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EMVR'S NIGHT OF THE LIVING DEAD?
EMVR AFFECTS DAMAGES POST-LASERDYNAMICS

Just when you thought the “entire market value rule” (EMVR) was decapitated, its presence rears its head. In *LaserDynamics, Inc. v. Quanta Computer, Inc.*,¹ the Federal Circuit Court of Appeals severely restricted the EMVR’s use. Many—prematurely, it now seems—pronounced the doctrine dead.

Cases applying *LaserDynamics* continue to affect royalty damages even when the EMVR seemingly does not apply. Awareness of this shifting legal terrain is crucial for patent litigators and their clients.

The LaserDynamics Case

Courts award reasonable royalty damages—the minimum amount of infringement damages “adequate to compensate for infringement”—“for the use made of the invention by the infringer.”²

When limited elements of multi-component products are accused of infringement, a royalty base using the sales price of the entire product carries a “considerable risk” that the patentee will be unfairly compensated for non-infringing components.³ Thus, royalties are generally based not on the entire product, but on the “smallest salable patent-practicing unit . . . with close relation to the claimed invention.”⁴

The EMVR has been a “narrow exception to the general rule.”⁵ Damages are recoverable under the EMVR *only* “if the patented apparatus was of such paramount importance that it substantially created the value of the component parts.”⁶ To apply the EMVR, “the patentee must prove that the patent-related feature is the *basis for customer demand*” for the entire product.⁷

The EMVR is grounded on a 19th century U.S. Supreme Court rule: “[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.”⁸

The EMVR effectively ensures that royalty damages are “reasonable” and “arose and evolved to limit the permissible scope of patentees’ damages theories.”⁹ To ensure the rule is properly applied, proof of damages must be carefully tied to the claimed invention’s footprint in the marketplace,¹⁰ and the damages theory must be based on “sound economic and factual predicates.”¹¹

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1 694 F.3d 51 (Fed. Cir. 2012).
 2 35 U.S.C. § 284; *LaserDynamics, Inc.*, 694 F.3d 51 at 66.
 3 *LaserDynamics, Inc.*, 694 F.3d 51 at 67.
 4 *Id.* at 67 (citing *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 288 (N.D.N.Y. 2009) (Rader, C.J. sitting by designation)).
 5 *Id.* at 67.
 6 *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549 (Fed. Cir. 1995) (citations omitted).
 7 *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009) (citations omitted) (emphasis added); see, e.g., *Rite-Hite Corp.*, 56 F.3d at 1549.
 8 *Garretson v. Clark*, 111 U.S. 120, 121 (1884), cited in *LaserDynamics, Inc.*, 694 F.3d 51 at 66.
 9 *LaserDynamics, Inc.*, 694 F.3d 51 at 67.
 10 *Id.* at 67 (citing *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010)).
 11 *Id.* at 67 (citing *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002)).

In *LaserDynamics*, the Federal Circuit roundly rejected the plaintiff's attempt to use the EMVR in calculating damages, confirming the doctrine's critical limitations

While *LaserDynamics* limits the admissibility of evidence that does not meet the EMVR, it does not limit the discoverability of such evidence.

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In *LaserDynamics*, the Federal Circuit roundly rejected the plaintiff's attempt to use the EMVR in calculating damages, confirming the doctrine's critical limitations:

- A patentee *cannot* avoid the need to prove that the patented feature drives demand for the entire product by using a very small royalty rate.¹²
- It is *not enough* to show that the patented feature is viewed as "valuable, important, or even essential" to use of the accused product.¹³
- It is *not enough* to show that a product without the patented feature is "commercially unviable," because proof that customers want a product with the patented features "is not tantamount to proof that only one of those features alone drives the market . . ."¹⁴
- *Consumer preference says nothing* about whether the presence of that functionality "is what motivates consumers to buy a [product] in the first place."¹⁵
- *Consumer expectations* that the patented feature will be present in a product *are not evidence* that "this feature alone motivates consumers to purchase [the product]" such that the EMVR applies.¹⁶

New Cases Applying *LaserDynamics*

Current cases attempting to apply *LaserDynamics* will provide guidance about how courts will treat the strict rules announced in that case:

- **Discovery Unaffected** – While *LaserDynamics* limits the admissibility of evidence that does not meet the EMVR, it *does not* limit the *discoverability* of such evidence.¹⁷
- **Disputed Issues of Fact** – Questions of fact regarding the extent to which the patented technology *drove demand* for the accused products were enough to overcome a motion for summary judgment in one case.¹⁸ A patentee skirted a *Daubert* motion in another case by (1) arguing that the accused product was the smallest saleable patent-practicing unit for the patented method, and (2) providing "some evidence" of the applicability of the EMVR.¹⁹

In yet another case, the district court denied a motion to exclude an expert's testimony because issues relating to application of the EMVR were "clearly disputed."²⁰ After the trial of that matter, however, the district court granted a motion for remittitur or a new trial because the patentee's expert failed to present evidence that consumers were motivated to purchase the accused product because of the patented feature.²¹

Denying a Rule 50 post-trial motion based on the EMVR's improper application, a court noted, (1) the patentee provided *some* evidence that its expert considered the

¹² *Id.* at 67-68 (citing *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1319-20 (Fed. Cir. 2011)) (disclosure of overall product revenues *skews* the jury's perception by making the patentee's damages appear modest in comparison to the entire product revenues and artificially inflates the amount of damages required to "adequately" compensate the patentee—sometimes referred to as the "*Uniloc skew*").

