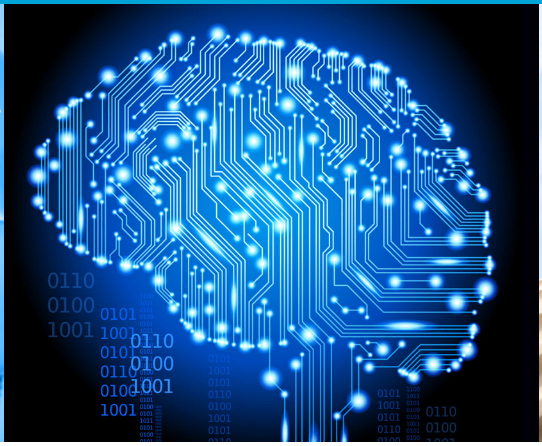
HUNTON & WILLIAMS

2013 Patent Damages Year In Review



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Introduction

One of the fastest-changing areas of patent law is the means by which damages are established for patent infringement. Amid calls for patent damages reform to rein in perceived outsized damages awards, courts appear to be tackling the issue head on, demanding increased rigor in the analyses employed by damages experts, and in many cases requiring stringent economic analyses more typically seen only in antitrust cases. In turn, litigants, and defendants in particular, are beginning to see damages issues as primary drivers of patent cases, often leading to case dispositive motions. Instead of bifurcating damages to be considered only after liability is established, some parties have even agreed to address damages at the outset, before infringement or invalidity is ever considered by the court. Seizing upon this trend, the Eastern District of Texas recently unveiled a new case management program (the Track B Initial Patent Case Management Order), which parties can either opt into or the court can implement *sua sponte*. Under this program, designed to increase efficiencies in patent cases, the patent holder must disclose its licenses, settlement agreements and damages theory, and the defendant must disclose sales and revenue data, in the initial disclosure phase of the case.

In this inaugural edition of our Patent Damages Year in Review, we focus on four important developing issues reshaping the landscape of patent damages law: 1) apportionment and the entire market value rule; 2) damages available for standard essential patents encumbered by fair, reasonably and non-discriminatory licensing obligations; 3) the increased use of *Daubert* motions relating to patent damages experts; and 4) the relevance and admissibility of settlement agreements. Decisions from the Federal Circuit and the district courts in 2013 indicate that these issues will play a central role in damages proceedings for years to come, and may present patent holders with new challenges and afford accused infringers with new ways to constrain a patent owner's potential recovery.

Entire Market Value Rule and Apportionment

In 2012, the Federal Circuit clarified the boundaries of the entire market value rules in *LaserDynamics, Inc. v. Quanta Computer USA, Inc.*, affirming the principle that, in general, the royalty base for patent damages must be on the "smallest salable patent-practicing unit."[1] The Federal Circuit reiterated that the entire market value rule is a narrow exception to this general rule, and that "[i]f it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product."[2] For a patented feature to be the basis for customer demand as required by the rule, the feature must be the motivating factor for the customer purchase; merely being a "valuable" or "important" feature is insufficient.[3]

The entire market value rule and the application of the Federal Circuit's *LaserDynamics* decision proved to be a hot topic in 2013, resulting in two additional decisions from the Federal Circuit. Yet, despite this additional guidance from the Federal Circuit, district courts and litigants alike continue to struggle with application of the concept, as evidenced by the numerous decisions rejecting damages analyses based on a violation of the entire market value rule.

Entire Market Value Rule Not Invoked Where Mention of End-User Sales Was Not Incorporated Into Damages Calculation

The Federal Circuit addressed the entire market value rule in *SynQor, Inc. v. Artesyn Techs., Inc.*, 709 F.3d 1365 (Fed. Cir. 2013), which involved claims of infringement related to sales of direct current (DC) power converters used to power circuitry in large computer systems and telecommunication and data communication equipment. At trial, SynQor sought damages based on

[1] 694 F.3d 51, 67 (Fed. Cir. 2012) (citing *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88 (N.D.N.Y. 2009)).
[2] *Id.* (citing *Rite-Hite Corp. v. Kelley Co.,* 56 F.3d 1538, 1549, 1551 (Fed. Cir. 1995)).
[3] *Id.* at 68.

both a lost profits/price erosion theory and a reasonable royalty theory. As part of the lost profits/price erosion theory, SynQor argued that "but for" the infringement, it would have sold its own power converters at higher prices. During trial, SynQor solicited evidence that the total market for end products that incorporated the power converters was $20 billion, although the total market number was not directly related to SynCor's damages theory. The jury awarded lost profits damages of $95 million.

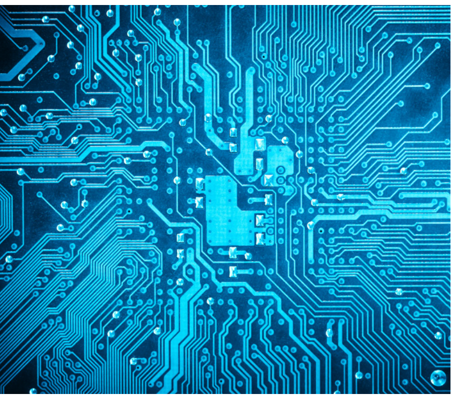
The defendants argued that SynQor's reference to "$20 billion customer end-product sales" violated the entire market value rule and "skew[ed] the damages horizon for the jury."[4] The Federal Circuit, however, concluded that reference to total end-product sales did not violate the entire market value rule because "SynQor never sought to justify its damages figure based on the price of the customer end products."[5] Instead, SynQor's damages theory relied on the sales price of the converter components, and reference to the end-product value was used only to argue that the price elasticity of demand for the intermediate component would be high given the component's advantages and its small fraction of the price of the end component.[6]

Entire Market Value Rule Not Violated Where Royalty Rate Is Applied to Smallest Salable Patent Practicing Unit

Next, the Federal Circuit addressed the entire market value rule in *Versata Software, Inc. v. SAP Am., Inc.*, in which the court addressed a variety of damages issues in affirming the jury's damages award of $260 million of lost profits damages and $85 million reasonable royalty damages for SAP's infringement of two Versata patents directed to hierarchical pricing software.[7] With respect to the entire market value rule, the court held that the jury's $85 million reasonable royalty damages award was supported by substantial evidence.[8] The trial court excluded the testimony of Versata's expert on reasonable royalty damages.[9] SAP's expert, who provided the only evidence in the record, testified on cross-examination that Khimetrics — an add-on software module providing hierarchical pricing capability — was a comparable product carrying a 40% royalty rate.[10] Despite offering an opinion that a $2 million lump-sum payment would fully compensate Versata for SAP's infringement, SAP's expert admitted that Khimetrics' 40% royalty rate was comparable and that the Khimetrics royalty of $133,000 per customer could in theory be applied to the number of SAP's infringing sales.[11] The court dismissed SAP's claim that a 40% royalty rate was applied to the entire value of SAP's infringing products in violation of the entire market value rule.[12] Because the 40% rate was applied only to the value of the comparable Khimetrics product rather than the entire value of SAP's accused sales, the entire market value rule was not triggered and Versata was not required to show that the "demand for hierarchical pricing drove demand for SAP's product as a whole."[13] The *Versata* court cited *LaserDynamics* for the proposition that "[t]he entire market value rule is a narrow exception to the general rule that royalties are awarded based on the smallest salable patent-practicing unit."[14] SAP's subsequent request for rehearing was denied by the Federal Circuit, and the Supreme Court recently denied SAP's request for certiorari.

As discussed below, patent holders have embraced the language of *Versata* and similar language in *LaserDynamics* to argue that the strict requirements of the entire market value rule should not apply so long as the royalty rate is applied to a base consisting of the smallest salable patent-practicing unit.

[4] *Id.* at 1383 (citing *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011)).
[5] *Id.*
[6] *Id.*
[7] 717 F.3d 1255 (Fed. Cir. 2013).
[8] *Id.* at 1268.
[9] *Id.* at 1267.
[10] *Id.*
[11] *Id.*
[12] *Id.* at 1268.
[13] *Id.*
[14] *Id.* (citing *Cornell*, 609 F. Supp. 2d at 283, 287-288).



District Court Decisions Finding No Violation of the Entire Market Value Rule

District courts disagree on whether the entire market value rule still applies when the royalty base is the smallest salable patent practicing unit, and the Federal Circuit has not yet squarely addressed the issue. Specifically, since Judge Rader explained the need to use a royalty base consisting of the smallest salable patent-practicing unit when the entire market value rule was not applicable,[15] district courts have struggled with the tension between the use of a royalty base consisting of the smallest salable patent-practicing unit and the requirement that a patent holder not be improperly compensated for non-infringing components of the accused product. When the patented feature is closely tied to the smallest salable unit and non-infringing components are not included in the smallest salable unit, there may be no need for further apportionment. But when the smallest salable unit is a multi-component device, absent a showing that the patented feature is the basis for customer demand of the larger device, does the patent holder need to further apportion the royalty base to account for only the patented components? District courts inconsistently addressed this issue in 2013.

Several district courts held that no further apportionment is necessary where the smallest salable unit is used as the royalty base. In *Summit 6 LLC v. Research in Motion Corp.*, the court denied defendants' motion for judgment as a matter of law where Summit 6's expert used the revenue from the entire device as the royalty base.[16] Relying on the Federal Circuit's decision in *Lucent Techs., Inc. v. Gateway, Inc.*,[17] the court concluded "that when performing a running royalty calculation, as [Summit 6's damages expert] did at trial, using the entire product as the base is acceptable."[18] The court concluded that Summit 6's damages analysis did not violate the Federal Circuit's decision in *LaserDynamics* "because the device itself is the 'smallest patent-practicing unit" and "only the entire device itself is capable of performing the image resizing — no other, smaller component can perform this action."[19]

In *VirnetX Inc. v. Apple Inc.*, the district court similarly rejected Apple's argument that use of the smallest salable unit as a royalty base violated the entire market value rule.[20] In concluding that VirnetX did not invoke the entire market value rule in its damages model, Judge Davis noted that (1) VirnetX did not disclose at trial the entire revenue of the accused Apple devices; (2) the record indicated that the infringing features necessarily utilized other aspects of the accused devices (arguably demonstrating a close relation between the accused devices and the patented invention); and (3) Apple had failed to advance a credible alternative damages theory.[21] The court similarly rejected Apple's challenge to a jury instruction allowing the jury to use the value of an entire apparatus or product only if: "(i) the patented feature creates the basis for customers' demand for the product or…substantially creates the value of the other component parts… or (ii) the product in question constitutes the smallest saleable unit containing the patented feature."[22] Apple contended that the instruction allowed the jury to consider the entire value of the accused devices without complying with the entire market value rule.[23] The court disagreed, stating that "if the smallest saleable unit is the product itself, the entire market value rule should not be considered."[24]

Likewise, in *Internet Machs. LLC v. Alienware Corp.*,[25] Judge Schneider concluded that Internet Machines' reliance on a royalty base composed of sales of computer switches was proper even though defendants argued that the switches contained non-patented features. Relying on *Cornell*, the district court determined that

[15] *See Cornell*, 609 F. Supp. 2d at 279.
[16] No. 3:11-cv-00367, 2013 U.S. Dist. LEXIS 95164 (N.D. Tex. Jun. 26, 2013).
[17] 580 F.3d 1301 (Fed. Cir. 2009).
[18] *Summit 6*, 2013 U.S. Dist. LEXIS 95164, at *34.
[19] *Id.*
[20] 925 F. Supp. 2d 816 (E.D. Tex. 2013).
[21] *Id.* at 837.
[22] *Id.* at 840.
[23] *Id.*
[24] *Id.* at 841.
[25] No. 6:10-cv-00023, 2013 WL 4056282 (E.D. Tex. Jun. 19, 2013).

because the patent holder used "the smallest salable unit [switches] as his royalty base, additional apportionment is unwarranted and the narrow exception of the entire market value rule is inapplicable."[26] The court also noted that for "practical economic purposes, any further apportionment of value within a switch would be entirely speculative and arbitrary" and that there was substantial evidence that the patented invention drove customer demand for the product.[27]

In another ruling from Judge Davis in the Eastern District of Texas, following an adverse multimillion-dollar jury verdict in *Ericsson Inc. v. D-Link Corp.*,[28] the defendants sought judgment as a matter of law on damages[29] In their JMOL, defendants argued that Ericsson's damages model, which applied a $0.50 per unit royalty against each infringing end device, violated the entire market value rule because Ericsson's damages expert failed to apply his damages analysis to the smallest salable unit or establish that the patented features were the basis for customer demand of the accused products.[30] Judge Davis rejected defendants' arguments, concluding that Ericsson's expert did not rely on the entire market value rule because he apportioned the asserted patents from Ericsson's larger patent portfolio and because Ericsson's "revenue base is not the market value of the end products" but "[r]ather, it is the market value of the contribution of the asserted patents to the end products."[31] Further, citing *SynQon*, the court noted that Ericsson's damages theory was a per *unit* royalty amount that did not fluctuate with the ultimate revenue associated with the end products.[32]

