



## Intellectual Property Law Committee



### SURVEYING THE RECENT LANDSCAPE OF CASES IN APPORTIONMENT<sup>1</sup>

By: Christopher C. King, Partner, *MDD Forensic Accountants*

#### Introduction

The issue of apportionment in patent damage disputes continues to be a source of challenge to experts providing reasonable royalty calculations. This article will survey some recent rulings that courts have issued and draw some general takeaways and conclusions for attorneys and experts alike.

In theory, the calculation of reasonable royalty damages would seem to be a straightforward mathematical exercise:

$$\text{Royalty Base multiplied by Royalty Rate} = \text{Reasonable Royalty Damages}$$

However, as damages experts are acutely aware, applying this straightforward calculation to a specific fact pattern that deals with only one component or feature of a multi-component product can be particularly vexing.

<sup>1</sup> The opinions expressed in this article are those of the author and do not necessarily reflect those of the firm. This article is for general informational purposes only. All damage calculations should be performed in light of the specific facts and circumstances of the case at issue.

In evaluating the relative value that a patented invention provides to the overall product, experts generally consider the two quantitative factors from *Georgia Pacific Corp. v. U.S. Plywood Corp.*:

**Factor 12:** The portion of the *profit* or of the *selling price* that may be customary in the particular business or in comparable businesses to allow *for the use of the invention* or analogous inventions.

**Factor 13:** The portion of the realizable profit that *should be credited to the*

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## MESSAGE FROM THE PAST CHAIR



Welcome to the TIPS IP Law Committee Newsletter. Members of the IP Committee have put this newsletter together to reach out to you and provide you with information we hope you will find timely and important.

The ABA Annual Meeting was held in Chicago July 30 to August 2, 2015. The TIPS Section and the IP Law Committee were there in force. We held a business meeting and a dinner. In addition, we put on a stand-alone CLE entitled, “The Ostrich Syndrome: You Can’t Avoid Intellectual Property Issues in Today’s World.” It was a fast-paced and up-to-date seminar about topics that are important to companies now.

The IP Law Committee is designed to benefit members in the TIPS Section and, in general, the members of the Bar. We distinguish ourselves from the IP Section in that we believe we are more practical, litigation oriented, and useful to those who, perhaps, do not practice IP law exclusively and/or need IP information without wading through hundreds of pages of jargon and “inside baseball” IP material. This is not to say that articles are fluff or not rigorous, but simply they are to the point and practical, and useful to many people besides lawyers who practice IP law exclusively.

We would love to have you be a part of our Committee. It is easy to join our Committee and there are opportunities to immediately begin participating with our Committee. Unlike some portions of the ABA, we are very open to new members and can plug you into the Committee and our activities without a long waiting period. If you would like to know more about the Committee, please feel free to contact Andy Cao, the incoming Chair, at the information below. We look forward to seeing you at the next meeting in Scottsdale. ☺☺

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Sincerely,

[Joel Mohrman](#), Past Chair

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## KEY CONSIDERATIONS BEFORE LITIGATING IP

By: [Andy Cao](#)

The law continues to be challenged by technology in modern business. In patent law, methods, software, and interactive web sites challenge the notion of who is a patent infringer. Trade secret law continues to be an additional way of protecting intellectual property. Because of media portrayal of the trial system, presenting intellectual property cases at a jury trial requires distilling often amorphous concepts into tangible ideas for the jury. Media has also conditioned jurors to expect “smoking gun” proof, rather than the circumstantial evidence common in IP misappropriation.

### Industry Factors and Global Conditions Impacting IP Law

IP law affects all types of businesses and industries, from high tech computer companies to low tech sales operations. Any company with a valuable brand will be affected by, at a minimum, trademark law. And, any company with a website or a brand is going to be affected by trademark law and the law on cybersquatting, which involves usurping a domain name infringing on another’s trademark. A business built around a particular invention might want to obtain a patent from the US Patent and Trademark Office (USPTO). Even in sales, there may be protectable IP in a company’s financial data and client information. Such data is often a form of IP that companies often protect most vigilantly.

