

Making Sense Of Apportionment In Patent Damages: Part 1

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The task of determining reasonable royalty damages in patent litigation has become increasingly complicated as courts and practitioners have struggled to calculate the value reflected by discrete patented features, components or functions in larger multi-function devices. Particularly in areas such as software and electronics, several recent high-profile patent lawsuits have involved patents not on complete products but on discrete features, components or functions. In addition, courts (including the Federal Circuit) have handed down seemingly inconsistent decisions addressing the question of how to apportion damages on sales of accused products to reflect the value of discrete patented features, or whether such apportionment is even necessary.



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Nonetheless, a careful review of recent decisions reveals several strategies to evaluate and predict how courts will apply the evolving standards for determining damages in patent infringement cases.

Part 1 of this article will discuss the general principles of damages apportionment and key Federal Circuit decisions. Part 2 of this article will discuss recent illustrative U.S. district court decisions and practical considerations for attorneys.

Sales Revenue for Unpatented Features

A reasonable royalty in patent litigation has two primary components: the royalty rate, and the royalty base to which the rate is applied. The rate is generally determined using the well-known Georgia-Pacific factors. Once the rate is established, the rate is typically multiplied against the sales revenue for the infringing product to determine the amount of compensation due to the patentee for the infringement. However, the royalty base is often unclear in cases involving patents on discrete features or components of larger products. An improper royalty base creates the risk of charging royalties on unpatented components or features.

Where the accused product includes only features that are covered by the patent, the royalty base is relatively straightforward to determine, as the value of the product itself forms the royalty base. However, this is seldom the case, as patents tend to cover only one feature or component of an accused product. Courts have struggled to set the bounds of the royalty base where (1) the patented feature is part of a product that includes other, nonpatented features, and (2) the product that contains the

patented feature is itself a component of a still larger product. Practitioners must take care to determine the correct royalty base before seeking to disclose sales figures that go beyond the patented features to the jury, as is shown in the cases discussed below.

Under 35 U.S.C. § 284, patent damages are limited to “damages adequate to compensate for the infringement.”[1] For reasonable royalties, the damages must reflect “the use made of the invention by the infringer.”[2] The Federal Circuit recently has interpreted this to require that “royalties be based not on the entire product, but instead on the ‘smallest salable patent-practicing unit.’”[3] Once the smallest salable unit has been identified, however, damages must be further apportioned to reflect the actual value of what is covered.[4]

A narrow exception to this principle known as the “entire market value rule” applies where it can be shown that the patented feature creates the basis for consumer demand.[5] If the entire market value rule applies, a reasonable royalty may be calculated based on the value of the complete product, even when the patent does not cover the complete product. *Id.* In evaluating whether the entire market value rule applies, courts have imposed an exacting standard. In general, where the patented invention is “but one part or feature among many,” royalties may be assessed against the total value of the accused product if the patented functionality “is the basis for consumer demand” for the accused product.[6]

This is truly a high bar and presents challenges not previously encountered in the nearly three decades of Federal Circuit damages jurisprudence. The question is whether the patented functionality is what motivates consumers to buy the complete product “in the first place.”[7] Thus, it is not sufficient to show that the patented feature is “viewed as valuable, important, or even essential.”[8] It is also not sufficient to show that a product without the patented feature would not be commercially viable.[9] It is not even sufficient to show that consumers would buy a product with the patented feature over one without the patented feature.[10] The patented feature must motivate consumers to purchase the type of product at issue, not merely choose one model over another.

Given this high standard, the entire market value rule is not often met. A recent decision from the Federal Circuit upholding the application of the entire market value rule, however, illustrates the type of evidence that may support the rule’s application. In *Marine Polymer Technologies Inc. v. HemCon Inc.*, an equally divided court affirmed the district court’s decision not to set aside a jury verdict that applied the entire market value rule.[11] The Federal Circuit held that the jury’s application of the entire market value rule was supported by substantial evidence. This evidence included evidence pertaining to the “importance” of the patented functionality in the end products and “its significance for market demand.”[12] The plaintiff had also presented testimony from witnesses for both parties, including the defendant’s president, describing the patented functionality as “critical” to the core function of the accused products.[13] The court therefore held that the jury’s application of the entire market rule was supported by substantial evidence and that portion of the verdict would not be set aside.[14]

Because the entire market value rule is narrowly applied and thus scarcely available to plaintiffs, in most cases some apportionment of damages will be necessary to determine the relative value of the patented feature in relation to the overall product. This raises a separate, complicated question: Can the total value of the complete product be used in the damages analysis in the absence of the entire market value rule?