[26] *Id.* at *13.
[27] *Id.* at *13-14.
[28] While the caption for this case is *Ericsson Inc. v. D-Link Corp., Inc.*, D-Link Corporation was dismissed in an Order dated January 31, 2011. Thus, in a Memorandum Opinion and Order, issued August 6, 2013, and published as 2013 WL 4046225, the court identified the case caption as *Ericsson Inc. v. D-Link Systems, Inc.* This review uses both captions.
[29] No. 6:10-cv-00473, 2013 WL 4046225 (E.D. Tex. Aug. 6, 2013).
[30] *Id.* at *14.
[31] *Id.* at *15.
[32] *Id.*

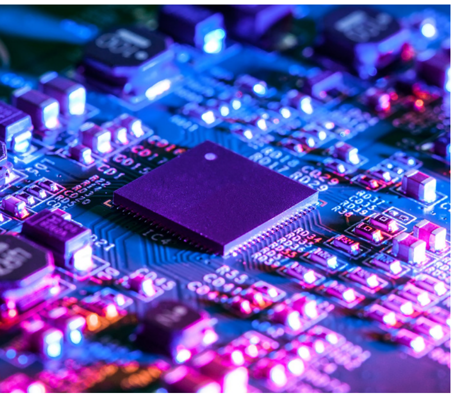
Like in *Summit 6* and *Internet Machs.*, the district court in *Tomita Techs. USA, LLC v. Nintendo Co., Ltd.* concluded that the patent holder did not invoke the entire market value rule because the royalty base consisted of the smallest salable unit, in this case the Nintendo 3DS game console.[33] The court noted that "Nintendo neither purchases nor sells components of the 3DS that infringe the [asserted] patent; the individual components cannot practice the patent before they are assembled and programmed with Nintendo's software; and the 3DS is imported to the United States fully assembled."[34] The court distinguished these facts from those in *LaserDynamics* where the infringing optical disk drives were "sold separately" from the laptops in which they were installed.[35] Thus, the court concluded that when the smallest salable unit is the device itself, the patent owner did not need to establish that the patented feature was the basis for customer demand of the device. Nevertheless, the court granted the defendant's motion for remittitur, offering the patent holder a reduced damage award of $15.1 million (from $30.2 million) or a new trial on damages.[36] Tomita subsequently accepted the reduced damages award.

In *Stryker Corp. v. Zimmer Inc.,* the district court also rejected the defendant's argument that the jury's damages award violated the entire market value rule.[37] First, the court faulted Zimmer for failing to offer a jury instruction on the entire market value rule.[38] Second, citing *LaserDynamics*, the court recognized that the "general rule is that royalties must be based on the value of the 'smallest salable patent-practicing unit' " and the issue of what constitutes the smallest salable unit is a "classic question of fact."[39] The court noted that it was reasonable for the jury to decide that the smallest salable unit was the accused pulse

[33] No. 11-cv-04256, 2013 WL 4101251, at *8 (S.D.N.Y. Aug. 14, 2013).
[34] *Id.*
[35] *Id.*
[36] *Id.* at *9.
[37] No. 1:10-cv-01223, 2013 WL 6231533 (W.D. Mich. Aug. 7, 2013).
[38] *Id.* at *17.
[39] *Id.*

lavage handpiece as a whole in light of Stryker's testimony that "all of these products [components] …. function together in a functional unit."[40]

District Court Decisions Finding Violation of the Entire Market Value Rule



In contrast to the previously discussed decisions, other districts have held that, unless the entire market value rule requirements are satisfied, the use of the smallest salable unit as a royalty base does not automatically relieve a patent owner from its obligation to apportion damages between infringing features or components and non-infringing features or components.

In *AVM Techs., LLC v. Intel Corp.*, the district court was inclined to exclude (and later did exclude) AVM's damages expert for failure to comply with the entire market value rule.[41] The patented technology related to dynamic logic circuits and AVM sought a royalty based on the smallest salable unit — the microprocessor that included a dynamic logic circuit, among other features.[42] Absent a showing that the patented dynamic logic circuits drove the demand for the entire microprocessor, however, the court concluded that AVM's damages theory was inadmissible because "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."[43] The court concluded that the use of "a saleable unit that is greater than the patented feature" will introduce *Uniloc* error in the damages analysis.[44] Also observing that AVM's expert proffered unreliable testimony regarding an alleged comparable license agreement, the court excluded AVM's expert's testimony on damages.[45]

Following a jury award of lost profits and reasonable royalty damages, the district court in *Brocade Commc'ns. Sys., Inc. v. A10 Networks, Inc.* vacated the jury's damages award as being conflicting and tainted by evidence of the accused products' entire revenues without the patentee's satisfying the entire market value rule.[46] The court found the jury's award problematic, as it awarded lost profit damages of $49,397,904 and reasonable royalty damages of $1,975,916, but then listed "total damages" as $1,975,916.[47] Separately, the court determined that Brocade's damages case was premised on a royalty base consisting of the entire revenue of the accused product even though the product had many components with unpatented features.[48] Accordingly, Brocade was required to present substantial evidence that the patented feature drove customer demand for the broader accused product.[49] Despite testimony that the patented features were "important" and that the defendant could not have sold the accused product without the infringing features, the court concluded that the evidence could not support a finding that the patented feature drove customer demand for the accused product.[50] Citing *Laser Dynamics* for the proposition that "[i]t is not enough to merely show that the [patented feature] is viewed as valuable, important, or even essential to the use of the [product]," the court concluded that Brocade "presented no evidence, such as consumer surveys or even customer testimony, that the patented features were the primary reason customers bought the [accused] product."[51] Given the "Federal Circuit's guidance that jury's [sic] should not be presented with entire revenues or profits absent sufficient proof that the entire market value rule is appropriate," the court concluded that the jury's verdict on reasonable royalties must be vacated and that a new trial on damages was warranted.[52]

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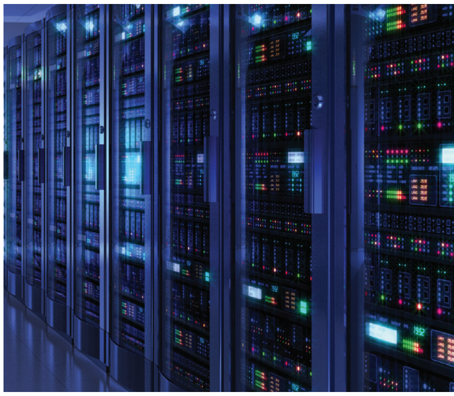
[40] *Id.*
[41] No. 10-cv-00610, 2013 WL 126233 (D. Del. Jan. 4, 2013).
[42] *Id.* at *3.
[43] *Id.* at *2.
[44] *Id.* at *3 (citing *Uniloc*, 632 F.3d at 1315 (patentee "must in every case give evidence tending to separate or apportion the defendants' profits and the patentee's damages between the patented feature and the unpatented features")).
[45] *Id.*
[46] No. 10-cv-03428, 2013 WL 831528 (N.D. Cal. Jan. 10, 2013).
[47] *Id.* at *13.
[48] *Id.* at *14.
[49] *Id.*
[50] *Id.*
[51] *Id.*
[52] *Id.* at *15.

The court also held that Brocade could not rely on the entire market value rule in the context of lost profits damages.[53] In a subsequent ruling regarding the scope of the new trial on damages, however, the court concluded that, while a patentee could not pursue an entire market value rule-based theory of lost profits damages, a patentee could pursue a *Panduit*-based lost profits case without apportioning between infringing and non-infringing revenue.[54]

In *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, the district court excluded the testimony proffered by patentee's damages expert for failure to apportion between non-infringing components and infringing components in the accused product.[55] Dynetix's expert utilized the revenue from the accused VCS software simulation tool product, even though the accused Design Level Parallelism (DLP) feature was just one optional feature in Synopsys's VCS product.[56] Accordingly, the court found that the patented invention was not closely tied to the smallest salable product.[57] Relying on *LaserDynamics*, the court concluded that Dynetix's expert was required to perform "the difficult task of determining [DLP's] value relative to all other components of [VCS]" and that his failure to apportion between infringing and non-infringing features precluded the expert's testimony from being presented at trial.[58] Notwithstanding the flawed analysis, Judge Grewal allowed Dynetix an opportunity to submit a supplemental damages report.

In another decision from the Northern District of California, Judge Alsup similarly excluded the patent holder's damages expert for failure to apportion when relying on the smallest salable unit revenue as the royalty base. In *Network Protection Sciences, LLC v. Fortinet, Inc.*, the accused products included software operating systems and hardware related to network security sold by Fortinet.[59] NPS's expert used as the royalty base the revenue from the hardware products or virtual machines that utilize the accused Fortinet operating systems, asserting that these devices and systems were the smallest salable patent practicing units.[60] NPS asserted that its expert "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."[61] As an example, NPS pointed to its expert's attempt to analyze the contribution of the specific accused features to the broader products by estimating that 50% of the users relied on the accused features and calculating the effects on revenue if the accused features would have been disabled during the damages period.[62] Despite NPS's assertion, however, the court found that its expert did not apportion revenue to the royalty base, and instead used all the revenue from the smallest salable unit.[63] Judge Alsup concluded that the *LaserDynamics* decision was controlling, and that "[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.[64] While NPS's expert argued that the patent "either directly or indirectly drives demand for products running the FortiOS operating system," the expert also admitted that "product attributes enabled by the patented technology are not the only drivers of demand for the accused products" and that for some users the accused features were not significant.[65] On



[53] *Id.*
[54] *See Brocade Commc'ns. Sys., Inc. v. A10 Networks, Inc.*, No. 10-cv-03428, 2013 U.S. Dist. LEXIS 69335, at *14-15 (N.D. Cal. May 15, 2013) ("*Panduit* is an alternative theory of establishing lost profits [citing *Presido Components Inc. v. Am. Technical Ceramics Corp.*, 702 F.3d 1351, 1360 (Fed. Cir. 2012) and *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1331 (Fed. Cir. 2009)], and A10 has not provided case law that supports its argument that under that theory, apportionment is necessary.").
[55] No. 11-cv-05973, 2013 WL 4538210 (N.D. Cal. Aug. 22, 2013).
[56] *Id.* at *1, *3.
[57] *Id.* at *3.
[58] *Id.* at *3-4.
[59] No. 12-cv-01106, 2013 WL 5402089, at *6 (N.D. Cal. Sept. 26, 2013).
[60] *Id.*
[61] *Id.* at *7.
[62] *Id.* at *6.
[63] *Id.*
[64] *Id.* at *7 (emphasis in original).
[65] *Id.* at *8.

this record, the court concluded that a jury could not reasonably find that the accused, patented features drive demand "for any Fortinet product, much less for all 70+ products."[66] The court excluded the damages expert's testimony entirely and refused to grant NPS leave to file a second expert report.

In *Rembrandt Social Media, LP v. Facebook, Inc.*, the court similarly excluded the proffered damages testimony of patent holder's expert.[67] In addition to attacking the expert's analysis with respect to the royalty rate, Facebook argued that the expert's royalty base analysis violated the entire market value rule for failure to apportion between non-infringing and infringing features.[68] The court found that Facebook's criticism regarding failure to adhere to the entire market value rule was unwarranted because the expert did apportion revenue as opposed to relying on the entire revenue of the accused product.[69] The court, however, concluded that Rembrandt's expert failed to apportion Facebook's revenue according to the specific features alleged to infringe.[70] While Rembrandt argued that its expert calculated damages using the smallest salable patent practicing unit, the court noted that "the Federal Circuit has not held 'that no further apportionment is ever necessary once the smallest salable unit is determined.' "[71] The court concluded that "allowing Rembrandt's expert to use as the royalty base the entire value of Timeline, News Feed, Groups, and Photo/ Video Sharing — all of which can be used independently without infringing — while not using the value of BigPipe and Audience Symbol — the features that actually cause the alleged infringement — would be a mistake."[72]

[66] *Id.* at *7.
[67] No. 1:13-cv-00158, 2013 WL 6327852 (E.D. Va. Dec. 3, 2013).
[68] *Id.* at *4.
[69] *Id.* at *5.
[70] *Id.* at *5-6.
[71] *Id.* at *5 (quoting *Dynetix*, 2013 WL 4538210).
[72] *Id.*

Standard Essential Patents and the FRAND Commitment

Few areas evidenced as much uncertainty in 2013 as litigations involving patents subject to RAND ("reasonable and non-discriminatory") or FRAND ("fair, reasonable and non-discriminatory") obligations.[73] While some issues appeared to move toward consensus, other questions inevitably came to the forefront. With a number of cases on appeal, the upcoming year is poised to provide more certainty for a number of those questions. Nevertheless, a review of some of the most notable cases and decisions of 2013 makes it increasingly clear that litigating FRAND-obligated patents will require a clearly defined strategy from the earliest stages.

Standard-setting organizations ("SSOs") play an important role in developing technical standards and promoting their widespread implementation. To achieve these goals, SSOs rely on voluntary participation from individual and industry representatives.[74] The benefits of joint collaboration and development in the standard-setting process are undisputed. Through development and adoption of standards, for example, industry participants can realize a larger market for products that are standard-compliant, identify new innovations in which to apply the standards, and benefit through revenue streams achieved through licensing of standard-essential patents ("SEPs") — patents that necessarily would be infringed if the standard is adopted.