Global conditions are increasingly influencing IP litigation because so much business is now being done outside of the U.S. For example, while the U.S. remains General Motors’ biggest market, that market is mature. GM’s next biggest growth market may be China. GM often leverages its size and economies of scale by rebranding its products for different markets, which means exposing the same technology to other countries’ IP protection regimes. Therefore, even with IP protection in the U.S. it may be more important to obtain IP protection in the European Union, Asia, and elsewhere. Globalization of business is driving companies to be increasingly sophisticated with respect to their IP protection strategies on multiple fronts.

### Determining if an IP Case has Merit

There are two key elements to consider when determining whether an IP case has merit. First, determine if the case involves a valid and existing patent, trademark, or copyright. In the trade secret context, consider whether the information is actually secret and valuable. Sometimes, important information is not protectable IP. Without protectable IP, there is no IP misappropriation.

Second, consider the alleged misappropriation. Determining whether a patent or trademark has been infringed upon can be relatively easy. You simply need to consider whether there has been an infringement with respect to what the client has registered with the USPTO.

Proving that there has been infringement with respect to a trade secret might be a bit more difficult, because even if you consider the information in your Rolodex to be a trade secret, it is possible that someone else might have the same phone numbers in their Rolodex, but they developed that list of contacts independently. Or worse yet, the Rolodex is simply the published trade directory. Consequently, you need to ask the client some basic questions with respect to the IP they say they own, and the violations they feel have been committed.

### Damages Considerations

Even if the client owns a valid form of IP and even if there has been infringement, consider whether litigation would be worthwhile. At the end of the day, your goal in IP litigation is to stop infringement and collect damages. If you cannot prove your damages by showing you are using your IP to generate income, showing you are losing income or value due to infringement, or showing your cost to develop the IP, then any lawsuit might simply be Pyrrhic exercise.

Ultimately, the client must determine, upon good advice, whether it is worthwhile to pursue IP litigation. A good start to that analysis is to put a price on the IP. You can usually measure the income that can be generated by the client’s IP based on what their sales income would have been without that property. Another way of measuring the value of the client’s IP is by looking at what sales the potential infringer has generated with their infringing product. In other

words, if the other party infringed your patent and sold 1,000 units of a certain product, the profits from those 1,000 units could be your damages. Still yet another measurement is through the cost to develop the IP. The infringer might not have incurred those costs in copying your IP, thereby enjoying a “free ride” at the IP owner’s expense.

Evaluating damages with respect to trade secrets tends to be more difficult—largely because the client and the other party will have some sensitivity in connection with opening their respective books to measure alleged damages. Determining damages with respect to trademarks can be even more challenging, because it is difficult to know if the sales of your product were affected by brand confusion. For instance, if Pepsi stole sales from Coca Cola, it is probably not because anyone was confused about whether they were buying Pepsi instead of Coca Cola. But, if you are selling a fake Louis Vuitton purse, some people are likely to be confused and think that it is authentic. Sales of that fake purse could be considered infringement damages.

### **Understanding Your Client’s Business and Managing Expectations**

One of the most important things to know about a client’s business is how reliant that business is on certain IP. For example, if the client’s business has only one product, and that product relies on patent protection, then a patent infringement case could be a life or death matter for that company. But, if the company sells many other products, it may be possible to explore a non-litigated solution to the dispute. In any case, you need to know what the client’s situation is to determine the appropriate litigation strategy.

You also need to know how sensitive your client is about disclosing information. If you pursue IP litigation, at some point you are going to have to tell the other side some information that you would rather not disclose. Often the other side is a market competitor. Ultimately, you are going to have to disclose your sales information, or tell them exactly what your trade secret is. Clients may be uncomfortable with this aspect of IP litigation. Therefore, assess their attitudes in that area ahead of time, and start laying the groundwork for what they can expect to happen—i.e., “If we file this lawsuit, it is going to involve us telling your competitor some things we would rather not tell them, but we have to do so in order to prove our case.”