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.* (the EMVR requires this higher degree of proof).

¹⁶ *Id.* at 69.

¹⁷ *Positive Techs., Inc. v. Sony Elecs., Inc.*, No. 11-cv-2226 SI (KAW), 2013 WL 707914, at *5 (N.D. Cal. Feb. 26, 2013).

¹⁸ *Interwoven, Inc. v. Vertical Computer Sys.*, No. 3:10-cv-04645 RS, 2013 WL 3786633 (N.D. Cal. July 18, 2013).

¹⁹ *Gen-Probe Inc. v. Becton Dickinson & Co.*, No. 09-CV-2319 BEN, 2012 WL 9335913, at *3, *4 (S.D. Cal. Nov. 26, 2012) (citing *Ergoton, Inc. v. Rubbermaid Comm. Prods., LLC*, No. 10-2010, 2012 WL 3733578, at *14 (D. Minn. Aug. 28, 2012)) (whether the patented components drive consumer demand is an issue of fact).

²⁰ *Electro-Mech. Corp. v. Power Dist. Prods., Inc.*, 926 F. Supp. 2d 822 (W.D. Va. 2013).

²¹ *Electro-Mech. Corp. v. Power Dist. Prods., Inc.*, No. 1:11CV00071, 2013 WL 4816944, at *6-*7 (W.D. Va. Sept. 10, 2013).

Evidence that demand for products without the patented feature “dropped precipitously” when products with the patented feature were introduced to the market was enough for one patentee to survive a *Daubert* challenge.

... when a damages expert “made no sincere attempt” to tie the patentee’s damages to the smallest saleable patent-practicing unit and relied on an apportionment factor derived from a single survey, the court required the expert to amend his report before he could testify at trial.

Analysis of whether the accused product is the smallest saleable patent-practicing unit may present the most complex issues for litigants.

smallest saleable infringing unit, and (2) the patented invention was closely related to the accused device.²² In addition, the accused infringer failed to provide a “credible alternative.”²³

- **“Per-Unit” Royalty Allowed** – A “per-unit” royalty did not violate the EMVR because the patentee did not use the revenue or profits of an entire accused product in its royalty base.²⁴ But calculating an implied royalty rate as a percentage of total accused product revenue based on the “per-unit” royalty violated the EMVR. This testimony was ultimately excluded.²⁵
- **Consumer Demand Is Fundamental** – Evidence that demand for products *without* the patented feature “dropped precipitously” when products with the patented feature were introduced to the market was enough for one patentee to survive a *Daubert* challenge.²⁶ Even though products with the patented feature cost more than those without the feature, the court said, “Value added, as measured by an increase in sales price, is not the only factor considered in a royalty calculation, however.”²⁷ The court also said that the patentee had applied an agreed royalty rate to the entire product in an actual negotiation with another party.²⁸
- **Reliance on Comparable Licenses Is Irrelevant to EMVR** – The EMVR is not satisfied simply because the patentee relied on comparable licenses in its damages analysis. That is a different legal inquiry.²⁹
- **EMVR Not Applied to Generic Pharmaceuticals** – “[T]here is little reason to import these rules [the EMVR] for multi-component products like machines into the generic pharmaceutical context.”³⁰ In any event, a disputed coating was considered a “crucial aspect” of the process embodied in the patent, and products without the coating were not considered commercially viable.³¹
- **Experts May Get a Second Chance** – A district court gave one expert an opportunity to revise his report to explain why he used the total revenue for an accused product containing the accused feature.³² Whether the expert concluded that the accused product was the smallest saleable patent-practicing unit or the EMVR applied, he had to provide a sound basis for his conclusion.³³ Similarly, when a damages expert “made no sincere attempt” to tie the patentee’s damages to the smallest saleable patent-practicing unit and relied on an apportionment factor derived from a single survey, the court required the expert to amend his report before he could testify at trial.³⁴
- **“Smallest Saleable Patent-Practicing Unit”** – Analysis of whether the accused product is the smallest saleable patent-practicing unit may present the most complex issues for litigants.