The potential downside of joint collaboration and development, however, can also be significant. Because a standard by definition eliminates alternative technologies, owners of SEPs are in a position to exercise monopoly power that can create the potential for "hold-up."[75] The Third Circuit in *Broadcom Corp. v. Qualcomm Inc.* described the scenario as follows:

[73] The cases cited in this overview use both RAND and FRAND, and the overview itself uses the terms interchangeably. Generally, in the US and for US-based SSOs, RAND is the more commonly used term, whereas outside the US, FRAND is more common.
[74] Different SSOs use different terminology to refer to those parties obligated to abide by the SSO's Intellectual Property Rights policies, such as "members," "participants" and "contributors," each of which can infer different obligations.
[75] 501 F.3d 297, 314 (3rd Cir. 2007) (internal citations omitted).

> An [SSO] may complete its lengthy process of evaluating technologies and adopting a new standard, only to discover that certain technologies essential to implementing the standard are patented. When this occurs, the patent holder is in a position to "hold up" industry participants from implementing the standard. Industry participants who have invested significant resources developing products and technologies that conform to the standard will find it prohibitively expensive to abandon their investment and switch to another standard. They will have become "locked in" to the standard. In this unique position of bargaining power, the patent holder may be able to extract supracompetitive royalties from the industry participants.[76]

Another significant concern is "royalty stacking." Royalty stacking arises when implementers of a standard are required to pay royalties to multiple SEP-holders on the same product. These royalties are considered to accumulate or "stack" on top of each other. To preserve the integrity of the standard-setting process and alleviate the risks of patent hold-up and royalty stacking, most SSOs have established intellectual property rights ("IPR") policies. IPR policies generally outline the obligations of SSO participants that have SEPs to standards under development. Generally, IPR policies also require participants in the standards-development process to disclose any patents or patent applications that may be essential to the standard before the standard is adopted.

In addition to the requirement to identify SEPs, SSOs often require their members to commit to license SEPs on FRAND or RAND terms.[77] Some SSOs request participants to submit a Letter of Assurance ("LOA"), promising to license SEPs on FRAND terms and conditions. Other SSOs include the FRAND-licensing obligation in their membership agreement, effectively conditioning membership in the SSO on the applicant's promise to license SEPs on FRAND or RAND terms and conditions.

[76] *Id.* at 310.
[77] *Id.* at 313.

While there is a consensus that FRAND commitments create binding contracts,[78] the foundational details of the contractual commitments remain murky. For example, as set forth below, questions may arise as to whether a contract has been formed at all, who can enforce the contract and what the terms of the actual obligations might be.

Contract Formation and the FRAND Commitment

Clearly defining the parties to the FRAND commitment (e.g., promisor, promisee, etc.) and defining the type of contract (e.g., bilateral, unilateral) may seem an unnecessary, or even wasted, effort. In many cases, courts have adopted the commonly accepted position that every party implementing a standard is a third-party beneficiary and can enforce an SEP-holder's FRAND commitments.

However, the basic contractual elements are predicates to answering a number of emerging questions:

- Who has standing to enforce the FRAND commitment?
- When SEPs include claims directed to components and the SEP-holder seeks royalties for an end product or from an end user, does the component manufacturer have standing to enforce the FRAND commitment?
- Can an SEP-holder unilaterally restrict or modify the terms of the FRAND commitment?
- The analyses so far have been incomplete and the conclusions mixed.

[78] *See, e.g., Apple, Inc. v. Motorola Mobility, Inc.*, 886 F. Supp. 2d 1061, 1081-87 (W.D. Wis. 2012); Microsoft, 854 F. Supp. 2d 993, 999 (W.D. Wash 2012); Research In Motion Ltd. v. Motorola, Inc., 644 F. Supp. 2d 788, 797 (N.D. Tex. 2008); *Rambus Inc. v. Infineon Technologies AG*, 155 F. Supp. 2d 668 (E.D. Va. 2001).

Defining Fair, Reasonable and Non-Discriminatory

No matter the context in which it arises, adjudicating cases involving FRAND-obligated SEPs requires developing a framework for "reasonable" (or "fair and reasonable") and "non-discriminatory." Yet, most SSO IPR policies do not provide guidance for understanding these abstract concepts. As Judge Davis succinctly stated, "RAND creates an obligation that must be followed, but it provides no guidance on how to follow that obligation. This creates a situation ripe for judicial resolution."[79]

As to whether any particular terms are "reasonable," recent decisions reflect that courts are divided on whether the reasonableness element should be interpreted as subjective reasonableness or objective reasonableness. Moreover, while "non-discriminatory" was thought to be the more straightforward of the inquiries, recent cases suggest that this assumption may not be true, as several decisions introduced an issue that is sure to come to the forefront in future cases: Is an SEP-holder prohibited from extracting different FRAND rates from potential licensees that are not similarly situated (i.e., situated at different points in the value chain)? Often these issues are left to the courts to resolve, and in the next section, we discuss how the district courts analyzed these issues in four key cases in 2013.

***Microsoft Corp. v. Motorola, Inc. et al.* (No. 10-cv-01823, W.D. Wash.)**

In *Microsoft*, Motorola sent two letters to Microsoft offering to license patents that Motorola declared essential to the Institute of Electrical and Electronics Engineers ("IEEE") 802.11 standard and the International Telecommunications Union ("ITU") H.264 standard.[80] Motorola's two letters proposed a royalty rate of 2.25% per unit based on the end-product price of Microsoft's standard-compliant products. Believing the letters to be a *per se* breach of Motorola's RAND commitments, Microsoft sued in the Western District of Washington, claiming, among other things, breach of contract and promissory estoppel.[81] A few days later, Motorola sued Microsoft for patent infringement in the Western District of Wisconsin over patents that also were the subject of the Washington suit.[82] In the interests of judicial economy, the two cases were consolidated in the Western District of Washington.[83]

In February 2012, the court granted partial summary judgment to Microsoft on its contract claims. In so doing, the district court found that Motorola had entered into binding contractual commitments with the IEEE and the ITU, committing to license its declared-essential patents on RAND terms and conditions. The court also found that Microsoft was a third-party beneficiary of Motorola's commitments.[84] Through the course of further proceedings, the court held that Motorola's commitments to the ITU and the IEEE required that initial licensing offers by Motorola be made in good faith, but that those initial offers need not be on RAND terms so long as a RAND license eventually issues.[85]

As to the reasonableness of Motorola's offer, the court's analysis focused predominantly on objective factors. Turning to the Washington state law duty of good faith and fair dealing, the court identified six factors that may be considered in determining whether conduct violated the implied covenant of good faith and fair dealing, only one of which was subjective: (1) whether defendant's actions were contrary to reasonable and justified expectations of other parties to the contract; (2) whether defendant's conduct would frustrate the purpose of the contract; (3) whether defendant's conduct was commercially reasonable; (4) whether and to what

[79] *Ericsson*, 2013 WL 4046225, at *25.
[80] *See Microsoft Corp. v. Motorola, Inc.*, 696 F.3d 872, 877 (9th Cir. 2012).
[81] *Id*. at 878.
[82] *Id*.
[83] *Id*.
[84] *Microsoft*, 854 F. Supp. 2d at 999.
[85] *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 4053225, at *2 (W.D. Wash. Aug. 12, 2013).

extent defendant's conduct conformed with ordinary custom or practice in industry; (5) to the extent that the contract vested defendant with discretion in deciding how to act, whether that discretion was exercised reasonably; and (6) subjective factors such as defendant's intent and motive.[86]

The *Microsoft* court found support for an "objectively reasonable" standard in Motorola's submissions to the relevant SSOs. For example, in its LOA to ETSI, "Motorola recited a commonly understood purpose that RAND commitments be interpreted to require patent holders 'to grant licenses on terms that are objectively commercially reasonable taking into account the overall licensing situation and including the cost of obtaining all necessary licenses from all other relevant patent holders for the technologies in the end product.' "[87]

To determine whether Motorola breached its RAND commitments, the court first held a bench trial to calculate a RAND rate and range. On April 25, 2013, the district court issued a public version of its findings of fact and conclusions of law, which established a framework for calculating a RAND royalty.[88] For the 802.11 SEPs, the court determined a RAND rate of 0.555 cents per unit and a RAND range between 0.555 and 16.389 cents per unit.[89] For the H.264 SEPs, the court determined a RAND rate of 3.471 cents per unit and a RAND range between 0.8 and 19.5 cents per unit.[90]

Having established the benchmarks against which to assess Motorola's obligations, the parties then proceeded to a trial on Microsoft's breach claims. Leading up to trial, in response to *Daubert* motions, the court rejected the testimony of an expert witnesses who opined that "RAND does not require an SEP owner to treat differently situated licensees similarly."[91] The court held that "the court, through its jury instructions, determines the rights and obligations of the parties under the RAND commitment and will convey those rights and obligations to the jury."[92] Moreover, the court held that "[t]hose jury instructions will act as the law of the case and [expert witness] Dr. Leonard or any other witness must be prohibited from opining on the interpretation of the RAND obligation vis-à-vis the rights and obligations of the SEP holder and implementer."[93]

Using the court's RAND rates and ranges as benchmarks, a jury subsequently found that Motorola breached its contractual duties of good faith and fair dealing to the IEEE and ITU, and awarded Microsoft damages of $11,492,686.00 and attorneys' fees and costs of $3,031,720.00.[94]

This case is currently on appeal at the Court of Appeals for the Federal Circuit, No. 2014-1089.

***Realtek v. LSI et al.* (No. 12-cv-03451, N.D. Cal.)**

Here, Realtek sued LSI Corporation and its wholly-owned subsidiary Agere Systems LLC (collectively "LSI"), alleging that LSI breached its commitments to the IEEE by failing to offer licenses to two 802.11-SEPs on RAND terms before initiating an investigation before the International Trade Commission ("ITC").[95] Realtek asked the district court to determine a RAND royalty rate for the standard-essential patents-in-suit.[96] Realtek did not assert invalidity and noninfringement, as those issues were

[86] *Id.* at *5-6 (internal citations omitted).
[87] *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 21111217, at *11 (W.D. Wash. Apr. 25, 2013) ("In its ETSI submission, Motorola recited a commonly understood purpose that RAND commitments be interpreted to require patent holders 'to grant licenses on terms that are objectively commercially reasonable taking into account the overall licensing situation and including the cost of obtaining all necessary licenses from all other relevant patent holders for the technologies in the end product.' ").
[88] *Id.* at *4.
[89] *Id.* at *8.
[90] *Id.*
[91] *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 4008822, at *21 (W.D. Wash. Aug. 5, 2013).
[92] *Id.* at *22.
[93] *Id.*
[94] *Microsoft Corp. v. Motorola, Inc.*, 2013 WL 6000017, at *2 (W.D. Wash. Nov. 12, 2013).
[95] *Certain Audiovisual Components and Products Containing Same,* ITC Inv. No. 337-TA-837.
[96] *Realtek Semiconductor Corp. v. LSI Corp.*, 2013 WL 2181717, at *9 (N.D. Cal. May 20, 2013).

before the ITC in defense of LSI's ITC investigation.[97]

On a motion for summary judgment, Realtek asked the district court for an order barring LSI from enforcing any injunction or exclusion order pending a full "RAND trial" on the merits in view of LSI's RAND commitment. On May 20, 2013, the court granted summary judgment because LSI breached its RAND obligation by failing to offer a license with respect to its asserted SEPs on RAND terms *before* seeking an exclusion order in the pending ITC investigation.[98] In addition, the court denied LSI's motion to stay the district court case pending the ITC investigation and issued a preliminary injunction barring LSI from enforcing any exclusion order with respect to the asserted patents pending a determination of the RAND issues.[99]

In August 2013, the ITC issued an Initial Determination in its investigation finding that Realtek's products do not infringe LSI's asserted patents. Realtek then asked the district court to continue the trial date, because the district court's determination of a RAND rate could become moot if the ITC adopts the Initial Determination as its final decision.[100] LSI opposed the motion, arguing that it remained subject to the preliminary injunction and, if the ITC ruled in its favor, it would be unable to enforce its remedy.[101] The district court agreed with LSI and denied the continuance.[102]

The court went on to address the issue of contract formation, holding that LSI's LOAs to the IEEE, promising to license the SEPs on RAND terms, were promises supported by consideration.[103] According to the *Realtek* court, "[i]n exchange for LSI's promise to the IEEE, every entity practicing the WiFi 802.11 standard now must pay LSI for a RAND license to LSI's declared standard-essential patents or face a high risk of having to defend a patent infringement action in court."[104] Here, the court identified LSI as the promisor and Realtek as a third-party beneficiary having the right to enforce the FRAND commitment.

