “design-win,” i.e, customer goes into production with Marvell’s chips “designed in”
- CMU alleged Marvell’s sales cycle activity occurs in U.S.

Extraterritoriality: *CMU v. Marvell*

➤ Trial Court:

- Jury finds Marvell directly and indirectly infringed two method claims by developing, testing, and selling to its customers products that practice the claimed methods
- District court enters judgment for CMU in the amount of \$1.54 billion, which includes \$287 million in enhanced damages for willful infringement

➤ Federal Circuit:

- Affirms judgment of patent infringement and validity.
- Affirms judgment regarding the royalty awards, past and ongoing, but orders new trial on extraterritoriality.
- Reverses the grant of enhanced damages under willful infringement.

Extraterritoriality: *CMU v. Marvell*

Federal Circuit:

- Under “but for” jury instruction, original verdict included damages for all chips that resulted from Marvell’s use of the infringing methods sold worldwide—including chips that were manufactured abroad and never imported into the US
- Fed. Cir. affirmed the original judgment to the extent of the approximately \$278.4 million in past royalties (i.e., 50 cents for each of the 556,812,091 chips the jury found were imported to the U.S.)
- But for those chips ***never imported into the U.S.***, (made and delivered abroad), Court finds new trial warranted to determine the location(s) of the ‘sale’ of those chips:
 - “. . . avoiding extraterritoriality in relying on the [chips that were not imported] in the royalty base depends here on whether they were sold in the United States, there being no other applicable basis in §271(a) to justify including those chips.”

CMU v. Marvell - En Banc Review

- Federal Circuit denies Marvell's petition for rehearing *en banc*
- But holds CMU's petition open as to the issue of willful infringement pending the Supreme Court's decision in *Stryker v. Zimmer, Inc.*, and *Halo v. Pulse*

Willful Infringement: Supreme Court Grants *Cert* in *Halo* and *Stryker*

- *Stryker v. Zimmer, Inc.*, 782 F.3d 649 (Fed. Cir. 2015) and *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, 769 F.3d 1371 (Fed. Cir. 2014)
- Both cases involved pre-suit notice or knowledge of at least one of the patents in suit.
- Both cases involved the assertion of a meritorious or "objectively reasonable" defense at trial but neither had an independent, written opinion of counsel at the time of notice.
- Neither case involved litigation misconduct or any act of extensive copying.
- Federal Circuit found in each case the "objective recklessness" prong of *Seagate* was not satisfied

Willful Infringement: Supreme Court Grants *Cert* in *Halo* and *Stryker*

- Petition and commentary have questioned whether the Sup. Ct. decision in *Octane* on Sec. 285 "exceptional case" attorney's fees alters the two-prong "objectively reasonable/subjective" test in *In re Seagate*?
- Sup. Ct. likely to review standard under the express language of the statute
- Is change in the law of willful infringement likely?
 - No, *In re Seagate* is based on objective + subjective standard for willful infringement consistent with punitive damages awards and analysis in other areas of the law. *Octane* was based on direct statutory reading.
 - Yes, *In re Seagate* is certainly within the scope of Sec. 284 but it is not exclusive. In *Halo* where district court increased damages remand possible if on balance the objective and subjective elements warrant increased damages

Questions?