First, the court must identify the smallest saleable patent-practicing unit. One court concluded that the accused product was the smallest saleable patent-practicing unit

22 *Virnetx Inc., v. Apple Inc.*, 925 F. Supp. 2d 816, 836-37 (E.D. Tex. 2013).

23 *Id.* at 837.

24 *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618-H (KSC), 2012 WL 5873711, at *5 (S.D. Cal. Nov. 20, 2012); see *Ericsson Inc. v. D-Link Sys., Inc.*, No. 6:10-cv-00473, 2013 WL 4046225 (E.D. Tex. Aug. 6, 2013).

25 *Multimedia Patent Trust v. Apple Inc.*, No. 10-CV-2618-H (KSC), 2012 WL 5873711, at *5,*6 (S.D. Cal. Nov. 20, 2012).

26 *Avocent Redmond Corp. v. Rose Elecs.*, No. C06-1711RSL, 2013 WL 1855847, at *2 (W.D. Wash. Apr. 29, 2013).

27 *Id.*

28 *Id.*

29 *Id.* at *6.

30 *Astrazeneca AB v. Apotex Corp.*, No. 01 Civ. 9351 (DLC), 2013 WL 6244425, at *30 (S.D.N.Y. Dec. 3, 2013).

31 *Id.*

32 *Axcess Int'l, Inc. v. Savi Techs., Inc.*, No. 3:10-cv-1033-F, 2013 WL 6839112, at *9 (N.D. Tex. Jan. 25, 2013).

33 *Id.* at *5.

34 *Virnetx Inc. v. Cisco Sys., Inc.*, No. 6:10-CV-417, 2013 WL 789288, at *2 (E.D. Tex. Mar. 1, 2013).

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because the defendant neither bought nor sold the individual components of the system, the components could not practice the patent before assembly and programming, and the product was imported fully assembled.³⁵

Second, there is a question whether the value of the smallest saleable unit also requires apportionment. One district court held that, when the smallest saleable patent-practicing unit formed the basis for a damages analysis, no further apportionment was warranted, even though the accused product contained non-patented features.³⁶ Any further apportionment would be “speculative and arbitrary.”³⁷

But other courts have reached the opposite conclusion, stating that *Cornell University v. Hewlett-Packard Co.* does not say that no further apportionment is ever necessary once the smallest saleable unit is determined.³⁸ For one court, failing to apportion the value of the patent, even in the smallest saleable unit, was a basis to exclude the expert’s testimony.³⁹ In another case, a patentee argued that the accused microprocessors were the smallest saleable patent-practicing unit for the claimed dynamic logic circuit.⁴⁰ Citing the risk of “Uniloc error” and noting the expert’s failure to provide a basis for his testimony about a royalty based on microprocessors, the court indicated that it was inclined to strike the testimony. The court withheld a final determination on the motion pending testimony from the expert before trial.⁴¹

Conclusions

Mindful of this uneven landscape, savvy litigants will in every case:

- Consider alternative damages models that are not dependent on the EMVR, including per-unit royalties or royalties based on cost savings arising from the infringement.
- Recognize that comparable licenses do not play into the EMVR analysis.
- Develop evidence and expert opinion either (1) factually supporting application of the EMVR based on the strict *LaserDynamics* rules, or (2) identifying and justifying the smallest saleable patent-practicing unit.
- Apportion the value of the patented technology when the smallest saleable patent-practicing unit contains unpatented features.
- Avoid the need for a “second chance” to submit expert testimony on the issue.
- Develop a full factual and analytical record at trial.

35 *Tomita Techs. USA, LLC v. Nintendo Co., LTD.*, No. 11 Civ. 4256(JSR), 2013 WL 4101251, at *8 (S.D.N.Y. Aug. 14, 2013).

36 *Internet Machs., LLC v. Alienware Corp.*, No. 6:10-cv-23, 2013 WL 4056282, at *13 (E.D. Tex. June 19, 2013).

37 *Id.* (citing *Del Mar Avionics, Inc. v. Quinton Inst. Co.*, 836 F.2d 1320, 1327 (Fed. Cir. 1987)).

38 *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. 5:11-cv-09573, 2013 WL 4538210, at *3 (N.D. Cal. Aug. 22, 2013) (product must be closely tied to the patented feature); *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. 3:12-cv-01106, 2013 WL 5402089, at *6-*7 (N.D. Cal. Sept. 26, 2013) (expert testimony excluded); see *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 1:11-cv-09308, 2013 WL 5593609, at *13-*18 (N.D. Ill. Oct. 3, 2013).

39 *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. 3:12-cv-01106, 2013 WL 5402089, at *6-*7 (N.D. Cal. Sept. 26, 2013) (expert testimony excluded).

40 *AVM Techs., LLC v. Intel Corp.*, No. 10-610-RGA, 2013 WL 126233, at *2 (D. Del. Jan. 4, 2013).

41 *Id.* at *3-*4.