Following a trial on the merits, the jury returned a verdict finding that a RAND royalty for LSI's two patents essential to IEEE 802.11 WiFi standard is 0.19% of the total sales prices of Realtek's WiFi chips (0.12% for one patent and 0.07% for the other patent).[105] The jury also awarded Realtek $3.8 million for costs in defending against LSI's attempt to seek an exclusion order in the US International Trade Commission, which the court previously held breached LSI's RAND obligations.[106] On March 4, 2014, the ITC terminated its investigation "based upon a settlement agreement" related to two of the patents-at-issue, the expiration of a third, and a finding of no violation of Section 337 as to a fourth.[107] In addition, the ITC stated that it "has also determined to take no position on the ALJ's determination with respect to [Realtek's] RAND and equitable defenses."[108]

In re Innovatio IP Ventures, LLC Patent Litigation **(No. 11-cv-09308, N.D. Ill.)**

In 2011, Innovatio acquired the rights to a number of patents essential to the IEEE 802.11 standard.[109] Each of the acquired patents was subject to RAND licensing obligations by virtue of LOAs submitted to the IEEE by Innovatio's

[97] *Id.*
[98] *Id.* at *10.
[99] *Id.*
[100] *Realtek Semiconductor Corp. v. LSI Corp.*, 2013 WL 4778054, at *1 (N.D. Cal. Sept. 6, 2013).
[101] *Id.*
[102] *Id.* at *2.
[103] *Id.*
[104] *Id.*
[105] Determination of RAND Royalty Rate for '958 and '867 Patents, *Realtek Semiconductor Corp. v. LSI Corp.*, No. 12-cv-03451 (N.D. Cal. Feb. 26, 2014) (ECF No. 324).
[106] *Id.*
[107] Notice of Commission Determination to Grant the Motions to Partially Terminate the Investigation as to All Claims Relating to U.S. Patent Nos. 5,780,087, 6,982,663, and 6,707,867; Final Determination of No Violation With Respect to U.S. Patent No. 6,452,958; Termination of the Investigation, ITC Inv. No. 337-TA-837, March 4, 2014, at 1.
[108] *Id.* at 3.
[109] *In re Innovatio IP Ventures, LLC Patent Litigation*, 921 F. Supp. 2d 903, 907 (N.D. Ill. 2013).

predecessors-in-interest.[110] After acquiring the patents, Innovatio began a licensing campaign by "sen[ding] more than 8,000 letters to Targets in all 50 states alleging infringement of its patents and demanding that the Targets pay for a license."[111] The licensing campaign was " 'largely directed at end users of Wi-Fi technology, such as bakeries, restaurants, cafes, hotels, and other small businesses that do not make or sell devices that provide the accused Wi-Fi functionality.' "[112] Innovatio's proposed licensing terms included a per-location royalty base premised on the use or provision of wireless Internet by the end users.[113] A number of device manufacturers, suppliers of 802.11-compliant devices to the end users, filed declaratory judgment actions asserting, among other things, invalidity, non-infringement, promissory estoppel and breach of contract.[114] The cases were transferred to the Northern District of Illinois by the Judicial Panel on Multidistrict Litigation ("JPML") as MDL No. 2303, and consolidated by the district court.[115]

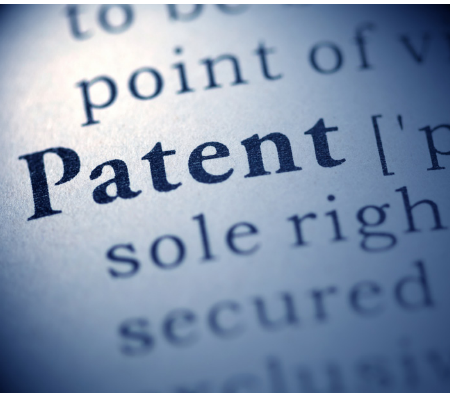
The court first dealt with Innovatio's motion to dismiss the Manufacturers' claims. First, the court concluded that Innovatio was bound by the promises of its predecessors-in-interest "to offer licenses on RAND terms to all users of the relevant IEEE standards."[116] Turning next to the question of whether the Manufacturers had standing to sue to enforce Innovatio's obligations, the court held that users of the standard are third-party beneficiaries to Innovatio's FRAND commitments.[117] Thus, according to the court, the users had standing to sue for breach of contract for themselves, but did not have standing to enforce the rights of others.[118] The *Innovatio* court left undecided the question of whether IEEE's members are direct beneficiaries to the contract, but noted that direct beneficiaries could sue to enforce the provisions of the contract for themselves as well as third-party beneficiaries.[119] As the court explained, "[a] full evaluation of the argument that IEEE's members (rather than just IEEE itself) are parties to the contract resulting from any member's RAND assurances to IEEE will require additional factual development regarding the structure of IEEE, its bylaws and policies, and the precise terms of the contract."[120]

After discovery, but before claim construction, the court bifurcated the case, moving the question of damages before validity and infringement.[121] Noting that any damages available should the patents be found valid and infringed would be set at a rate consistent with Innovatio's RAND obligations, the court reasoned that an early determination on potential damages might increase the possibility of settlement.[122] To that end, with the parties' agreement, the court performed a two-part analysis. In a first bench trial held in July 2013, the court determined that all the asserted patent claims are essential to the 802.11 standard.[123] Then, in a second bench trial held in September 2013, the court calculated a RAND-compliant rate "subject to the terms of the patents, the applicable statute of limitations, and a finding of infringement."[124] The determined RAND rate was 9.56 cents per 802.11-compliant chip.[125]

Since the court set the RAND rate, several defendants have settled, and the parties have represented that other settlements may follow.

[110] *Id.*
[111] *Id.*
[112] *Id.*
[113] *Id.* at 907, 920.
[114] *Id.* at 906.
[115] *Id.*
[116] *Id.* at 923.
[117] *Id.*
[118] *Id.* ("As Innovatio points out, moreover, there is no principle of contract law that allows one third-party beneficiary to assert the rights of any other third-party beneficiary. Motorola and Netgear thus cannot sue Innovatio for breaching its contractual obligations to the Targets.").
[119] *Id.* ("In other words, Innovatio's predecessors made a contractual promise to Cisco to offer licenses on RAND terms to all users of the relevant IEEE standards. If Innovatio fails to perform that obligation to any of those users, Cisco can sue Innovatio to recover all foreseeable damages it suffers because of that breach.").
[120] *Id.* at n.19; *see also Apple, Inc. v. Motorola Mobility, Inc.,* 886 F. Supp. 2d 1061, 1084 (W.D. Wisc. 2012) ("Under Wisconsin law, the constitution, by-laws and resolutions of a voluntary association may form a binding contract between members of that association.").
[121] *In re Innovatio IP Ventures, LLC Patent Litigation*, 2013 WL 5593609, at *1 (N.D. Ill. Oct. 3, 2013).
[122] *Id.* at *1-2.
[123] *Id.* at 2.
[124] *Id.* at 3.
[125] *Id.*

Ericsson Inc. v. D-Link Corp. et al. **(No. 10-cv-00473, E.D. Tex.)**



In *Ericsson*, a number of wireless equipment makers were accused of infringing Ericsson's patents related to the IEEE 802.11 standard. The defendants, asserting their rights as third-party beneficiaries, raised the affirmative defenses and counterclaims of promissory estoppel and breach of contract.[126] Intel intervened on the basis that, as a supplier of 802.11-compliant chips to the defendants, it faced indemnification obligations in the case. In its complaint in intervention, Intel alleged that Ericsson breached the contractual obligations created by its LOAs to the IEEE by "failing to offer licenses for the Patents on fair, reasonable and non-discriminatory terms, and by seeking to enjoin Intel's customers from making and selling products that include Intel components that operate in accordance with at least the 802.11a, 802.11g, and 802.11n standards."[127] The court allowed Intel to intervene.

In contrast to the *Microsoft* court, the *Ericsson* court focused on subjective factors to assess the reasonableness of Ericsson in calculating its offer. Although the court did not provide a definition for reasonableness, nor did it list factors to consider, the court identified a number of actions taken by Ericsson that the court found reflected the reasonableness of Ericsson's offer. Specifically, referring to Ericsson's requested rate of 50 cents per unit, the court found that "Ericsson demonstrated the reasonableness of its offer by presenting substantial evidence of its licensing policies and its attempts to comply with RAND obligations."[128] In coming to this conclusion, the court cited Ericsson's experience as a sophisticated licensing entity, Ericsson's belief that $0.50 per unit was appropriate, and Ericsson's representations that it had considered its RAND obligations when determining the rate.[129] The court noted testimony that Ericsson had calculated this rate based on not only collaboration between its own technical and licensing experts, but also solicited feedback Ericsson had obtained from licensees.[130] The court also took into account evidence that Ericsson employed a team whose role was to attempt to determine the total number of SEPs, as well as Ericsson's share of them.[131]

[126] *See* Dell Inc.'s First Amended Answer, Defenses and Counterclaims to First Amended Complaint, *Ericsson Inc. v. D-Link Corp.*, No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 181); First Amended Answer and Affirmative Defenses of Toshiba Corporation and Toshiba America Information Systems, Inc., and First Amended Counterclaims of Toshiba America Information Systems, Inc. to First Amended Complaint, *Ericsson Inc. v. D-Link Corp.,* No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 182); Acer, Inc. Acer America Corporation and Gateway, Inc.'s First Amended Answer to First Amended Complaint and Counterclaims, *Ericsson Inc. v. D-Link Corp.,* No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 183); D-Link Systems Inc.'s First Amended Answer to First Amended Complaint and Counterclaims, *Ericsson Inc. v. D-Link Corp.,* No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 184); and Netgear Inc.'s First Amended Answer to First Amended Complaint and Counterclaims, *Ericsson Inc. v. D-Link Corp.,* No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 185).

[127] Intel Corporation's Complaint in Intervention, *Ericsson Inc. v. D-Link Corp*., No. 6:10-cv-00473 (E.D. Tex. Apr. 12, 2012) (ECF No. 237), at ¶ 94.

[128] *Ericsson,* 2013 WL 4046225, at *25.

[129] *Id.*

[130] *Id.*

[131] *Id.*

As to whether the offer was non-discriminatory, the *Ericsson* court approved Ericsson's decision to limit its licensing endeavors to end products, rather than standard-compliant Wi-Fi chips. Acknowledging that "Ericsson's objective in licensing only fully compliant products was to isolate a particular level of the supply chain and to license companies at that level,"[132] the court found that there was "nothing inherently wrong or unfair with Ericsson's practice …."[133] Citing witness testimony, the court supported its conclusion on three general bases: (1) Ericsson's subjective belief that its actions were nondiscriminatory[134]; (2) participation in the standard-setting process is voluntary[135]; and (3) the apparent absence of a rule expressly prohibiting restricted RAND commitments.[136] Notably, while acknowledging the contractual nature of the RAND commitment, the *Ericsson* court did not identify any provisions of the RAND commitment except through witness testimony, and the court did not address the affirmative obligations associated with the RAND commitment.

In July 2013, this case went to trial on the issues of infringement and invalidity, during which Ericsson's RAND obligations were considered as an affirmative defense. The jury found in Ericsson's favor, awarding it $10.1 million in damages against the wireless equipment makers. Indeed, Ericsson did not seek damages from Intel, deliberately maintaining its focus on the wireless equipment makers.[137] Following trial, Ericsson requested an ongoing royalty of 15 cents per unit, which the court granted.[138]

This case is currently on appeal at the Court of Appeals for the Federal Circuit, No. 2013-1625.

[132] *Id.* at *23.
[133] *Id.* at *24.
[134] *Id.* at *23.
[135] *Id.* at *24.
[136] *Id.*
[137] *Id.*
[138] *Id.* at *21.

Daubert Motions

Over the past few years, and in particular since the 2012 decision by Judge Posner in the litigation between Apple and Motorola to exclude both parties' damages experts,[139] courts have become more receptive to *Daubert* challenges against expert witnesses offering opinions about patent damages. And following the Federal Circuit's express disapproval of the so-called "25-percent rule," *Daubert* motions against damages experts became even more popular. Magistrate Judge Grewal of the Northern District of California colorfully characterized this trend as follows:

> In football, new schemes come and go faster than teenage fashion trends. One team enjoys certain success with a spread offense, and suddenly every team is running no-huddle with a quarterback shotgun and four receiver sets. No matter that every year the overwhelming majority of teams fail in whatever particular scheme is the current fad. Patent litigation is not much different. *Daubert* motions used to be relatively rare in patent cases, and *Daubert* challenges to damages experts rarer still. But with a few high profile successes, now every patent trial lawyer worth her salt brings a challenge to the damages opinions offered by her adversary. Never mind that the percentage of such challenges that succeed is exceedingly small. Or that a decent cross-examination could deal with most problems just fine.[140]

[139] *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-8540, 2012 WL 1959560 (N.D. Ill. May 22, 2012).
[140] *Dynetix*, 2013 WL 4538210, at *1.

Consistent with this trend, 2013 saw a plethora of decisions, from both district courts and the Federal Circuit, on *Daubert* motions seeking to exclude damages expert opinions. Many motions resulted in run-of-the-mill denials on grounds that the challenges went to the weight of the expert opinions, better left for a thorough and sifting cross-examination. Such denials often follow the reasoning of the Eastern District of Texas in *Personalized Media Commc'ns, LLC v. Zynga, Inc.*,[141] where the court denied the defendant's challenge to the plaintiff's damages expert's application of the entire market value theory:

> Importantly, in a jury trial setting, the Court's role under *Daubert* is not to weigh the expert testimony to the point of supplanting the jury's fact-finding role; instead, the Court's role is limited to that of a gatekeeper, ensuring that the evidence in dispute is at least sufficiently reliable and relevant to the issue before the jury that it is appropriate for the jury's consideration. *See Micro Chem., Inc. v. Lextron, Inc.*, 317 F.3d 1387, 1391–92 (Fed. Cir. 2003) (applying Fifth Circuit law) ("When, as here, the parties' experts rely on conflicting sets of facts, it is not the role of the trial court to evaluate the correctness of facts underlying one expert's testimony."); *Pipitone v. Biomatrix, Inc.*, 288 F.3d 239, 249–50 (5th Cir. 2002) (" '[t]he trial court's role as gatekeeper [under *Daubert*] is not intended to serve as a replacement for the adversary system.' ... Thus, while exercising its role as a gate-keeper, a trial court must take care not to transform a *Daubert* hearing into a trial on the merits") (quoting Fed. R. Evid. 702 advisory committee note). As the Supreme Court explained in *Daubert*, 509 U.S. at 596, "Vigorous cross-examination, presentation of contrary evidence, and careful instruction on the burden of proof are the traditional and appropriate means of attacking shaky but admissible evidence." *See Mathis v. Exxon Corp.*, 302 F.3d 448, 461 (5th Cir. 2002).[142]

Nevertheless, a number of courts granted the parties' challenges to their opponents' damages expert, or at least provided meaningful, detailed analyses to further guide litigants bringing such challenges, even where the court denied the motion at issue. The following are highlights from various decisions addressing *Daubert* challenges in 2013.