In *Lucent*, the Federal Circuit appeared to answer this question in the affirmative. Specifically, the court held that “the base used in a running royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as

determined by the evidence).”[15] The court held that “even when the patented invention is a small component of a much larger commercial product, awarding a reasonable royalty based on either sale price or number of units sold can be economically justified.”[16] Thus, it appears from the discussion in Lucent that the entire market value rule analysis can be circumvented simply by applying a small enough royalty rate to reflect the value of the patented feature.

The Federal Circuit gave contrary instructions, however, in *LaserDynamics*, which was issued three years after *Lucent*. In *LaserDynamics*, the Federal Circuit held that the plaintiff had not satisfied the entire market value rule and that the presentation of the defendant’s total revenue for sales of the complete accused product created undue jury prejudice.[17] The court held that “[a]dmission of such overall revenues, which have no demonstrated correlation to the value of the patented feature alone, only serve to make a patentee’s proffered damages amount appear modest by comparison, and to artificially inflate the jury’s damages calculation.”[18] The court acknowledged the statements in *Lucent* quoted above, but stated that they were “taken out of context.”[19]

This apparent conflict may be resolved by considering the difference between the “smallest salable patent-practicing unit” rule and the entire market value rule. In particular, the “entire commercial embodiment” referred to in *Lucent* was the smallest salable patent-practicing unit, whereas the “overall revenues” referred to in *LaserDynamics* included an accused product of which the smallest salable patent-practicing unit was only one component. If the least salable patent-practicing unit is a complete product of which the patented feature is a very small part, then the total value of the complete product may be considered because no other evidence reflecting the value of the patented feature is available. In this scenario, the value of the patented feature can be reflected by a suitably small royalty rate. If the plaintiff seeks to present total revenue for a product that contains a smaller salable unit, however, the entire market value rule must be satisfied.

Thus, in *Lucent*, the patented feature was a “date picker” and the smallest salable unit was Microsoft Outlook, a software application with numerous features apart from the date picker.[20] The jury awarded damages based on a royalty applied to the market value of Outlook as a whole.[21] The Federal Circuit held that this calculation was improper because there was no “evidence demonstrating the patented method of the [patent-in-suit] as the basis — or even a substantial basis — of the consumer demand for Outlook.”[22] However, the real problem the Federal Circuit seemed to have with the plaintiff’s damages analysis was that the plaintiff’s licensing expert tried to approximate what damages would have been had the computers, rather than Outlook, been the royalty base.[23] The court suggested that Outlook itself may have been the proper royalty base because “there is no established market value for the infringing component or feature,” but that there must be a “multiplier” that “accounts for the proportion of the base represented by the infringing component or feature.”[24]

The decision appears to state that not even Outlook itself could be used as the royalty base without satisfying the entire market value rule. However, the full context of the opinion demonstrates that the plaintiff used Outlook as a stand-in for the complete computer, which was improper. As the court explained:

Lucent’s expert tried to reach the damages number he would have obtained had he used the price of the entire computer as a royalty base. Being precluded from using the computer as the royalty base, he used the price of the software, but inflated the royalty rate accordingly.[25]

Thus, the expert’s error was not using Outlook as the royalty base, but using an inflated royalty rate such that using Outlook as the royalty base was the equivalent of using the computer as the royalty base.

In LaserDynamics, in contrast, the patented feature was a “disc discrimination method” in optical disk drives (ODDs).[26] The court held that using the complete computer as the royalty base was improper because the entire market value rule had not been met as to the computer.[27] The court suggested that the “patent-practicing ODD alone” would have been an appropriate royalty base.[28] This is consistent with Lucent if one considers Outlook and the ODD to be the smallest salable unit. In both cases the smallest salable unit could have been used as the proper royalty base, but the plaintiff improperly sought to use the complete computers in which these smallest salable units were installed.

