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**Key Trends in
Calculating Damages
in Patent
Infringement
Damages**

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Education

BBA in Accounting from the University of Iowa

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Shawn has more than 20 years of experience providing forensic accounting and litigation services as an expert witness services to organizations and their counsel. His IP experience includes matters involving lost profits, reasonable royalty, price erosion, incremental profits, product line profitability, valuation, and apportionment.

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Program Agenda

- Current evolution of apportionment
- Definition of two-supplier market
- Calculating reasonable royalty without guideline license agreements
- Guideline license agreements
- Impact of new case law

Apportionment

- Courts struggle with calculating the value reflected by discrete patented features with multi-feature products
- No generally accepted apportionment considerations similar to *Georgia-Pacific* factors for reasonable royalty and *Panduit* factors for lost profits
- Process is evolving and still faces many uncertainties
- Due to complexity of issues, standardization will take many years
- Each case, will depend on facts and circumstances
- *Daubert* risk is high
- May require use of multiple experts (damages, statistical, and technical)

Apportionment Methodologies

- Consumer surveys
- Usage surveys – feature's use is proportional to its value
- Market studies – including independent, plaintiff, or defendant
- Conjoint analysis – statistical analysis to consumer surveys
- Product comparison – with and without patent feature
- Relative value – based on economic contributions, costs, or price
- Cost analysis – relative costs of the patented feature to the whole product
- Feature counting and isolation of the infringing and non-infringing elements

Apple, Inc. v. Samsung Electronics Co., Ltd.

- U.S. Supreme Court ruled unanimously that a patent infringer does not always have to pay out **all profits** from sales of products using the infringed patents, if the patents covered only certain components and not the entire product
- Case was remanded back to the U.S. Court of Appeals to determine the amount of damages Samsung must pay
- The Court's opinion stated that "article of manufacture" is a legal term that refers to both a product sold to a consumer and a component of said product that has "broad meaning," and an "article" could refer to "a particular thing"
- No roadmap was provided on how to navigate similar disputes in the future

Power Integrations v. Fairchild Semiconductor International, Inc.

- Issue relates to whether unpatented components function with the patented component in some manner to produce a desired end product or result
- Following retrial, the jury awarded damages of \$139.8 million in December 2015 based on plaintiff's damages expert's alternative damage methodology based on entire market value rule (EMVR) instead of apportionment
- Court ruled that Fairchild had not shown the verdict should be set aside on the asserted grounds that the patented and unpatented components of its products do not function as a single unit

TCL Communication Technology Holdings, Ltd v. Telefonaktienbolaget LM Ericsson et al.

- Judge allows defendant's expert opinion based on various third party surveys, blogs, polls and studies to form his opinions including one by International Planning & Research (IPR) and another by Accenture PLC
- Plaintiff challenged the use of these third party surveys for several reasons including an inability to evaluate their validity and a gap between the features surveyed and the patents in the case
- Judge allowed their use ruling that because IPR and Accenture are well-known reliable research organizations the criticisms would go to the weight of the data used

TCL Communication Technology Holdings, Ltd v. Telefonaktienbolaget LM Ericsson et al. (continued)

- Two apportionment opinions of defendant's expert were excluded
- (1) The expert calculated the value of cellular connectivity by comparing pricing between an iPhone and an iPod Touch
- The judge found that “the opinion does not fit the relevant inquiry” and that even if this analysis could be translated to TCL products, the expert determined the value of the standard and not Ericsson's contribution to the standard
- (2) The expert also calculated the incremental benefit provided by Ericsson's contribution to increased battery life by using the price of a Mophie battery case
- The judge found that “there is more to the device than simply a back up battery” and “too many gaps in the analysis to meet the reliability threshold”

Comcast Cable Communications, LLC v. Sprint Communications Civil Action No,12-859, 2016

- Plaintiff's damages expert apportioned the defendant's profitability by utilizing the plaintiff's technical expert's analysis of the text messaging system's steps into allegedly infringing steps and non-infringing steps
- Sprint argued this approach was not reliable as it amounted to a "mere counting of lines of code," which the Federal Circuit had held as insufficient for apportionment purposes
- The court disagreed, noting that the Lucent court "does not state that counting lines of code is per se unreliable; rather it recognizes that such simplistic apportionment alone is not probative of value"
- Further, Comcast's technical expert had "adequately supported and explained in detail the reasoning behind each part of his step-counting process" on which the damages expert had relied

Uniloc USA, Inc. v. Microsoft Corp.