District Court Decisions Granting* Daubert *Motions to Exclude Damages-Related Testimony

In Judge Grewal's *Dynetix* opinion quoted above, the court followed its quip about "fads" and rare victories with the following note: "And yet every once in a great while, a *Daubert* challenge to a patent damages expert is justified. This case presents just an instance."[143] The court granted the defendant's challenge because the plaintiff's expert failed to apportion properly royalties under the entire market value rule.[144] The court further criticized the patentee's expert for using a starting point of 50% of the accused infringer's gross margins on relevant products. As the court explained, using a 50% starting point based solely on "his own experience and judgment on how to apportion profit between the licensee and licensor where there is no other information to slant the apportionment one way or another" is no more reliable, and indeed even more arbitrary, than the discredited 25% rule rejected by the Federal Circuit.[145]

Similarly, in *Info-Hold, Inc. v. Muzak LLC*, a district court heavily criticized and excluded a novice expert witness.[146] Indeed, as a threshold matter, the court noted that the witness was certainly an expert accountant and auditor, but had never served as a damages expert and was not even familiar with the *Georgia-Pacific* factors, demonstrating a lack of qualifications to testify as to patent royalty damages.[147] Perhaps worse, he relied on the 25% rule and was unaware that it had been rejected by the Federal Circuit.[148] Moreover, the

[141] No. 2:12-cv-00068, 2013 WL 5979627 (E.D. Tex. Nov. 8, 2013).
[142] *Id.* at *1 (finding insufficient evidence that further apportionment was necessary; better left for cross-examination at trial).

[143] *Dynetix*, 2013 WL 4538210, at *1.
[144] *Id.* at *3-4.
[145] *Id.* at *4 (emphasis omitted).
[146] No. 1:11-cv-283, 2013 WL 4482442 (S.D. Ohio Aug. 20, 2013).
[147] *Id.* at *2.
[148] *Id.* at *2-3.

patentee's expert misapplied the entire market value rule with faulty assumptions about demand that had no foundation, and he relied solely on financial data put forth by the defendant's expert without any independent verification.[149] Thus, the court easily granted the *Daubert* motion.

Another decision that appeared an easy one for the court in granting a *Daubert* motion against a damages expert was *Milos Misha Subotincic v. 1274274 Ontario Inc.*[150] As the court explained:

> Defendants argue that [the plaintiffs' damages expert] should be precluded from testifying to damages because he admitted during deposition that his expert report did not contain a reasonable royalty analysis or an analysis of non-patent damages, and his lost profits analysis is unreliable because it is based on Defendants' sales price rather than Plaintiffs' sales price. (Dkt. No. 79 at 6–8.) Plaintiffs' five page opposition asserts, with no explanation, that the report is "replete with analysis" and states that [the damages expert] will supply a reasonable royalty analysis after the Court rules on the Rule 56(d) request for discovery. (Dkt. No. 86 at 4–5.)[151]

The court rejected these arguments and, thus, excluded the expert's opinion about lost profits for failing to analyze demand for the patented technology or of non-infringing alternatives, rendering the opinions clearly deficient under the *Panduit* analysis. The court further refused to allow further discovery and new opinions on a potential reasonable royalty because such opinions were not included in the original report, and there was no justification for the tardy attempt to add them.[152]

In *Brandeis Univ. v. Keebler Co.*, the court also excluded the plaintiff's damages opinions relating to non-infringing alternatives.[153] The court reasoned that the plaintiff's damages expert was not herself an expert on consumer demand or consumers' preferences for other products, and she had not relied on anyone else with such expertise.[154] Though the plaintiff had employed a relevant expert, the plaintiff's damages expert did not rely on his opinions, thereby rendering unreliable the opinions of the plaintiff's damages expert.[155]

Another case in which the court was particularly unimpressed with a damages expert's stretch of reality was *XpertUniverse, Inc. v. Cisco Sys., Inc.*[156] There, the court rejected the expert's calculation of a lump-sum royalty because it bore no relation to actual market conditions. The expert had concluded that the defendant would agree to pay 50% of the value of its purported investment in a computer system that would substitute for the infringing technology. However, the 50% value — which equaled $32 million — far exceeded the value of the defendant's actual sales of accused products — $937,000 — as well as the value of a running royalty on those sales based on admittedly comparable license agreements.157 As the court stated, "$32 million in a lump sum royalty on $937,000 in sales of accused products simply makes no sense."158 That criticism was separate from the court's criticism of the expert's justification for the lump sum based on a "vision selling strategy" where there was no evidence the parties would have contemplated or agreed to a lump sum instead of a running royalty.[159]

Some cases required more thorough analysis of methodology by the trial judge. Judge Posner, in another case sitting by designation in the Northern District of Illinois, again gave rough treatment to a damages expert by granting the accused infringer's *Daubert* motion in *Promega Corp. v. Applied*

[149] *Id*. at *4-5.
[150] No. 10-cv-01946, 2013 WL 3964994 (C.D. Cal. Apr. 9, 2013).
[151] *Id*. at *14.
[152] *Id*. at *15.
[153] Nos. 1:12-cv-01508, 1:12-cv-01509, 1:12-cv-01511, 1:12-cv-01513, 2013 WL 5911233 (N.D. Ill. Jan. 18, 2013).
[154] *Id*. at *7.
[155] *Id*.; *see also Masimo v. Philips*, No. 09-cv-00080, 2013 WL 2178047 (D. Del. May 20, 2013).
[156] No. 09-cv-00157, 2013 WL 936449 (D. Del. Mar. 11, 2013).
[157] *Id*. at *3.
[158] *Id*.
[159] *Id*.

Biosystems, LLC.[160] The court excluded the expert's testimony as "arbitrary" because he relied upon selected licenses not directly involving the patents-in-suit, to the exclusion of a specific cross-license that included the patent-in-suit and the same parties or their affiliates. Specifically, the court criticized and excluded the analysis because the expert: 1) did not identify "the six licenses he relied on or explain why they were the most relevant"; 2) could not even identify those specific licenses at the *Daubert* hearing; 3) used an "arbitrary" midpoint for the "range of royalty rates in disparate licenses for unknown different inventions as the estimate of a reasonable royalty for a license for Promega products outside the field of use of the 2006 patent"; and 4) simply tried to justify his approach as a "totality of the circumstances" determination.[161] The court did not disapprove of the expert's consideration of the licenses, but found that his failure to include the established cross-license and to account for differences in the licenses he selected was fatal to his opinions.

Notably, having excluded the patentee's expert, the court also questioned the value of the accused infringer's expert testimony. Because the accused infringer's expert already had "conceded" to a 2% royalty in the event of infringement (based primarily on the established cross-license), the court expressed concern over allowing a single expert to confuse the jury by arguing that sales fell outside the scope of the license and should be treated differently. Ultimately, in a subsequent decision, the court found the patents invalid as a matter of law, but stated that it would have permitted the expert to opine as to the 2% royalty, with a chance for the patentee to cross-examine him about his "alternate" calculation of a 4.4% royalty, thereby giving the patentee at least some hope of a higher recovery, though nowhere near the 10% its own excluded expert had calculated.[162]

Some courts readily granted *Daubert* motions as to one type of damages calculation but denied motions for other types. For example, in *Nordock Inc. v. Systems Inc.*, the court granted the motion to exclude a damages expert's reasonably royalty analysis and opinions, but allowed (at least for the time being) his lost profits analysis.[163] In allowing the lost profits analysis pending further evidence at trial, the court concluded, without elaboration, that the *Panduit* analysis was only one "non-exhaustive" method of establishing "but for" causation, so the expert's failure to consider non-infringing alternatives was not fatal to his opinions.[164] But the court was not so kind to the expert's reasonable royalty opinion that the rate would be 100% of lost sales — the same amount of lost profits.[165] The expert based that conclusion on his opinion that the design patent at issue conveyed market differentiation such that plaintiff ***never*** would have licensed its patent for less than the 100% value. The court, however, found that opinion inherently unreliable: "A reasonable royalty requires willing parties and a balancing of their interests. Smith's reliance on the 100% royalty figure does not reflect Nordock being a willing party or that he engaged in any balancing of the parties' interests."[166]

Similarly, in *VirnetX Inc. v. Cisco Sys., Inc.*, the court rejected the expert's royalty analysis but permitted his use of the Nash Bargaining Solution (NBS) methodology.[167] The court excluded (but allowed amendment of) the patentee's reasonable royalty analysis for failure to properly apportion under the entire market value theory. Rejecting the patentee's expert's 70% reduction in royalty basis as "apportionment" because it had no foundation in fact, the court found that there was no effort to determine relative value

[160] No. 13-cv-2333, slip op. (N.D. Ill. May 28, 2013).
[161] *Id.* at 3.
[162] *Promega Corp. v. Applied Biosystems, LLC*, No. 13-cv-2333, 2013 WL 2898260, at *2-3 (N.D. Ill. Jun. 12, 2013).
[163] No. 11-cv-00118, 2013 WL 989864 (E.D. Wis. Mar. 13, 2013).
[164] *Id.* at *7.
[165] *Id.* at *8.
[166] *Id.*
[167] No. 6:10-cv-00417, 2013 WL 789288 (E.D. Tex. Mar. 1, 2013).

or find the smallest salable element and the plaintiff's attempt to shift blame on the defendant's discovery deficiencies did not justify shoddy methodology.[168] With respect to the NBS, however, the court found that the expert offered a sufficient explanation for his deviation from the usual 50-50 split, prompting denial-in-part of the *Daubert* motion.[169]

Use of the NBS did not always fare so well. In *Suffolk Tech. LLC v. AOL Inc. & Google Inc.*, the court granted a motion to exclude a damages expert who had relied on the NBS for his damages calculation.[170] While the court was not clear as to whether it disapproved of the NBS generally, or simply this expert's use of it, it ruled that the expert's reliance on NBS was "not meaningfully distinguishable" from the discredited 25% rule. The court found that this expert had not explained why the common 50-50 split would be acceptable to the parties, and therefore failed to tie his opinions to the facts of the case as required by *Daubert*.[171]

In a similar criticism analogizing an expert's methodology to reliance on the impermissible 25% rule of thumb, the court in *Avocent Redmond Corp. v. Rose Elecs.* rejected an expert's application of a 3X risk multiplier to increase the royalty calculation.[172] While the court generally accepted the plaintiff's expert's *Georgia-Pacific* analysis, it disagreed with his opinion that patent litigation statistics showing patentee losses in 2/3 of cases justified a straight application of the 3X multiplier.[173] "The fact that patent holders are successful in only 33% of cases nationwide tells us nothing about the actual or perceived strength of Avocent's claims as it was negotiating the settlement with Raritan. … Although Dr. Kerr will be permitted to testify regarding his opinion that licenses negotiated in settlement of litigation are often discounted, he may not present his litigation-success-rate theory as a surrogate for facts and circumstances related to the patents-in-suit."[174] Notably, the court permitted the expert to rely on "unauthenticated third-party analyst reports" rather than other, better data because market reconstruction is inherently hypothetical and such shortcomings in data are better left to cross-examination than exclusion.[175]

In *Toshiba Corp. v. Imation Corp.*, another court granted-in-part a motion to exclude the expert's opinions about a reasonable royalty rate without excluding his opinions altogether.[176] There, the plaintiff had represented previously that it would charge 0.3 cents per unit for individually licensing patents and the court, in response to a motion *in limine* by plaintiff, had found that the represented amount was not merely a settlement offer and the defendant's expert could rely on it. On a subsequent *Daubert* motion filed by the defendant, the court went even further to find that the 0.3 cents per unit was an "established royalty" such that the plaintiff's consideration of other license agreements was immaterial and unhelpful to the trier of fact.[177] As the court noted, a royalty calculation "may be based on an 'established royalty, if there is one, or if not, upon the supposed result of hypothetical negotiations' " between the parties.[178] Thus, the court effectively established as law of the case that the royalty rate should be 0.3 cents per infringing unit.