Thus, a royalty base that exceeds the patented feature itself may be necessary if the least salable unit includes non-patented features. However, the royalty base may go even further if the least salable unit is itself a component of a larger non-patented product, so long as the patented feature is the basis for consumer demand of the complete product.

It should also be noted that the value of the entire product may be presented to the jury, notwithstanding concerns regarding prejudice, if the value is probative to issues other than the royalty base. In SynQor Inc. v. Artesyn Technologies Inc., the defendants sought a new trial on damages because they claimed that the plaintiff’s revelation of \$20 billion customer end-product sales unduly influenced the jury.[29] The defendants cited LaserDynamics for the proposition that the disclosure of this figure was unduly prejudicial because the entire market rule had not been met.[30] The plaintiff argued that the total sales figure was relevant to show price elasticity.[31] The Federal Circuit rejected the defendants’ request for a new trial, holding that it was not abuse of discretion to allow the end-product sales figure to be presented to show price elasticity.[32]

The Federal Circuit revisited the issue yet again in VirnetX Inc. v. Cisco Systems Inc.[33] There, two of the asserted patents related to “providing a domain name service [“DNS”] for establishing a secure communication link.”[34] The accused devices included tablets, smart phones and computers, which the plaintiff alleged infringed the patents through the a video chat feature.[35] The plaintiff alleged that the video chat feature “allows secure video calling between” devices.[36] Two additional asserted patents related to creating virtual private networks (“VPNs”).[37] The plaintiff asserted that certain tablets and smart phones infringed the patents through a VPN feature.[38] The plaintiff’s damages expert advanced several alternate theories of damages, and the jury awarded \$368 million in reasonable royalty damages.[39] The Federal Circuit reviewed the line of cases discussed above and vacated the damages award.[40] The Federal Circuit held that the following jury instruction was legally erroneous:

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.[41]

The court held that “the instruction mistakenly suggests that when the smallest salable unit is used as the royalty base, there is necessarily no further constraint on the selection of the base.”[42] The court further held that “the requirement that a patentee identify damages associated with the smallest salable patent-practicing unit is simply a step toward meeting the requirement of apportionment.”[43] Interestingly, the court acknowledged “the difficulty that patentees may face in assigning value to a feature that may not have ever been individually sold,” and noted that the court has “it is well-understood that this process may involve some degree of approximation and uncertainty.”[44] In other words, “absolute precision” is not required.[45]

In light of the potential prejudice of disclosing total revenue figures to the jury, practitioners must be careful and ensure that a solid evidentiary foundation has been established. If the sales figures reflect the value of the least salable patent-practicing unit, the figures can likely be disclosed to the jury under Lucent. If the sales figures reflect the value of a product larger than the least salable patent-practicing unit, the sales figures will likely be excluded under LaserDynamics unless (1) the entire market value rule is satisfied, or (2) the sales figures are probative of some other salient fact and their probative value is not substantially outweighed by the danger of unfair prejudice.[46]

While these principles appear straightforward, they have been applied inconsistently in district courts, as will be discussed in part 2 of this article.

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[1] 35 U.S.C. § 284.

[2] *Id.*

[3] *LaserDynamics Inc. v. Quanta Computer Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (quoting *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88 (N.D.N.Y. 2009)).

[4] *Uniloc USA Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (holding that a 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”).

[5] *LaserDynamics*, 694 F.3d at 68.

[6] *Lucent Techs. Inc. v. Gateway Inc.*, 580 F.3d 1301, 1337 (Fed. Cir. 2009).

[7] *LaserDynamics*, 694 F.3d at 68.

[8] *Id.*

[9] *Id.*

[10] *Id.*

[11] 672 F.3d 1350 (Fed. Cir. 2012).

[12] *Id.* at 1360

[13] *Id.*

[14] *Id.*

[15] Lucent, 581 F.3d at 1338-39.

[16] Id. at 1339.

[17] LaserDynamics, 694 F.3d at 68.

[18] Id.

[19] Id.

[20] Lucent, 580 F.3d at 1317.

[21] Id. at 1336.

[22] Id. at 1337.

[23] Id. at 1338 (“Being precluded from using the computer as the royalty base, he used the price of the software, but inflated the royalty accordingly.”)

[24] Id. at 1339.

[25] Id. at 1338.

[26] LaserDynamics, 694 F.3d at 68.

[27] Id.