- Eliminates the 25% rule as a measure of damages with no licensing agreements; can't use general industry data
- Uniloc argued that the entire market value of the products may appropriately be admitted only if the royalty rate is low enough
- Case provides a good example of the dangers of admitting consideration of the entire market value of the accused where the patented component does not create the basis for customer demand
- Court concluded that the district court did not abuse its discretion in granting a conditional new trial on damages for Uniloc's violation of the entire market value rule

Definition of Two-Supplier Market

- Most critical issue in lost profits analysis
- Lack of availability of non-infringing alternatives and acceptable substitutes
- Reconstructed market share analyses when there are more than two suppliers rarely done due to limited market data
- Look at the parties' technologies, competition, distribution channels, substitute products, and market definition

Calculating Reasonable Royalty Without Guideline License Agreements

- Calculating reasonable royalty without guideline license agreements is more difficult but possible
- Focus on income approach
 - Comparable profit margin method (analytical method)
 - Differential income method
 - Profit split methods
- Reasonable royalty based on research and development expenditures and cost savings and other benefits of the patent(s)-in-suit

Comparable Profit Margin Method (Analytical Method)

- The royalty calculated under this method is based on the infringer's own internal profit projections for the infringing item at the time the infringement began
- The analytical method is based on the premise that any rate of return in excess of a normal rate of return can be attributed to the patent
- This method takes the profits of the infringer, subtracts the infringer's normal profit, and awards some portion of the remainder to the patent owner
- Difficult to find proper benchmark

Differential Income Method

- The analyst uses a discounted cash flow analysis comparing the profitability of a product with and without the patent(s)-in-suit
- The difference between these two analyses, the differential income, indicates the damages amount
- The differential income is then used to estimate a reasonable royalty
- May be based on (1) plaintiff's profit margins with and without the patent(s)-in-suit as discussed above or (2) plaintiff's profit margin and defendant's profit margin

Profit Split Methods

- Evolving area
- Forced to use in situations in which there is no guideline license agreements
- High *Daubert* risk for the damages experts
- Nash Bargaining Solution – mixed bag with courts
- Rubenstein-Muthoo Model of Bargaining – mixed bag with courts
- Footprint methodology developed by Aaron Fahrenkrog of Robins Kaplan – not ruled on by the courts yet

Guideline License Agreements

- Courts prefer guideline license agreements when available
- Courts have increasingly taken a more narrow interpretation of comparability to patent(s)-in-suit
- Account for differences between the patent(s)-in-suit and the patents in the guideline license agreements
- Courts have ruled both ways on use of settlement agreements
- Courts have allowed use of acquisition agreements
- Depends of facts and circumstances
- May be difficult to use license information from third-party license databases and industry due to difficulty with comparability

***Chicos Fas, Inc. v. Clair* (2015 U.S. District LEXIS 71716 (June 3, 2015))**

- District court excluded the testimony of the plaintiff's damages expert based on an improper reasonable royalty analysis
- The court noted that the expert's opinion relied on nonspecific or irrelevant royalty rate data, including the following:
 1. Licenses obtained from RoyaltySource that were not comparable to the patented technology
 2. Generalized royalty rate studies that the court noted were no better than applying an impermissible "rule of thumb" analysis
- This decision is only the latest in a line of recent cases where the courts have demanded more analytical rigor in the determination of a reasonable royalty

Halo Electronics, Inc. v. Pulse Electronics, Inc.

- U.S. Supreme Court unanimously overturned the Federal Circuit two-part *Seagate* test for granting **enhanced damages for willful patent infringement** under 35 U.S.C. 284 (which allows for increased damages up to three times those assessed) calling it “unduly rigid”
- The court recognized greater discretion for district courts to assess the culpability of parties accused of willful infringement
- Willfulness is to be determined under a “preponderance of the evidence” standard, rather than a “clear and convincing evidence” standard
- As a result the trier of fact may have greater latitude in awarding enhanced damages under the totality of circumstances presented in a case than they had under the *Seagate* test

TC Heartland LLC v. Kraft Food Group Brands LLC

- U.S. Supreme Court ruled unanimously reversing the Federal Circuit that ruled that 28 USC 1400(b) remains the only applicable patent venue statute.
- This decision will require patent owners to sue those infringing their patents in a district court in either the state (1) where the defendant is incorporated, or (2) where the defendant committed the infringement and has a regular established place of business
- More cases will be filed in Delaware and local jurisdictions

AstraZeneca AB vs. Apotex Corp.