Furthermore, the court determined that even if the 0.3 cents were not an established royalty, it was still a sufficiently critical fact that the failure of plaintiff's expert to consider that rate in his analysis rendered his opinions unreliable under *Daubert*.[179] Notably, despite

[168] *Id.* at *2.
[169] *Id.* at *3.
[170] No. 1:12-cv-00625, 2013 U.S. Dist. LEXIS 64630 (E.D. Va. Apr. 12, 2013).
[171] *Id.* at *6-7.
[172] No. 06-cv-01711, slip op. (W.D. Wash. Mar. 11, 2013).
[173] *Id.* at 7.
[174] *Id.* at 8.
[175] *Id.* at 4.
[176] No. 09-cv-00305, 2013 WL 1248633 (W.D. Wis. Mar. 26, 2013).
[177] *Id.* at *29.
[178] *Id.* (quoting *Transocean Offshore Deepwater Drilling, Inc. v. Maersk Drilling USA, Inc.*, 699 F.3d 1340, 1357 (Fed. Cir. 2012)).
[179] *Id.*

excluding the expert's opinions as to the royalty rate, the court permitted the expert to testify about the appropriate royalty base. The court cautioned, however, that the expert must revisit his analysis to "correlate" the base "to the extent the infringing method is used by consumers" rather than simply using all accused units sold by the defendant.[180]

In *AVM Techs., LLC v. Intel Corp.*, after signaling that it was inclined to exclude the plaintiff's damages expert based on the papers, the district court ordered an evidentiary hearing on the defendant's *Daubert* motion.[181] In its pre-hearing ruling, the court criticized the plaintiff's expert's application of the entire market value rule and his failure to further apportion beyond the smallest salable unit, and questioned the comparability of licenses he had relied on in conducting his royalty analysis. But the court refrained from excluding the expert until a *Daubert* hearing could be held with live testimony and cross-examination of the expert. In its post-hearing ruling, the court focused on the license issues, noting that the expert had revised his method to no longer consider other licenses and revenues discussed in his original report, but instead relied on a single settlement license relating to a different patent with no effort to identify or account for differences in circumstances.[182] The court acknowledged that the mere assertion that the patent-in-suit was more important for the defendant and had a larger revenue base than the prior license, so that the prior license would merely constitute a floor for the royalty rate, could save the opinion.[183] The court was clear that it was not banning reliance on settlement agreements *per se*, but found that this case offered no evidence that the agreement in question was "comparable" or proffered an explanation as to why the other (lower royalty) agreements between the same parties were irrelevant and should not be considered.[184]

Finally, the court in *Network Protection Sciences, LLC v. Fortinet, Inc.* excluded the plaintiff's expert opinions in their entirety because he failed to analyze demand after breaking down the royalty base to the smallest salable unit.[185] Importantly, the court stated that it was not inclined to give experts a chance to amend their reports because, "[o]ver the course of many years and more than a dozen patent trials, the undersigned judge has concluded that giving a second bite simply encourages overreaching on the first bite (by both sides)."[186]

District Court Decisions Denying Daubert *Motions to Exclude Damages-Related Testimony*

Recognizing the unique circumstances underlying each damages opinion, Judge Grewal denied a *Daubert* motion in *HTC Corp. v. Tech. Properties Ltd.*:

> Another patent case on the eve of trial, another *Daubert* motion to strike a patent damages expert's testimony. The undersigned only recently observed that such motions have become a routine affair in patent litigation. … And yet, as routine as the motion has become, skilled experts continue to fashion new theories prompting additional lines of attacks. In short, no two motions are quite the same.[187]

In *HTC*, the court accepted the expert's use of a lump-sum royalty, while rejecting the defendant's argument that it was simply an end run around the entire market value rule.[188] Noting that lump-sum royalties are different from running royalties and can rely on revenue streams from an entire product without invoking the entire market value rule, the court found that evidence in

[180] *Id*. at *30.
[181] 927 F. Supp. 2d 139, 141 (D. Del. 2013).
[182] *Id*. at 143.
[183] *Id*.
[184] *Id*. at 144-145.
[185] No. 12-cv-01106, 2013 WL 5402089 (N.D. Cal. Sept. 26, 2013).
[186] *Id*. at *8.
[187] No. 5:08-cv-00882, 2013 WL 4787509, at *1 (N.D. Cal. Sept. 6, 2013).
[188] *Id*.

the *HTC* case supported a finding that the parties would in fact consider — and could agree on — a lump-sum royalty instead of a running royalty.[189] Thus, the expert could calculate damages based on total sales without a discussion of demand under the entire market value rule.[190]

In *Interwoven, Inc. v. Vertical Computer Sys.*, the court denied the defendant's motion to exclude the plaintiff's expert damages opinion as to lost profits, which the defendant challenged as insufficient under several *Panduit* factors.[191] The court explained that it was appropriate for an expert to rely on the testimony of a party's officers that a viable non-infringing alternative does not exist.[192] The court further determined that the patentee's capacity to produce the accused product does not turn on whether the patentee actually sells the same product as the defendant. Rather, as long as the patentee introduces evidence of some ability to ramp up to sell products in the future, the expert may offer an opinion on capacity. In addition, the expert was permitted to offer an opinion that, despite the existence of other potential competitors, the market was effectively a two-supplier market when the plaintiff was unable to sell relevant products once infringement began.[193]

With regard to reasonable royalty rates, the court in *Interwoven* clarified seemingly inconsistent case law regarding the use of comparable licenses instead of licenses actually covering the patents-in-suit. The court explained that experts (and the parties themselves) should not rely on comparable patents and licenses to the exclusion of directly relevant licenses, but an expert may appropriately consider and use comparable licenses so long as the expert accounts for differences between the patents and any directly relevant licenses and adjusts the royalty rate accordingly.[194]

In *Global Traffic Techs., LLC v. Emtrac Sys., Inc.*, the court denied the defendant's motion to exclude the plaintiff's damages expert, who offered opinions about lost profits based in part on price erosion and price inelasticity.[195] The court offered minimal analysis, but stated that the expert's opinions were admissible because he defined the market and relevant competition. The mere fact that he rejected certain competitors as irrelevant did not disqualify him, as long as he had reasons for doing so.[196] Those issues could be addressed appropriately on cross-examination, rather than exclusion.

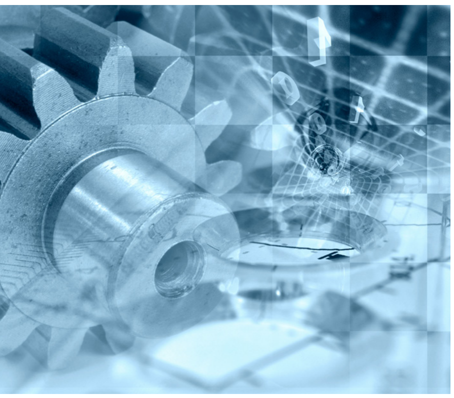
One court used its denial of a *Daubert* motion to explain the difference between per-unit royalties and value-based royalties in the context of the entire market value rule. In *Ericsson Inc. v. D-Link Corp.*,[197] the court found that the plaintiff's expert properly apportioned the royalty base for products relevant to the asserted patents and patent claims, excluding products covered only by unasserted patents.[198] The expert did not need to account further for individual features because the royalty was a per-unit royalty, which the court held did not even implicate the entire market value rule. As the court explained, the per-unit rate (which was standard for the industry) had nothing to do with the "value" of the end products and their individual features, rendering the price of individual features irrelevant.[199]

The Federal Circuit, in its May 21, 2013, decision in *Versata Software, Inc. v. SAP Am., Inc.*, demonstrated the importance of *Daubert* motions at the trial court level.[200] In declining to reconsider a challenge to the damages opinions of the patentee's expert, the Federal Circuit noted that the infringer had only challenged the "sufficiency of the evidence" regarding lost profits, but had not specifically appealed any denial of a *Daubert* motion.[201] Thus, the court summarily rejected various challenges to the evidence. Somewhat inconsistently, however, the court analyzed (and affirmed) the expert's methodology in applying the *Panduit* factors

[189] *Id.* at *2.
[190] *Id.*
[191] No. 10-cv-04645, 2013 WL 3786633 (N.D. Cal. Jul. 18, 2013).
[192] *Id.* at *9.
[193] *Id.*
[194] *Id.* at *10-11.
[195] 946 F. Supp. 2d 884 (D. Minn. 2013).
[196] *Id.* at 911-12.
[197] No. 6:10-cv-00473, 2013 WL 2242444 (E.D. Tex. May 21, 2013).
[198] *Id.* at *2-3.
[199] *Id.* at *3.
[200] 717 F.3d 1255 (Fed. Cir. 2013).
[201] *Id.* at 1264.

to determine whether lost profits were an appropriate measure of damages.[202] The court also examined certain challenges to the royalty rate calculation and application of the entire market value theory outside of a *Daubert* context, which is addressed elsewhere in this review.

Demonstrating some hesitancy to grant a *Daubert* motion in its entirety, the court in *Masimo Corp. v. Philips Elecs. N. Am. Corp.* limited both experts' testimony but denied requests to exclude their opinions altogether.[203] Though Masimo's expert calculated lost profits based in part on a sales ratio between certain covered products and non-covered products, which was designed to merely approximate the value of the patent, the court found such approximations consistent with the role of an expert in calculating damages because such calculations are hardly exact and commonly require some extrapolation from existing data.[204] In addition, the court explained that the "commensurately greater standard" for future damages applied to the burden for a jury's assessment of whether a party was entitled to such damages, and not to the expert's burden in calculating those damages.[205]



On the other side of the case, the court limited Philips' experts' opinion about the viability of non-infringing alternatives. After a lengthy analysis of other experts' opinions and lay testimony about non-infringing alternatives, the court concluded that Philips' damages expert was entitled to rely on admissible evidence and opinions from others about the viability of a non-infringing alternative, but could not base any of his calculations or opinions on either his own impressions (because he was not qualified) or evidence and opinions from others that had been excluded.[206]

[202] *Id*. at 1265-1267.
[203] No. 09-cv-00080, 2013 WL 2178047 (D. Del. May 20, 2013).
[204] *Id*. at *22.
[205] *Id*. at *25.
[206] *Id*. at *18-20.

Another case in which the court permitted most of an expert's testimony is *TV Interactive Data Corp. v. Sony Corp.*[207] There, the court merely precluded the expert's reliance on certain royalty rates for his analysis, but otherwise permitted his methodology. Specifically, the court granted the motion to exclude reliance on, and even reference to, other patent licenses and patent pool royalty rates that were not comparable to the technology at issue.[208] The court rejected the expert's arguments that such licenses were relevant to confirm "reasonableness" of the calculated rate and the "general ranges" of royalty rates in the industry because they must be "comparable" to be of any use, even to "confirm" the expert's calculations.[209] But the expert's "failure" to consider price elasticity in his royalty analysis did not render it inadmissible; while such analyses are requirements for lost profits or lost sales and price erosion cases, no such analysis is required for a reasonable royalty calculation.[210]

Also addressing a challenge to the sufficiency of other licenses, the court in *Gen-Probe Inc. v. Becton Dickinson & Co.* denied the parties' cross motions to exclude each other's damages experts.[211] In declining to exclude the defendant's experts for relying on allegedly incomparable licenses, like other courts, the *Gen-Probe* court found that such challenges are generally more "appropriate fodder for cross-examination" because it is rare to find a "perfectly comparable agreement."[212] As long as the party provides some evidence that the agreements are "marginally comparable" and accounts for relevant differences, reliance on such agreements usually is acceptable.[213] The court further declined to exclude the plaintiff's expert's use of the NBS for his

[207] 929 F. Supp. 2d 1006 (N.D. Cal. 2013).
[208] *Id*. at 1015-17.
[209] *Id*.
[210] *Id*. at 1027-1028.
[211] Nos. 09-cv-02319 & 10-cv-00602, 2012 WL 9335913 (S.D. Cal. Nov. 26, 2012).
[212] *Id*. at *2.
[213] *Id*.

calculation of a profit-splitting approach. Noting the controversy surrounding use of NBS, the court found the expert's analysis "tied to the facts of the case."[214]

Similarly, in *Harris Corp. v. Ruckus Wireless, Inc.* the court denied a *Daubert* motion challenging the defendant's damages expert's reliance on license agreements found through a search of RoyaltyStat and RoyaltySource.[215] Because there was evidence that the agreements were at least somewhat comparable to the technology at issue in the patents-in-suit, as confirmed by another of the defendant's experts, the court permitted the damages expert to use those agreements in his *Georgia-Pacific* analysis.[216] Going a step further, the court expressly noted that both sources commonly are used and are sufficiently reliable for use by damages experts.[217]

Admissibility Of Settlement Information

Before 2012, district courts were split on the discoverability and admissibility of draft licenses and settlement negotiations in patent cases. But since the Federal Circuit's landmark April 2012 holding in *In re MSTG* that there was no "settlement privilege,"[218] district courts increasingly have been willing to compel production of draft agreements and settlement negotiations.

In 2013, the body of case law continued to develop around the discoverability and admissibility of settlement negotiations and agreements. And while this past year brought significant developments, inconsistency remains among the various courts because decisions about the discoverability and admissibility of settlement-related documents are committed to the sound discretion of the court. For example, while courts consistently find draft licenses and settlement negotiations discoverable if plaintiffs "open the door" by relying on facts outside of the four corners of a settlement agreement, courts vary as to whether the production of draft licenses and settlement negotiations requires a heightened showing of relevance or need, and often disagree about whether documents should be produced if they likely will not be admissible.