[28] Id.

[29] 709 F.3d 1365, 1383 (Fed. Cir. 2013).

[30] Id.

[31] Id.

[32] Id.

[33] 767 F.3d 1308.

[34] Id. at 1314.

[35] Id.

[36] Id.

[37] Id. at 1315.

[38] Id.

[39] Id. at 1326.

[40] Id.

[41] Id. at 1327.

[42] Id.

[43] Id.

[44] Id. at 1328.

[45] Id.

[46] See Fed. R. Evid. 403.

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Making Sense Of Apportionment In Patent Damages: Part 2

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Part 1 of this article discussed the general principles of damages apportionment and key Federal Circuit decisions. In part 2, a discussion of recent illustrative U.S. district court decisions and practical considerations for attorneys is provided.

Recent Illustrative District Court Decisions

With the evolution and conflict in Federal Circuit case law on damages, district courts have struggled with the proper application of apportionment and the entire market value rule. As discussed in part 1, the rule that can be synthesized from Lucent and LaserDynamics is that the least salable patent-practicing unit is the minimum royalty base, but the base can be broadened to include a larger product if the entire market value rule is met as to the larger product, i.e., the patented feature drives the basis for consumer demand for that product.

However, the Northern District of California in *Network Protection Sciences LLC v. Fortinet Inc.* seemed to reject this principle by requiring that the “consumer demand” inquiry be applied even to the smallest salable unit.[1] There, the plaintiff argued that its expert had “correctly performed the apportionment analysis required by the Federal Circuit by first ascertaining the smallest salable patent-practicing unit, and then analyzing the proportion of product value derived from the allegedly infringing technology.”[2] The court held that this approach was improper, because, “[w]hen 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.”[3] Because the plaintiff’s expert had not met the “demand” requirement, the court struck the expert’s report and excluded the expert from testifying.[4] The court did not provide any indication as to what the appropriate royalty base should be in light of the inapplicability of the entire market value rule, nor did the court describe how damages could be calculated on a small patented feature if the price of the smallest salable unit is deemed an inappropriate unit of measure.

A similar result was reached by the District of Delaware in *AVM Techs. LLC v. Intel Corp.* There, the court held that “the ‘entire market value rule’ can apply to a smallest saleable patent practicing unit when the smallest saleable patent practicing unit is itself made up of multiple components.”[5] In other words, the plaintiff was required to satisfy the entire market value rule as a pre-condition to using a multicomponent product as the smallest salable unit.

If the value of the entire product cannot be used as the royalty base, the plaintiff may be able to demonstrate damages by assessing the “market value of the contribution of the asserted patents to the end products.”[6] This was the approach approved by the Eastern District of Texas in *Ericsson Inc. v. D-Link Sys. Inc.* There, the defendant argued that the jury’s damages award was improper because the plaintiff’s expert had improperly relied on end-product revenues to arrive at his royalty.[7] The court drew a distinction between “the market value of the end products” and the “market value of the contribution of the asserted patents to the end products.”[8] Because the expert had relied on the latter rather than the former, the entire market rule was not implicated at all, and the plaintiff’s damages analysis was deemed proper. The analysis of plaintiff’s expert was further supported by the fact that it was based on a per-unit royalty calculated in dollars that was not affected by the price of the end product.[9] In other words, the end-product revenues were irrelevant to the damages calculation. Damages could be calculated by multiplying the per-unit royalty by the total number of units sold.

Other courts have recognized that the entire market value rule is not directly implicated where the smallest salable unit is identified, but have nonetheless applied the principles of the rule to limit damages. In *Tomita Techs. USA, LLC v. Nintendo Co., Ltd.*, the Southern District of New York concluded that Nintendo’s 3DS product was the smallest salable patent-practicing unit and thus concluded that “the entire market rule was not violated, so it can provide no basis to reject the jury’s damages award.”[10] Nonetheless, the court held that the “concerns” behind the entire market value rule were relevant to the reasonableness of the jury’s damages award.[11] The court concluded that the patented feature was “ancillary to the core functionality” of the 3DS, that consumer reception of the patented features was “mixed,” and that the 3DS was not profitable.[12] The court therefore offered the plaintiff the choice between a remittitur of the jury’s damages award to half the amount awarded or a new trial on damages.[13]