### **Essential Components of an IP Litigation Strategy**

Again, it is important to assess very early on whether the client’s IP case has merit. In addition, you need to assess where you want to end up before you get on the road to litigation. For example, do you want to impose an injunction or collect damages? Do you want to drive the other party out of business, or have them pay you royalties?

Be vigilant about protecting sensitive client information. Protective orders are common to protect the client’s documents from disclosure and public filing. Keep in mind that you are sending information about your client’s profits and damages to their competitor—the entity that can hurt them the most if they misuse that information. Therefore, ensure that there is protection for the client’s confidential information so it does not get posted on the Internet or used by the other side to help them advance their business.

As previously noted, when a case involves registered IP such as patents and trademarks, you are going into litigation with the presumption that your client’s IP is valid. Therefore, you might not need to spend a lot of resources proving that you have a registered patent or trademark (though you may spend resources defending against allegations of invalidity). Trade secrets enjoy no such presumption. First and foremost, before you start talking about what the other side has done, you have to prove that your client has a protectable trade secret. Simply put, whereas in the patent and trademark context the other side has the burden of proving that you do not have a valid patent or trademark, in the trade secret context the plaintiff has the burden of proving that it has a trade secret. Also, trade secrets are, by definition, secret. Consequently, there is always some tension between the client wanting to have its day in court and not wanting to put its information in the public record. If the client’s trade secret information winds up in a court transcript or filing, it might not be secret any longer.

### **Researching Your Litigation Strategy**

Different parts of an IP litigation strategy employ different resources. For example, when investigating the merits of a case where the client is suing someone, find out if the other party has sufficient resources. If you win and you cannot collect damages, then you will have wasted your time and money in litigation.

Various online sources can help you determine a company’s asset situation. For example, if the other

party is a public company, you may be able to find out that information in their Securities and Exchange Commission (SEC) filings. Basically, you need to know whether your opponent has assets on which you can collect. Conversely, if you represent a defendant, you need to get some idea of whether the party suing you has assets to finance the litigation.

Conduct research on the major players in the opposing company. SEC filings and the company's website can tell you who the company's executives and big players are. News and press releases often identify a company's president and chief financial officer. Basically, utilize a combination of formal and informal resources in order to aggregate information for whatever part of the litigation you are currently dealing with.

While financial and company information is often obtained through public filings, if you are doing research on damages, an economics expert is routinely used because they will be able to tell you whether the allegedly infringing products that are being sold are profitable and if the royalties or damages that your client wants to collect can be attributed to infringement. Having access to an expert on the technology which is at issue is also very useful, as such an expert will be able to educate you, the judge, and the jury on the underlying technology in the client's case and why it is unique—information which is important to understand, at least on a rudimentary basis, going forward. You should also make use of written resources, which can be found in libraries or on the Internet.

In patent and trademark cases, much of the evidence is going to come from the defendant with respect to what the infringing products are, and how many of those products have been sold. In trade secret cases, the evidence largely involves what the trade secret consists of; whereas in patent and trademark cases you might not need produce that information in litigation because it is already on file. But, in all types of IP cases, financial evidence is critical because it determines how the client values their IP and how much the other side has used, profited from, or sold the IP for. It also determines the size of the case. A \$1,000 case cannot justify a half-million dollars of litigation.

### Alternatives to IP Litigation

The alternatives to litigation are not unique to the IP context. For example, mediation is a popular form of alternate dispute resolution (ADR) in IP matters. In other cases, the parties can work out their issues without

an intermediary by negotiating the payment of royalties or reaching some kind of settlement. Basically, if you are familiar with ADR tools outside of the IP context you will be familiar with them inside the IP context. ADR can also keep sensitive information out of the public court records and news feeds.