There Is No Settlement Privilege

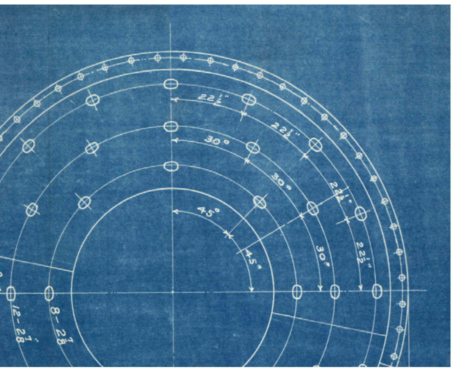
In re MSTG laid the foundation for expanding the discoverability and admissibility of settlement negotiations. Indeed, "the issue of whether settlement negotiations are privileged [was] a matter of first impression before [the Federal Circuit] and one on which district courts [were] split."[219] By petitioning for mandamus, MSTG urged the Federal Circuit "to invoke Rule 501 of the Federal Rules of Evidence to fashion a new privilege in patent cases that would prevent discovery of litigation settlement negotiations related to reasonable royalties and damages."[220] In declining to adopt a "settlement privilege," the Federal Circuit made several noteworthy observations that may expand the use of settlement negotiations in a damages analysis.

The Federal Circuit first noted that:

> the Advisory Committee's note to [Federal] Rule [of Civil Procedure] 26 recognizes that the discovery rules "confer[ ] broad powers on courts to regulate or prevent discovery even though the materials sought are within the scope of 26(b)." Fed.R.Civ.P. 26 advisory committee's note (1970 Amendment Subdivision (b)). While typically settlement negotiations that are admissible under Federal Rule of Evidence 408 or disclosed to a party's expert would be discoverable, the district court has discretion to limit discovery of material that is not itself admissible and that was not utilized by the opposing party to protect settlement confidentiality. Even as to such admissible or disclosed material, some protections may be appropriate.[221]

The Federal Circuit also noted that "other courts have imposed heightened standards for discovery in order to protect confidential settlement discussions."[222] For example,

[214] *Id.* at *3.
[215] No. 6:11-cv-00618, slip op. (M.D. Fla. Jan. 16, 2013).
[216] *Id.* at 4-5.
[217] *Id.* at 6.
[218] *In re MSTG, Inc.*, 675 F.3d 1337, 1348 (Fed. Cir. 2012).
[219] *Id.* at 1342.
[220] *Id.*
[221] *Id.* at 1346-7.
[222] *Id.* at 1347.



the Federal Circuit noted with approval a decision from the Second Circuit holding that:

> because "confidentiality in [mediation] proceedings promotes the free flow of information that may result in the settlement of a dispute," a party seeking discovery of confidential communications must make a heightened showing "demonstrat[ing] (1) a special need for the confidential material, (2) resulting unfairness from a lack of discovery, and (3) that the need for the evidence outweighs the interest in maintaining confidentiality."[223]

And, according to the Federal Circuit, "many [other] district courts also require heightened showings for discovery of settlement negotiations."[224]

Ultimately, the Federal Circuit "reserve[d] for another day the issue of what limits can appropriately be placed on discovery of settlement negotiations."[225] This reservation paved the way for district courts to decide these limits. As noted above, the cases since *In re MSTG*, several of which were decided in late December 2012 and in 2013, evidence several developments in the discoverability and admissibility of settlement negations: (1) courts recognize that decisions about the discoverability and admissibility of settlement-related documents are committed to the sound discretion of the court; (2) settlement agreements are likely discoverable, but settlement negotiations may not be; (3) draft licenses and settlement negotiations likely are discoverable if plaintiffs "open the door" by relying on facts outside of the four corners of the settlement agreement; and (4) courts vary as to whether the production of draft licenses and settlement negotiations require a heightened showing of need or relevance.

Decisions About Discoverability and Admissibility of Settlement-Related Documents are Committed to the Sound Discretion of the Courts

In *In re MSTG*, the Federal Circuit ruled that "the district court did not clearly abuse its discretion in ordering production of the settlement negotiation documents."[226] Since then, district courts have highlighted the fact that decisions relating to the discoverability and admissibility of settlement negotiations are committed to the sound discretion of the court.

In *ABT Sys., LLC v. Emerson Elec. Co.*, the Eastern District of Missouri denied discovery of settlement negotiations because Emerson "ha[d] not demonstrated why the negotiations underlying the settlement are pertinent to the issue of damages."[227] In so doing, the court noted that it " 'has discretion to limit discovery of material that is not itself admissible and that was not utilized by the opposing party' in order to protect settlement confidentiality."[228]

The District of Delaware similarly noted that "discovery is not unlimited … and may be circumscribed by the discretion afforded the Court pursuant to Rule 26(b)(2)(C)."[229] In granting defendant's request for settlement negotiation documents, the court noted:

> The disparity in the case law is not surprising given the discretion afforded the court in deciding discovery issues. Rather than adopting a blanket rule that the requested [settlement negotiation] documents are or are not discoverable, the Court agrees with the approach taken in *Charles E. Hill & Associates, Inc. v. ABT Electronics*, 854 F. Supp. 2d 427, 429 (E.D. Tex. 2012), wherein the decision stated that a case-by-case approach would be taken to determine whether the requested documents were discoverable. The Court also agrees with the decision wherein it stated that as a general rule license negotiations are less probative and more prejudicial than the licenses themselves. *Id.*

[223] *Id*. (quoting *In re Teligent, Inc.*, 640 F.3d 53, 57-58 (2d Cir. 2011)).

[224] *Id*. (citing *Eisai Inc. v. Sanofi-Aventis U.S., LLC*, No. 08-cv-4168, 2011 WL 5416334, at *8 (D.N.J. Nov. 7, 2011) (finding that party seeking discovery "failed to make a heightened, more particularized showing of relevance" (internal quotation mark omitted)); *Atchison Casting Corp. v. Marsh, Inc.*, 216 F.R.D. 225, 226-27 (D. Mass. 2003); *Young v. State Farm Mut. Auto. Ins. Co.*, 169 F.R.D. 72, 76 (S.D. W.Va. 1996); *Servants of Paraclete, Inc. v. Great Am. Ins. Co.*, 866 F.Supp. 1560, 1576 (D.N.M. 1994).

[225] *Id*.

[226] *Id*. at 1348.

[227] No. 4:11-cv-00374, 2012 WL 6594996, at *3 (E.D. Mo. Dec. 18, 2012).

[228] *Id*. (quoting *In re MSTG*, 675 F.3d at 1346-47).

[229] *Sciele Pharma, Inc. v. Lupin LTD*, No. 1:09-cv-00037, slip op. (D. Del. Jan. 31, 2013) (citing *In re MSTG*, 675 F.3d at 1346).

> In addition, the Court agrees that negotiation documents "primarily add heat and not light to an already difficult judicial chore." *Id*.[230]

This broad discretion granted to the district courts has led to inconsistent results in certain areas when discovery of settlement agreements and negotiation information is sought.

Settlement Agreements Are Likely Discoverable, But Settlement Negotiations May Not Be In All Cases

It is well known that Rule 26 of the Federal Rules of Civil Procedure governs discovery and the Federal Rules of Evidence govern the admissibility of discovered information. As noted above, "the Advisory Committee's note to [Federal] Rule [of Civil Procedure] 26 recognizes that the discovery rules 'confer[ ] broad powers on courts to regulate or prevent discovery even though the materials sought are within the scope of 26(b).' "[231]

The admissibility of settlement agreements themselves seems to no longer be in dispute, as several courts in 2013 ruled in favor of their admissibility. In *Dynetix*, for example, the Northern District of California denied *Dynetix*'s motion to exclude a settlement agreement. The court explained that, "[u] nder *ResQNet*, there is no basis to prevent Synopsys from using a comparable license … to assess damages."[232]

Similarly, the District of Delaware admitted a settlement agreement between the plaintiff and a third party. The court explained that "the parties' experts may offer their competing analyses as to the weight, if any, to be given to this settlement. The Court is not persuaded that the use of the settlement agreement is barred by Rule 408 or that its admission is improper under the weighing required by Rule 403."[233]

A few other decisions addressed the admissibility of settlement agreements in other contexts. First, in *SSL Services, LLC v. Citrix Sys., Inc.*, the Eastern District of Texas admitted a non-patent license as a comparable license because the plaintiff and defendant were parties to it.[234] Citrix attempted to argue that it should not be admissible because it was not sufficiently comparable to the non-exclusive patent license that would result from a hypothetical negotiation.[235] The court disagreed, stating that it (along with other licenses) was "sufficiently comparable because they involve the actual parties to the hypothetical negotiation."[236] The court found that the previous agreements "were properly admitted for the additional reason that they are relevant to other *Georgia-Pacific* factors, not just as 'comparable licenses.' "[237]

Notably, though, the Northern District of California ruled in the well-publicized *Apple v. Samsung* case that Apple's agreement with HTC agreement was inadmissible because of special circumstances surrounding the retrial on damages.[238] In so doing, the court observed that the Federal Circuit has taken inconsistent positions on the relevance of settlement agreements, stating that

> In *LaserDynamics*, the Federal Circuit reversed a district court's decision to admit a settlement agreement at trial, concluding that settlement "ostensibly reflects not the value of the claimed invention but the strong desire to avoid further litigation under the circumstances." In contrast, *MSTG* speaks favorably of settlement agreements, but only in dicta.[239]

Ultimately, the court did not "wade into this debate because Samsung's expert concluded that the HTC Agreement was 'not probative' to his primary conclusion and Apple's expert did not consider the HTC Agreement to be comparable to a hypothetical negotiation.[240]

230 *Id.*
231 *In re MSTG*, 675 F.3d at 1347 (quoting Fed. R. Civ. P. 26 advisory committee's note (1970 Amendment Subdivision (b)).
232 No. 5:11-cv-05973, slip op. at 13 (N.D. Cal. Aug. 22, 2013).
233 *Enova Tech. Corp. v. Initio Corp.*, No. 1:10-cv-00004, slip op. at 2 (D. Del. Jan. 31, 2013).
234 940 F. Supp. 2d 480, 489-90 (E.D. Tex. 2013).
235 *Id*. at 489.
236 *Id*. at 490.
237 *Id.*
238 No. 11-cv-01846, 2013 WL 5958176 (N.D. Cal. Nov. 7, 2013).
239 *Id*. (internal citation omitted).
240 *Id*. at *6.

There is less certainty as to whether a court will allow discovery into settlement negotiations. In *ABT*, the court acknowledged that the relevancy standard of Fed. R. Civ. P. 26 governs the dispute over settlement negotiations.[241] It also acknowledged the breadth of the Federal Rules regarding discovery.[242] However, the court exercised its discretion to limit discovery that was not itself admissible and ultimately denied the discovery because the defendant did not posit "any particularized relevance to the information it [sought]."[243]

At least two courts in 2013 allowed discovery of settlement negotiations and found them admissible at trial. In *Personalized Media*, the court denied PMC's motion *in limine* to exclude evidence of settlement demands made in other negotiations involving the same patents. The court explained that the plaintiff failed to provide any reason "that its demands from other negotiations on these same patents are not relevant."[244]

Similarly, in *Toshiba Corp. v. Imation Corp.*, the Western District of Wisconsin denied Toshiba's motion to preclude evidence of its prior settlement offers to non-parties.[245] The court noted that the rate contained in the settlement offers represented an established royalty rate based on Toshiba's deposition testimony.[246] Thus, the court denied Toshiba's attempt to preclude evidence of that amount as an established royalty rate.[247]

Draft Licenses and Settlement Negotiations Likely are Discoverable if Plaintiffs "Open the Door" by Relying on Facts Outside of the Four Corners of Settlement Agreements

Since *In re MSTG*, district courts uniformly have allowed discovery of settlement negotiations when the opposing party "opened the door" to that discovery. Indeed, in *In re MSTG*, the Federal Circuit ordered discovery because MSTG's expert relied on information outside of the four corners of the settlement agreements on which he was relying. Specifically, MSTG's "expert concluded that the settlement agreements were 'discounted by at least 75%' because they were entered before any substantive litigation rulings such as claim construction or summary judgment."[248] The Federal Circuit stated that "[a]s a matter of fairness MSTG cannot at one and the same time have its expert rely on information about the settlement negotiations and deny discovery to those same negotiations."[249]

Soon thereafter, the Northern District of California similarly ordered discovery when a party again "opened the door." In *Implicit Networks Inc. v. Juniper Networks Inc.*, the court first denied a motion to compel discovery of negotiation documents because Implicit had not put them at issue.[250] Later, Implicit offered testimony from its CEO that prior agreements were "discounted" for business reasons.[251] The court then granted Juniper's renewed motion, finding that the negotiation communications may prove or disprove the CEO's assertions.[252] But the court refused to compel mediation communications because courts should "tread carefully when ordering disclosure of documents that could undermine the sanctity and efficacy of settlement negotiations."[253]

In *ABT*, the court denied production of settlement negotiations.[254] But the court stated that, "[s]hould it become apparent that ABT's experts make use of statements made during the settlement negotiations to form their opinions, [the defendant] remains free to seek further discovery of the settlement negotiations."[255]

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241 *ABT*, 2012 WL 6594996, at *2.
242 *Id*.
243 *Id*. at *3.
244 No. 2:12-cv-00068, slip op. at 2 (E.D. Tex. Oct. 30, 2013).
245 *See* No. 3:09-cv-00305, slip op. (W.D. Wis. Mar. 26, 2013).
246 *Id*. at 18.
247 *Id*. at 18-21.
248 *In re MSTG*, 675 F.3d at 1348.
249 *Id*.
250 No. 10-cv-04234, 2012 U.S. Dist. LEXIS 183715 (N.D. Cal. Jun. 5, 2012).
251 No. 10-cv-04234, 2012 U.S. Dist. LEXIS 103884, at *2 (N.D. Cal. Jul. 23, 2012).
252 *Id*. at *3.
253 *Id*.
254 *ABT*, 2012 WL 6594996, at *3.
255 *Id*.