Still other courts have allowed royalties to be calculated based on the value of the least salable patent-practicing unit without further apportionment. In these cases, the courts have treated the question of what the least salable patent-practicing unit is, as well as its distinction, if any, from the patented feature, as a question of fact to be decided by the jury. For example, in *Stryker Corp. v. Zimmer Inc.*, the court held that “[w]hat the smallest salable patent-practicing unit is appears to be a classic question of fact.”[14] The court then held that the jury was not unreasonable in determining the least salable unit and awarding damages “using the value of the whole device in its royalty calculations.”[15]

Likewise, the court in *Personalized Media Communications LLC v. Zynga Inc.*, in the context of a motion to exclude expert testimony under *Daubert*, held that the jury could consider the testimony of the plaintiff’s damages expert that the smallest salable unit was no greater than the patented feature.[16] One of the strongest statements concerning the use of the smallest salable unit appears in *Internet Machines LLC v. Alienware Corp.* There, the court went so far as to state that because the plaintiff’s expert “used the smallest salable unit as his royalty base, additional apportionment is unwarranted.”[17] The court further held that “[f]or practical economic purposes, any further apportionment of value within a switch would be entirely speculative and arbitrary.”[18]

The notion that no further apportionment is necessary once the smallest salable unit has been identified has been flatly rejected by other courts, and appears to conflict with some Federal Circuit precedent. In *Uniloc*, the Federal Circuit affirmed the rule that:

[T]he 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," or show that "the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.[19]

Thus, the patentee must show the proper apportionment or demonstrate that no apportionment is necessary. If the plaintiff asserts that no apportionment is necessary, however, this proposition must be supported by "reliable and tangible" evidence. The plaintiff cannot simply identify the smallest salable unit and stop there.

Indeed, the precise approach endorsed in *Internet Machines* was rejected by the Northern District of California in *Dynetix Design Solutions Inc. v. Synopsys Inc.* There, the plaintiff's expert "relied on the blanket assumption that, once he selected the smallest salable unit ... he could end the analysis." [20] The court held that this approach led to a determination of the royalty base that was "fundamentally flawed." [21] Importantly, the court noted that "the alleged smallest salable unit is not, in fact, any smaller or any different than the entire multi-component product." [22] Accordingly, "the difficult task of determining [the patented feature's] value relative to all other components of the [complete product] remains." [23] The fact that the plaintiff's expert "improperly skipped this task of apportionment" led to the exclusion of his opinion on that basis alone. [24] This is a clear statement that when the smallest salable unit is a multi-component product that includes unpatented features, the value of the smallest salable unit must be apportioned to reflect the value of the patented feature.

If the entire market value rule is met, then apportionment does not seem to be necessary. One court has held that "[t]he entire market value rule is an exception to the rule requiring apportionment." [25] Other courts have characterized the *Uniloc* apportionment requirement as an alternative to the entire market value rule. [26] This further undercuts the decision in *Internet Machines*. Thus, it appears, for now, that in all cases involving a multicomponent product, the plaintiff must apportion value or satisfy the entire market value rule to prove that no apportionment is necessary. Given the exacting requirements of the entire market value rule discussed above, an assumption that no apportionment is necessary is incorrect.

Rule Synthesis

Reviewing the Federal Circuit and district court decisions discussed above, a general framework for apportionment in patent damages becomes apparent. As an initial matter, if the value of the patented invention can be determined in the abstract, without regard to the sales of an underlying product, then the whole apportionment issue is avoided. A strict per-unit royalty calculated in dollars (or cents) as opposed to a percentage of sales revenue avoids the need to determine the royalty base beyond the raw number of units actually sold.

If this abstract calculation cannot be performed, then the appropriate sales revenue figure (the royalty base) must be identified. If the patented feature is coextensive with the complete product (i.e., the product has no other features material to consumer demand), then no apportionment is necessary. However, this coextension must be demonstrated by reliable evidence, and will not often be found.

If the patented feature is not coextensive with the complete product, then the smallest salable patent-practicing unit must be identified. While some district courts have required an entire market value rule analysis even to reach the smallest salable patent-practicing unit, the Federal Circuit's decision in *Lucent* suggests that the smallest salable patent-practicing unit can always be used as the royalty base so long as the royalty rate accurately reflects the value of the patented feature within the device. Again, both the identity of the patent-practicing unit and the value attributable to the patented feature must be proven by reliable evidence. When the smallest salable patent-practicing unit is identified, sales revenue for the smallest salable unit can be used as the royalty base.