One ADR tool unique to IP cases arises in the context of cybersquatting. If someone is using a website named in such a way that it infringes on one of your trademarks, you can either sue the other party or you can file a protest with the Internet Corporation for Assigned Names and Numbers (ICANN), an entity that governs the distribution of website names. Simply put, you file your protest and supply the documentation that ICANN needs, and within about sixty to ninety days ICANN will decide whether the website in question is infringing on your trademark. If you win your protest you have the choice of having the website shut down or turned over to you. Therefore, there is a way of resolving domain name disputes without litigation.

In patent litigation, there is the prospect of inter partes review, where the patent's validity is challenged before the USPTO. And, as the NFL franchise from Washington D.C. learned, trademarks can be challenged.

### Producing Compelling Evidence

We live in an age where jurors tend to form their opinions with respect to case evidence based on what they have seen on television shows such as *CSI*. Jurors are always looking for “smoking gun”-type evidence because media tells them it should exist. They expect the equivalent of DNA test results in every case—i.e., hidden camera video evidence showing boxes of trade secrets being stolen, or an email saying, “I do not care if we copy it—let's just go ahead and do the same type of thing.”

Therefore, one major challenge is that the expectations set by the media with respect to evidence are very different for what can realistically be generated or produced during litigation. In a case where you are dealing with a software or method patent there may not be a “smoking gun.” There are an infinite number of ways to program software, and you will not be able to present to the jury what looks like programming code that has been directly copied over. Consequently, you need to do as much as possible to correctly manage the jury's expectations and present your evidence in a way that appeals to today's audience—perhaps through the use of graphics or some type of visual presentation, as

that is what a jury tends to expect these days. In much the same way as schoolchildren looking forward to movie day, jurors expect a multimedia presentation to break up the lawyer-talking tedium of trial. They want videos of depositions, multimedia presentations with high production values, demonstrative aids, and if the trial lends itself to it, “toys.” Bringing a physical

object for the jury to examine and manipulate engages the jurors’ tactile sense and increases participation and interest. When introducing an object exhibit for the jury to consider, care should be used as to the timing. Because tangible objects are so engaging for jurors, they can distract from witnesses testimony if the attorney does not use care in directing the juror’s attention. ⚖️

## SURVEYING THE RECENT...

*Continued from page 1*

**invention** as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

[Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116 \(S.D.N.Y. 1970\).](#)

These factors, while relatively straightforward in theory, can be particularly difficult to quantify in today’s world of highly complex and technologically sophisticated products.

With these issues in mind let’s take a look at several recent rulings that deal with the issue of apportionment. In our look into these rulings, the author assumes that the reader has a basic familiarity with the following concepts:

- Entire Market Value Rule (EMVR)
- Smallest Salable Patent Practicing Unit (SSPPU)
- General Rule of Apportionment

### Rulings

[Intelligent Verification Sys., LLC, v. Microsoft Corp., No. 2:12-cv-525, 2015 WL 1518099 \(E.D. Va. Mar. 24, 2015\)](#)

**Nature of Challenge:** Motion to exclude testimony related to apportionment of royalty base.

**Issue:** Was further apportionment necessary beyond determination of the “Smallest Salable Patent Practicing Unit” (SSPPU)?

**Discussion:** Both parties acknowledged that the patented feature at issue in this matter did not drive demand for the accused products and therefore did not qualify for the Entire Market Value Rule (EMVR)

exception and therefore the royalty base must be apportioned.

The plaintiff argued in this case that further apportionment beyond identifying the necessary hardware components (SSPPU) was not required, and that “further apportionment beyond removal of the ‘non-infringing components’ from the accused products was not necessary.”

The court did not agree with this contention and in fact cited the plain language of *VirnetX, Inc. v. Cisco Sys., Inc.*:

“Where the smallest unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature . . . the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology. To hold otherwise would permit the entire market value exception to swallow the rule of apportionment.”

[Intelligent Verification Sys., LLC v. Microsoft Corp., 2:12-CV-525, 2015 WL 1518099, at \\*7 \(E.D. Va. Mar. 31, 2015\), quoting VirnetX, Inc. v. Cisco Sys., Inc., 767 F.3d 1308 \(Fed. Cir. 2014\).](#)

The court found that the expert improperly apportioned the royalty base by failing to apportion the value of the patented feature beyond his identification of the SSPPU.