- In determining the appropriate reasonable royalty rate, the Federal Circuit in *AstraZeneca AB vs. Apotex Corp.* stated that the costs incurred to produce the non-infringing alternative are relevant in a reasonable royalty rate determination
- This, reasoned the court, is because when an infringer can easily design around a patent and replace its infringing goods with non-infringing goods, the incentive to take a license is largely absent, and therefore the hypothetical royalty rate would then typically be lower
- On the other hand, if the design-around is an expensive undertaking and time consuming, the infringer is more likely to continue infringing and risk litigation rather than undertake the expense of designing around.



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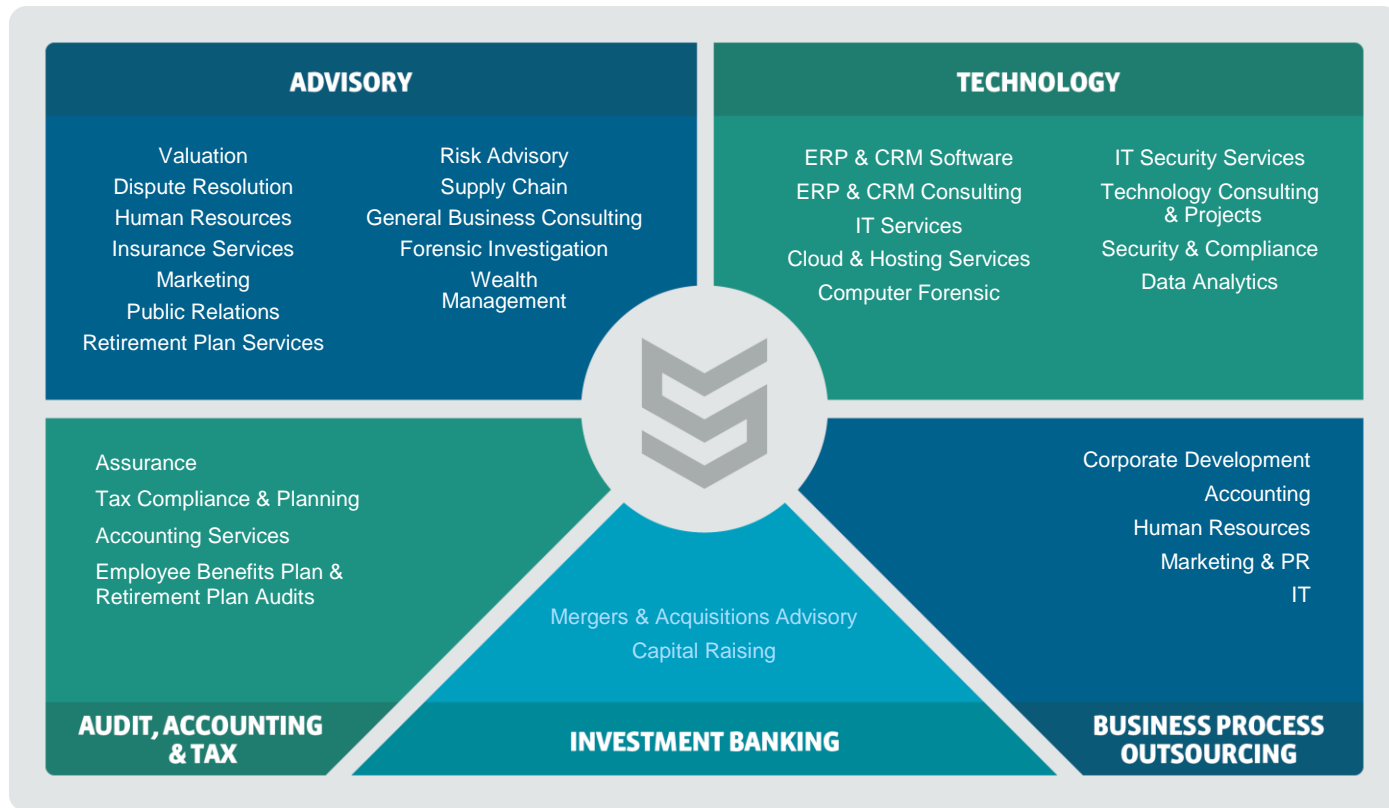
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