If the plaintiff can show that the patented feature is the basis for consumer demand, i.e., that the patented feature motivates consumers to purchase the product at issue in the first place, then the entire market value rule may apply and apportionment will no longer be necessary. This situation is analogous to the situation in which the patented feature is coextensive with the complete product. Where the entire market value rule applies, the patented feature is so critical to the complete product that the complete product is treated as though it is the patented feature. Only if this exacting standard is met can the sales revenue for a multicomponent product be used to calculate damages without apportionment.

As discussed above, much of the confusion surrounding the entire market value rule may stem from the situation in which the least salable unit is itself a component of a larger product. In *Lucent*, the least salable unit was Outlook,[27] but the royalty base effectively was laptop computers. In *LaserDynamics*, the least salable unit was an optical disk drive, but again, the plaintiff sought to use laptop computer sales as the royalty base. In both cases the plaintiff was required to show that the patented feature was the basis for consumer demand of the computer, which the plaintiff could not do in either case. In both cases, had the plaintiff used the smallest salable unit (Outlook or the ODDs), the entire market value rule would only have applied if the plaintiffs then failed to apportion the value of the patented feature within the smallest salable unit.

Finally, in certain situations total sales revenue may be relevant to issues other than the royalty base. In such situations, the sales data may be shown to the jury to prove additional matters. It bears emphasizing, however, that any attempt to disclose total sales revenue to the jury must be supported by an evidentiary foundation. The plaintiff must prove that the product for which sales revenue is sought to be disclosed is the smallest salable unit, that the entire market value rule is satisfied, or that there is some other relevance that is not substantially outweighed by concerns of undue prejudice.

Practical Considerations

The uncertainties discussed above pose significant challenges for practitioners dealing with reasonable royalty calculations for multicomponent accused products. As the cases discussed above illustrate, the path forward is not always clear, and yet the consequences can be severe. Courts have stricken expert reports, precluded expert testimony, sharply limited the evidence that a party may present to the jury, remitted damages awards, and vacated jury verdicts. Thus, accurate assessment of the proper damages model and application of conflicting Federal Circuit precedent is essential. In this regard, a few observations may be worthwhile.

As an initial matter, a practitioner should be familiar with recent damages decisions in the district in which the case is pending, as well as any damages decisions issued by the presiding judge. Application of the principles discussed above varies among districts and among judges, and the prior decisions of a

court or a judge may ultimately prove the most helpful in discerning how the principles will be applied in a given case.

Plaintiffs and defendants should also be aware of the evidentiary foundation necessary to support their damages theories, whether the theory relies on (1) the contention that the patented feature is coextensive with the accused product, (2) the existence and identity of a smallest salable unit beyond the patented feature, or (3) the entire market value rule.

The Federal Circuit in *LaserDynamics* identified “market studies” and “consumer surveys” as mechanisms to present evidence concerning consumer demand,[28] and the evidence accepted by the Federal Circuit in *Marine Polymer* provides an example of evidence that may sustain a finding that the entire market value rule applies. Defendants should also develop as much evidence concerning the existence and importance of non-patented features as possible. The type of evidence that tends to support the application of the entire market value rule, or downplay the significance of the patented feature, will be relevant to apportionment as well as the question of whether the entire market value rule applies.

Defendants should also make use of Daubert motions and motions in limine to proactively limit the evidence that the plaintiff will present and eliminate any faulty damages theories set forth by the plaintiff’s expert. While some judges will allow factual uncertainties concerning a damages expert’s analysis to be resolved by the jury, the Federal Circuit has stated that questions challenging an expert’s damages model “should be resolved under the framework of the Federal Rules of Evidence and through a challenge under *Daubert v. Merrell Dow Pharm. Inc.*, 509 U.S. 579, 113 S.Ct. 2786, 125 L.Ed.2d 469 (1993),” and not “[u]nder the guise of sufficiency of the evidence.”[29] In addition, defendants should move in limine to prevent plaintiffs from unduly prejudicing the jury by disclosing total sales figures without the appropriate evidentiary foundation.[30] It is important to preserve all challenges to perceived flaws in the plaintiff’s damages analysis so that any adverse judgments can be fully reviewed on appeal. A new trial on damages may also be available.[31]