**Takeaways:** Damages analyses may need to go beyond the mere identification of the SSPPU. Consideration should be given to what portion of the SSPPU is attributable to the value of the patented technology when the SSPPU is itself a multi-component product.

Experts cannot appeal to lack of disclosed information as a basis for failure to apportion the value



of the patented technology.

[\*Atlas IP, LLC, vs. Medtronic, Inc., No. 13-CIV-23309, 2014 WL 5741870 \(S.D. Fla. Oct. 6, 2014\)\*](#)

**Nature of Challenge:** Motion to exclude expert's opinions

**Issue:** Flawed Apportionment Methodology

**Discussion:** An expert asserted that 70% of the profits from the infringing products were attributable to use of the patented invention. The court concluded that there was no substantive analysis of how the expert determined the 70% figure.

The court cited *LaserDynamics, Inc.*, to explain:

“The patentee . . . must in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features, and such evidence must be reliable and tangible, and not conjectural or speculative.”

[\*Atlas IP, LLC v. Medtronic, Inc., 13-CIV-23309, 2014 WL 5741870, at \\*4 \(S.D. Fla. Oct. 6, 2014\)\*](#) quoting [\*LaserDynamics, Inc. v. Quanta Computer, Inc., 694 F.3d 51, 67 \(Fed. Cir. 2012\)\*](#).

The court acknowledged that assessing damages in the hypothetical negotiation context “involves an element of approximation and uncertainty,” this does not give the expert an excuse to use arbitrary speculative figures in an analysis.

The court did not elaborate on what it would have considered as evidence supporting apportionment, but merely cited reasons for the expert's failure to properly apportion the damages.

**Takeaways:** Burden of proof resides with the patentee to put forward a reliable and tangible analysis based on evidence. The methodological approach must not be “conjectural and speculative.” Experts must avoid opinions that are conclusory in nature and omit the substantive analysis that would underpin the calculation of the royalty base.

[\*Phillipi-Hagenbuch, Inc. v. Western Tech. Servs. Int., Inc., No. 12-1099, 2015 WL 1598085 \(C.D. Ill. Apr. 8, 2015\)\*](#)

**Nature of Challenge:** *Daubert* motion to exclude reasonable royalty opinions for failure to apportion.

**Issue:** The defendants argued that a reasonable royalty damages base cannot be calculated using the market value of the entire product.

**Discussion:** The opinion in this matter is rather brief but is instructive in gaining insight into the court's rationale for whether to admit an expert's opinions. In this case, the court ruled against the defendant and allowed the opinions of the expert. The decision was based on the fact that the patented inventions were the embodiment of the entire product. In other words there is no SSPPU that can be separated or apportioned out for purposes of performing the calculation. Apportionment would be necessary if the patented process formed a part of a larger, multi-component product that combined both patented and non-patented features.

**Takeaways:** This case underscores the need for experts to clearly understand how the patented invention or process relates to the end products that are offered for sale to customers and what evidence can be utilized to support the royalty base used in the calculation.

[\*Helios Software, LLC, v. Awareness Technologies, Inc., No. 11-1259-LPS \(D. Del. Mar. 31, 2015\)\*](#)

**Nature of Challenge:** *Daubert* motion to preclude the plaintiffs' damages expert

**Issue:** Failure to satisfy EMVR / Used unapportioned revenues as royalty base

**Discussion:** The question before the court was whether to allow the opinions of the plaintiffs' expert because the royalty base was the entire revenue from the SSPPU. The defendants countered that even the smallest salable unit was comprised of both patented and unpatented features and therefore the general rule requiring apportionment applies to even the smallest salable unit. The only exception to this general rule would be to provide evidence satisfying that the entire market value of the accused product is properly and legally attributable to the patented feature.