There Is No Consensus About Whether the Production of Draft Licenses and Settlement Negotiations Requires a Heightened Showing of Need or Relevance

The Federal Circuit's statement in *In re MSTG* that "other courts have imposed heightened standards for discovery in order to protect confidential settlement discussions"[256] ignited a debate in the district courts about whether a "heightened" showing was required to discover settlement negotiations.

In late December 2012, the Eastern District of Missouri imposed a heightened showing requirement in denying in part a motion to compel production of settlement negotiations.[257] The court opted to protect settlement confidentiality because the defendant had not shown that the settlement negotiations were admissible and the plaintiff had not utilized the negotiations in litigation.[258]

Just one week later, in *Barnes & Noble, Inc. v. LSI, Corp.*, the Northern District of California rejected LSI's argument that *In re MSTG* required Barnes & Noble to make a "heightened, more particularized showing of relevance" to discover draft licenses and licensing communications.[259] It explained that "the Federal Circuit did not hold that 'a party seeking licensing negotiations must make a 'heightened, more particularized showing of relevance.' "[260] Rather, the *Barnes & Noble* court explained, the Federal Circuit merely noted that one appellate court employed such a standard when confidential mediation communications were sought, but did not approve that standard.[261]

Conclusion

We expect that damages issues will play an increasingly significant role in patent cases in the coming years. Discovery requests seeking information related to settlement agreements and negotiations are becoming routine. Based on current trends, litigants will be more apt to file *Daubert* motions in the hopes of setting up case dispositive rulings if the court excludes the other side's damages expert or precludes testimony on key issues. Apportionment and the entire market value rule will likely be raised in a large percentage of patent cases and, given the disparate views of the various district courts, the Federal Circuit will almost certainly need to weigh in to ensure uniformity. On the FRAND front, the Federal Circuit will likely decide the appeals in the *Microsoft* and *Ericsson* cases in 2014, providing the first real guidance from that court on substantive issues of damages for standard essential patents. Regardless of the outcomes in these cases, it is unlikely that patent damages issues will be seen as an afterthought any longer.

256 675 F.3d at 1347.
257 *ABT*, 2012 WL 6594996, at *3.
258 *Id.*
259 *Barnes & Noble, Inc. v. LSI, Corp.*, No. 11-cv-02709, 2012 WL 6697660, at *4 (N.D. Cal. Dec. 23, 2012) (magistrate judge's report and recommendation); *Barnes & Noble, Inc. v. LSI, Corp.*, No. 11-cv-02709, 2013 WL 841334 (N.D. Cal. Mar. 6, 2013) (adopting magistrate judge's report and recommendation).
260 *Id.* at *3 (quoting *In re MSTG*, 675 F.3d at 1347).
261 *Id.*

Maya M. Eckstein

Maya's practice focuses on patent and intellectual property litigation.

As a patent and intellectual property litigator, Maya advises companies and organizations on how to protect their valuable intellectual property rights. She represents plaintiffs and defendants in patent infringement disputes and has significant experience planning, coordinating and executing national defense of complex litigation involving multiple defendants and jurisdictions. When allegations of infringement arise, or when clients believe that their patent or other IP rights have been infringed, Maya collaborates with clients to analyze the situation, assess the extent of potential infringement or damages, and to develop and implement an effective response. In addition to litigation, and when appropriate, Maya investigates and recommends alternative approaches to dispute resolution, including settlements and negotiation of licenses.

Maya represents clients from numerous industries, with an emphasis on the technology sector. She has litigated cases involving hearing aid technology, cable television technology, electronic payment technology and other technologies. Maya also has achieved client victories in product liability, class action and slavery reparations litigation, and regularly represents parents on a pro bono basis in international child abduction cases.

In 2001, she served as a Judicial Clerk for the Honorable Roger L. Gregory of the U.S. Court of Appeals for the Fourth Circuit. Over the course of her legal career, Maya has received numerous honors from various organizations and publications, including the American Inns of Court, the Virginia State Bar, *Chambers USA, Benchmark Litigation, Virginia Business Magazine, Virginia Super Lawyers, The Best Lawyers in America (IP), and Inside Business.*

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Bar Admissions

District of Columbia
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Languages

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Relevant Experience

- Lead counsel for defendant in litigation involving secure online transactions. The case is currently pending.
- Lead counsel for defendant in litigation involving smartphone app technology. The case is currently pending.
- Lead counsel for defendant in litigation involving POS technology. The case is currently pending.
- Lead counsel for defendant in litigation involving website searching technology. The case is currently pending.
- Lead counsel for defendant in federal court and ITC litigation involving UBS thumb drive technology. The federal court case remains pending; the ITC case resolved favorably.
- Lead counsel for defendants in litigation involving ownership of patents covering wireless email technology. The case is currently pending.
- Lead counsel for defendant in patent infringement litigation involving technology relating to parking systems. The case is currently pending.
- Lead counsel for defendant in patent infringement litigation involving package tracking technology. The case settled favorably.
- Trial counsel for patent holder in *Energy Transportation Group, Inc. v. Sonic Innovations, Inc. et al.* Civ. Act. No. 05-422(GMS) involving hearing aid technology. The jury returned a verdict for client ETG, finding willful patent infringement and awarding damages of $31 million against two defendants. The Federal Circuit affirmed the jury's verdict and the trial court's post-trial rulings. (2012)
- Trial counsel for patent holder in infringement litigation involving cable television technology. After obtaining successful ruling in week-long trial on licensing issues, case was favorably settled with multi-million dollar license. (2011)
- Lead counsel for patent holder in infringement litigation relating to document security technology. The case was favorably settled. (2011)
- Lead counsel for defendant in patent infringement litigation involving utility and design patents. The case was favorably settled. (2010)
- Lead counsel in ICC arbitration involving dispute over patent license agreement. The case was favorably settled. (2010).

- Lead counsel for defendants in patent infringement litigation involving above-ground storage tanks. Case was favorably settled with no-cost license for defendants. (2009)
- Counsel for Fortune 500 company in trademark infringement litigation against competitor. Case was favorably settled. (2008)
- Lead counsel for defendant Interactive Communications International, Inc. in *TGIP, Inc. v. AT&T Corp. et al*, (E.D. Tex.). After obtaining summary judgment of non-infringement on majority of products at issue, settlement reached resulting in dismissal before trial. (2007)
- Trial counsel for patent owner *ePlus in ePlus, Inc. v. SAP*, Civil Action No. 3:05cv281 (E.D. Va.) in infringement litigation involving electronic procurement systems. Case was favorably settled while awaiting the court's decision following a four-week trial. (2006)
- Counsel for patent owner in infringement litigation to prevent defendant companies from using technology related to wireless email. Case was favorably settled after receiving jury verdict of infringement and validity. (2006)
- Significant experience with software and business method patent litigation.
- Counsels clients on legal issues related to use of open source software.

Memberships

- John Marshall American Inn of Court
- Thomas Jefferson Intellectual Property American Inn of Court

Publications

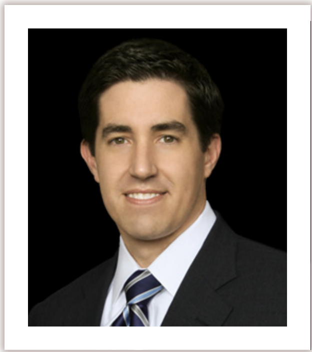
- Co-author, Don't Let Your Right To Inter Partes Review Slip Away, *Law360*, August 29, 2012
- Co-author, The Expert of My Enemy Is My Expert: Conflicts of Interests Amongst Expert Witnesses, *Litigation News, Virginia State Bar*, Summer 2012
- Co-author, The (Unintended) Consequences of the AIA Joinder Provision, AIPLA Spring Conference, May 10, 2012
- Co-author, Business Methods After Bilski, *Law360*, June 5, 2009
- Co-author, Joint Patent Infringement, American Intellectual Property Law Association Spring Conference, May 13, 2009
- Author, Patent Reform Act proposes new ways to grant and test patents, *Virginia Lawyers Weekly*, May 28, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages, May 15, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages (PowerPoint), May 15, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages, May 15, 2007

Events

- Litigating Against Non-Practicing Entities: Strategies for Success, December 5, 2012
- Presenter, The (Unintended) Consequences of the AIA Joinder Provision, AIPLA Spring Conference, May 10, 2012
- Presenter, Overcoming Client Development Challenges for Women Lawyers, American Intellectual Property Law Association Webinar, February 28, 2012
- Presenter, Procedural Issues in Civil Litigation in the Richmond Division of the Rocket Docket, Federal Bar Association, September 29, 2010
- Speaker, Joint Patent Infringement -- It's Argued, But Does It Really Exist?, American Intellectual Property Law Association Spring Conference, May 13, 2009
- Presenter, Procedural Pitfalls in Complex Litigation, Second Annual Advanced Business Litigation Institute, Virginia CLE and Virginia Law Foundation, April 2, 2009

Awards & Recognition

- *Managing Intellectual Property*, Top 250 Women in IP, 2013
- *Benchmark Litigation* Top 250 Women in Litigation, 2012
- AV® Peer Review Rated in Martindale-Hubbell
- *The Best Lawyers In America, Intellectual Property Law*, 2009, 2011, 2012, 2013
- Leader in the Law, Intellectual Property, Virginia, *Chambers USA*, 2009-2012
- "Up and Comers," *Chambers USA*, 2008
- "Future Litigation Star," Benchmark Litigation Guide, 3rd ed., 4th ed., 5th ed.
- *Virginia Super Lawyers*, 2007-2012



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Michael Oakes handles complex civil disputes, with a focus on patent litigation and other intellectual property and technology-related matters before federal district courts and before the US International Trade Commission. He has experience with patents in a variety of fields, including semiconductors and electronics, software, computer networking and Internet technology, biotechnology and pharmaceuticals, medical devices, automotive and nuclear manufacturing technology.

Michael also advises clients on data security and privacy issues. He is experienced in handling the investigative and legal response to network intrusions and data breach events and has represented clients in class action litigation and regulatory investigations involving claims arising out of these incidents. He also advises clients on liability issues related to the use of technology and the Internet, including issues related to cloud computing, online sweepstakes and related marketing programs.

Michael is admitted to practice in the US Court of Appeals for the Federal Circuit and the 4th Circuit, and the US District Courts for the Eastern District of Texas, Eastern District of Virginia and the Western District of Michigan. He is also registered to practice before the US Patent and Trademark Office.

Relevant Experience

- Represented a Fortune 50 retailer in the Central District of California against claims that certain LED string lights infringed a patent that had survived a reexamination instituted by another party. The court granted the retailer’s motion for summary judgment and invalidated the patent.
- Represented a leading Internet company in a jury trial in the Southern District of Texas relating to claims that the company infringed three streaming media patents. Case settled favorably during trial.
- Represented an automotive manufacturer in the Southern District of Texas against claims that its manufacturing processes infringed a high speed laser welding patent. Plaintiff’s claims were dismissed on summary judgment following a favorable claim construction ruling.
- Represented a major electronics company in a four-week jury trial in New Jersey District Court relating to claims that the company infringed three semiconductor memory patents. The defense verdict was highlighted in *The National Law Journal's* 2007 Defense Hot List.
- Represented a manufacturer seeking an injunction against a competitor arising out of trade secret misappropriation and patent infringement claims in the Western District of Virginia. Case settled favorably after motion for preliminary injunction was granted.
- Represented a major international bank and payment processor victimized by network security breach and theft from ATM network during investigation and subsequent litigation.
- Represented an international retail chain following a network intrusion. Coordinated internal investigation, represented company in obtaining dismissal of multiple class action lawsuits, and represented company in response to FTC inquiry into data security practices.
- Advised multiple clients on legal issues arising out of credit card skimming incidents.
- Represented several companies in assessing risks associated with moving to cloud computing environments.

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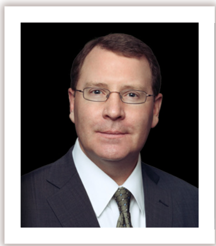
Brad's practice focuses on the litigation and resolution of intellectual property disputes, as well as advice about intellectual property issues and management of intellectual property portfolios. He has counseled numerous clients in intellectual property disputes, including trials in federal courts, injunction hearings, mediations, arbitrations and proceedings before the Trademark Trial and Appeal Board. Brad provides advice regarding trademark portfolios and trademark management, including prosecution of trademark applications for registration with the US Patent & Trademark Office for large and small companies of all types, as well as individuals and agents.



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Dan is admitted to the US District Court for the Eastern District of Texas, the US Court of Appeals for the Second Circuit, and the US Court of Appeals for the Federal Circuit.

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