On the plaintiff side, plaintiffs should crystallize their damages theories early on and be clear as to whether they are invoking the entire market value rule or whether they are apportioning the smallest salable unit. Plaintiffs should also be aware of the probative value of sales data beyond the calculation of the royalty base itself. As shown in *SynQor*, total revenues may be probative of other economic issues such as price elasticity. In addition, at least one court has permitted a damages expert to rely on total sales revenues in the context of the hypothetical negotiation analysis without satisfying the entire market value rule.[32] Courts will likely be sensitive to the disclosure of total sales revenue to the jury in light of the prejudice concerns voiced in *LaserDynamics*. As such, a solid evidentiary foundation is necessary before such information may be disclosed, and plaintiff should be prepared to articulate a precise theory of relevance.

Conclusion

While the case law concerning reasonable royalty calculation is somewhat conflicting, the basic principles are clear. A patentee must fairly calculate the value of the patented invention to the infringer in order to prove the appropriate damages figure. The value of the patented invention, therefore, must always be determined. It may be an apportioned amount of the value of a larger product, or it could be so valuable that it accounts for the entire value of the larger product. Either way, the value must be proven by reliable evidence, and courts must be presented with coherent damages models and theories of relevance. Otherwise, litigants risk the exclusion of testimony and the vacatur of jury verdicts.

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[1] No. C 12-01106 WHA, (N.D. Cal. Sep. 26, 2013).

[2] *Id.*

[3] *Id.*

[4] *Id.*

[5] No. 10-610-RGA, (D. Del. Jan. 4, 2013).

[6] *Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-CV-473, (E.D. Tex. Aug. 6, 2013).

[7] *Id.*

[8] *Id.*

[9] *Id.*

[10] No. 11 Civ. 4256(JSR), (S.D.N.Y. Aug. 14, 2013).

[11] *Id.*

[12] *Id.*

[13] *Id.*

[14] No. 1:10-CV-1223, (W.D. Mich. Aug. 7, 2013).

[15] *Id.*

[16] No. 2:12-CV-00068-JRG-RSP, (E.D. Tex. Nov. 8, 2013).

[17] No. 6:10-cv-23, (E.D. Tex. June 19, 2013).

[18] *Id.*

[19] 632 F.3d at 1318 (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)) (ellipses in original).

[20] No. C 11-05973 PSG, (N.D. Cal. Aug. 22, 2013).

[21] Id.

[22] Id.

[23] Id.

[24] Id.

[25] Sloan Valve Co. v. Zurn Indus. Inc., ___ F. Supp. 2d ___, (N.D. Ill 2014).

[26] Interwoven Inc. v. Vertical Computer Sys., No. CV 10–04645 RS, (N.D. Cal. July 18, 2013); AVM Techs.

[27] Language in the Federal Circuit’s Lucent decision suggests that Outlook itself was an improper royalty base. However, the Federal Circuit’s problem with the plaintiff’s analysis appears to be that the plaintiff ostensibly used Outlook as the royalty base, but used such a high royalty rate that the computers were used as the effective royalty base. This was improper without satisfying the entire market value rule.

[28] LaserDynamics, 694 F.3d at 69.

[29] Versata Software Inc. v. SAP Am. Inc., 717 F.3d 1255, 1264 (Fed. Cir. 2013).

[30] See, e.g., HTC Corp. v. Technology Properties Limited, No. 5:08–cv–00882–PSG, (N.D. Cal. Sep. 6, 2013) (granting motion in limine to exclude “evidence of the entire market value, size, wealth, or overall revenues” of the defendant).

[31] See, e.g., Power Integrations Inc. v. Fairchild Semiconductor Int’l Inc., No. C 09-5235 MMC, (N.D. Cal. Nov. 25, 2014) (granting a new trial on damages because the plaintiff’s expert did not perform an apportionment analysis in calculating reasonable royalty damages).

[32] HTC Corp. v. Technology Properties Limited, No. 5:08–cv–00882–PSG, (N.D. Cal. Sep. 6, 2013)