

WEDNESDAY, APRIL 18, 2012

LITIGATION

## Patent infringement liability: What is the 'entire market value'?

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This is an uncertain time for determining damages in patent infringement cases. Recently, the Federal Circuit issued a number of decisions clarifying to some extent the rules governing calculation of patent infringement damages. The court provided guidance, for example, about the contours of the entire market value rule in *Lucent*, apportionment and the 25 percent rule in *Uniloc*, and the use of comparable licenses in the *ResQnet* case. These decisions are useful for understanding the theories and evidence that are not reliable and will be excluded from evidence. Further clarification is required, however, to create predictability and so that district courts and IP practitioners will more fully understand the methodologies and evidence that should be relied upon in calculating patent infringement damages.

The recent *Oracle America, Inc. v. Google, Inc.* case, scheduled for trial this month in Northern California, is one of many recent examples of patent cases highlighting the uncertainties surrounding permissible methodologies for calculating damages in patent infringement cases. Oracle values damages in the \$1.4 to \$6.1 billion range, while Google calculates damages at between \$0 and \$100 million, if there is a finding of liability. The court, which appointed its own damages expert given the parties' widely divergent theories, recently excluded portions of its own damage expert's report and testimony for running afoul of the rules for calculating damages.

In no area is the uncertainty more visible than with an important principal in patent infringement damages analysis known as the "entire market value" rule and the evidence used to support it. The Federal Circuit recently reaffirmed that the EMV Rule can only be invoked if the patented feature is "the basis" for consumer demand. However, the status of the rules is far from certain. Two important issues that patent litigation practitioners have followed closely are (1) how absolute is the requirement that a patented feature be "the basis" for consumer demand and (2) how effective is survey evidence in determining whether a patented feature is, in fact, the basis for consumer demand.

### *Lucent and Uniloc.*

In 2009, the Federal Circuit decided *Lucent Techs., Inc. v. Gateway, Inc.*, which appeared to reinstate a heightened standard for the application of the EMV Rule. Relying primarily on century-old case law, the Federal Circuit stressed that "the patentee must prove that the patent-related feature is the basis for customer demand." In so holding, the Federal Circuit vacated a \$357 million award on the ground that there was no evidence demonstrating that the infringed patent was "the basis — or even a substantial basis — of the consumer demand."

This moment of relative clarity was short-lived. In early 2011, the Federal Circuit decided *Uniloc USA, Inc. v. Microsoft Corp.*, which is primarily known for the abolition of the 25 percent rule of thumb regarding the apportionment of royalties. The *Uniloc* decision, however, also appeared to broaden the application of the EMV Rule by stating that it applies "only where the patented feature creates the basis for customer demand [or]

substantially creates the value of the component parts." In the year since *Uniloc*, district courts have split as to how to apply the EMV Rule and today there may be less clarity than before *Uniloc* issued.

### *What is the proper test after Lucent and Uniloc?*

In *Inventio AG v. Otis Elevator Co.*, a district court in New York City took an outwardly hostile approach to the *Uniloc* court's apparent broadening of the application of the EMV Rule. It criticized *Uniloc* for "obfuscating" the rule and focused on how the EMV Rule requires an "exacting standard." The district court stressed that "it is not enough to present evidence that the patented feature was desirable, or that it played some role — even a substantial role — in the customer's decision." It held that so long as "other features

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of a product contributed to the customer's decision, Supreme Court precedent (which the Federal Circuit is powerless to overrule), demands that there be an apportionment" in lieu of application of the EMV Rule. After noting that the allegedly infringed feature (a routing system in elevators) was indeed a "desirable" feature — even one that the defendant would have been at a competitive disadvantage without — the court found that the evidence did not present a "sound economic connection" demonstrating that it was "[the] basis for public demand."

Likewise, in *Oracle America, Inc. v. Google, Inc.*, a district judge in San Francisco strictly construed the EMV Rule, noting that the expert in question "provided no analysis showing that the allegedly infringing features of Android created the basis for all value of the Android platform or that they substantially create the value of the non-infringing portions of the Android platform." The court analogized the importance of a feature to the importance of tires to a car: "Wheels are critical to an automobile, but no one would apportion all of the demand for a car to just the wheels." Oracle was directed to discard the entire market value and apportion the total value among the specific infringing features.

On the other side of the spectrum, at least two courts have cited *Uniloc*'s "substantially creates" standard. In *ActiveVideo Networks, Inc. v. Verizon Communications, Inc., et al.*, the Eastern District of Virginia cited *Uniloc* and allowed evidence over a *Daubert* challenge based on the court's finding that sufficient evidence was submitted to "demonstrate that VOD (or the patented feature) is the basis for consumer demand for the Verizon FiOS system or substantially contributed to the value of the system." Similarly, in *Dataquill Ltd. v. High Tech Computer Corp.*, the Southern District of Florida cited *Uniloc*, noting that *DataQuill* had "presented evidence showing the importance of the allegedly accused devices' ability to succeed in the marketplace." Until the Federal Circuit again revisits this question, patent litigation practitioners

can continue to expect broad uncertainty in the application of the EMV Rule.

### *Use of consumer survey materials after Lucent.*

After *Lucent*, parties have considered what types of evidence should be used to demonstrate that an infringed patent drives consumer demand, and at times have been confronted by courts demanding empirical evidence.

In some cases, courts have criticized the lack of consumer surveys. The *Inventio* court, for example, rejected plaintiff's expert witness testimony, noting that the lack of supporting evidence such as "customer surveys or even interviews" of customers.

In other cases, courts have closely examined the contents of consumer surveys. The district court in E.D. Texas, in *Mirror Worlds LLC v. Apple Inc. and Fractus S.A. v. Samsung Electronics Co.*, for example, closely scrutinized surveys and questioned their use in establishing consumer demand. The court rejected the surveys because they improperly targeted only one of three infringed features and focused on the infringed patent without tying it to the accused devices.

In *Fractus*, the consumer survey attempted to determine the value of incorporating internal cell phone antennas in place of external antennas. Over 90 percent of the respondents purported to prefer internal phone antenna. The court excluded the survey evidence where plaintiffs did not own the patent to all internal cell phone antenna designs, just one type at issue in the matter. Thus, "the surveys do not measure the value of Plaintiff's technology, but merely measure the perceived consumer value of cell phones with [any] internal antennas."

Likewise, in *Oracle America, Inc. v. Google, Inc.*, the court rejected Oracle's consumer surveys used for apportionment of damages finding the surveys unreliable and thus inadmissible at trial because they focused consumers on an artificially circumscribed set of features that did not accurately reflect the variety of choices they face when making purchasing decisions.

As these cases illustrate, it will take some time to more precisely determine the methodologies and contents of consumer surveys that will be acceptable and admissible for establishing patent infringement damages.

In sum, district court judges are embracing their role as gate-keepers by maintaining rigorous evidentiary requirements for establishing patent damage awards. Nonetheless, clarification of the EMV Rule and related principals for calculating patent infringement damage is very much needed.

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