The court stated, “To satisfy the entire market value rule, the expert needed to provide ‘a higher degree of proof,’ that ‘the presence of [the patented] functionality is what motivates consumers to buy the [accused product] in the first place.’” [\*Helios Software, LLC v. SpectorSoft Corp., CV 12-081-LPS, 2014 WL 4796111, at \\*5 \(D. Del. Sept. 18, 2014\)\*](#), on reconsideration in part, [\*CV 12-81-LPS, 2015 WL 3622399 \(D. Del. June 5, 2015\)\*](#).

The court ruled that it must exclude the testimony of the damages expert in light of the fact that he did not

satisfy the apportionment requirement or the EMVR.

**Takeaways:** Even after proper consideration is given to identifying the SSPPU, it is incumbent upon experts to apportion this even further if the SSPPU is itself a multi-component product embodying both patented and unpatented features. In this case the only exception to this would be to provide evidence that the patented invention satisfies the EMVR relative to the SSPPU.

[\*Good Technology Corp., v. MobileIron, Inc., No. 5:12-cv-05826-PSG, 2015 WL 4090431 \(N.D. Cal. July 5, 2015\)\*](#)

**Nature of Challenge:** Motion to Exclude Testimony

**Issue:** Failure to sufficiently apportion the royalty base

**Discussion:** The court citing [\*VirnetX, Inc. v. Cisco Sys., Inc.\*](#), and [\*LaserDynamics\*](#), ruled that the expert failed to sufficiently apportion the products used in the royalty base value and because he did not exclude unpatented functionalities. While it appears that the expert did make an effort to identify the SSPPU and utilized this SSPPU as the royalty base, the court found that further apportionment was indeed necessary.

This comment from the court was particularly revealing:

“To the extent there was ever a question, Federal Circuit has made clear several essential elements of a sound patent damages methodology that are ignored in a variety of (expert’s) royalty scenarios.”

[\*Good Tech. Corp. v. Mobileiron, Inc., 5:12-CV-05826-PSG, 2015 WL 4090431, at \\*5 \(N.D.Cal. July 5, 2015\)\*](#).

**Takeaways:** Further apportionment may be necessary even after identification of the SSPPU.

## Conclusion

While this article touched on a sampling of recent challenges to experts’ opinions, the following general recommendations can be put forward:

- 1) Apportionment theories should be taken into consideration as early as practicable in the case.
- 2) Know your audience, review relevant decisions by the court and presiding judge.
- 3) Consideration should be given to whether the EMVR is satisfied.

- 4) If EMVR is not satisfied, what is the SSPPU?
- 5) Should the SSPPU be apportioned further to account for other non-patented features / components or does the SSPPU satisfy the EMVR?
- 6) Is there a tangible / reliable method that underpins the apportionment methodology, or does it rely on forbidden rules of thumb, arbitrary percentages, or mere conclusory statements offered by a damages expert?
- 7) An expert’s years of experience and number of cases worked is not a substitute for a quantitative analysis underpinned by sufficient reliable data.
- 8) The “essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.” [\*Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1226 \(Fed. Cir. 2014\)\*](#).

The Northern District of California provided perhaps the best synopsis of the current view of the courts:

“From all the chatter about the Federal Circuit’s guidance in recent years on the entire market value rule, you’d think the court had unveiled a completely new framework for assessing patent damages from products with both infringing and non-infringing features. While providing much appreciated clarification, a careful inspection of [\*Lucent\*](#), [\*LaserDynamics\*](#), [\*VirnetX\*](#) and the rest shows the basic methodological rule for expert analysis remains the same: *calculate the value of those features that infringe, and cut out the value of the rest*. The Supreme Court essentially said the same thing in *Garreston* in 1884. But as this case illustrates, this longstanding patent damages principle continues to be ignored in too many patent cases.”

[\*Good Tech. Corp., 2015 WL 4090431, at \\*1\*](#).

Perhaps it is not so much that these principles are being ignored, but rather in many cases the framework and principles are exceedingly difficult to apply with the amount of available evidence. ⚠

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