CRA Insights: Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation. In this issue we look at two rulings involving damages apportionment methodologies.

Apple Inc. v. Wi-LAN Inc. Case No. 14-cv-02235 (BLM)

On September 30, 2019, US District Judge Dana Sabraw in the Southern District of California issued an order granting in part and denying in part Apple's motion to exclude the testimony of Wi-LAN's experts which relates to Wi-LAN's damages apportionment methodology.

Background

In June 2014, Apple filed a complaint seeking a declaratory judgment of noninfringement, invalidity, and unenforceability of five Wi-LAN patents, including US Patent Nos. 8,457,145 (the '145 Patent) and 8,537,757 (the '757 Patent), both of which relate to voice over LTE (VoLTE) wireless communication technology used in certain iPhone models. In October 2014, Wi-LAN filed a counterclaim alleging that certain iPhone and iPad products were infringing the five at-issue Wi-LAN patents. By the time of trial in July 2018, the '145 Patent and the '757 Patent were the only at-issue patents. On August 1, 2018, the jury returned a verdict finding that Apple infringed both at-issue patents and awarded Wi-LAN $145.1 million in damages.

On October 26, 2018, Apple filed a post-verdict motion seeking judgment as a matter of law on several issues including seeking a new trial on damages or, as an alternative to a new trial on damages, a conditional order of remittitur to a $10 million damages award. According to the Court, the primary point of contention on the damages issue was the method of apportionment. Apple apportioned by using the smallest salable patent practicing unit (SSPPU), while Wi-LAN used a "direct valuation" approach which it described as a methodology for "building" the value of the invention "from the ground up."

Wi-LAN's "direct valuation" apportionment approach was based on the testimony of three experts. Wi-LAN's first technical expert analyzed the benefits of the patented technologies which relate to voice quality and upload/download speeds. The first expert quantified those technical benefits by comparing the accused products with the next-best noninfringing alternatives. However, according to the Court, the first expert's starting point for this analysis was VoLTE rather than the patented technologies.

Wi-LAN's second technical expert took the "benefits" opinions of the first expert and assigned each of those purported benefits a monetary value through the use of a "willingness to pay" survey. Through that survey, the second expert determined the value of VoLTE technology was in the range of $69-$121, the value of increased upload speed was between $1.90 and $3.65, and the value of increased download speed was between $2.44 and $4.02.

Wi-LAN's damages expert then took the "benefits" opinions of the first expert and the valuation opinions of the second expert to arrive at a reasonable royalty figure of $145.1 million. This figure was based on a royalty rate of 85 cents per iPhone unit, multiplied by the 170.7 million accused iPhones sold during the damages period. In determining his royalty rate, the damages expert relied on the low end of the second expert's valuation for the upload and download speeds ($1.90 and $2.44, respectively), and applied a 1% profit-sharing percentage to the upper-end valuation of VoLTE ($121) for a per unit value of $1.22. The damages expert used these valuations to argue the reasonableness of his 85 cents per unit royalty rate. When asked why he did not use the SSPPU as his royalty base, Wi-LAN's damages expert indicated that he was not required to because Wi-LAN's technical experts had directly valued the patented technology. The damages expert also relied on Wi-LAN's license agreements as further support for the reasonableness of his ultimate damages figure. Additionally, Wi-LAN's damages expert conducted an infrastructure analysis in which he calculated Apple's costs to improve the cellular phone infrastructure as an alternative to Apple entering into a license with Wi-LAN for the asserted patents. Wi-LAN's damages expert admitted that changes to infrastructure would not improve voice quality but stated that Apple could obtain the other benefits of the at-issue patents through infrastructure improvements. Wi-LAN's damages expert first calculated a total cost for those improvements, and then divided that total cost by the total number of accused units. Wi-LAN's damages expert then used the per unit infrastructure cost to support the reasonableness of his 85-cent royalty rate.

New trial on damages

On January 3, 2019, the Court ruled that because Wi-LAN's first expert's opinions regarding the "benefits" of the patented technology were attributable to the VoLTE standard rather than the patented technology, and the other two experts relied on the first expert's opinions, all of Wi-LAN's experts' opinions should have been excluded. The Court therefore granted Apple's motion for a conditional order of remittitur to a $10 million damages award and, in the event that Wi-LAN chose not to accept the remittitur, the Court granted Apple's motion for a new trial on damages.

Wi-LAN declined to accept the remittitur and the Court set the case for retrial on the issue of damages. Following the exchange of supplemental reports, both parties filed motions to exclude the testimony of the opposing party's experts. According to the Court, Wi-LAN's experts used the same methodology they used for the first trial. Wi-LAN's first expert again attempted to isolate the benefits of the asserted claims of the patents, although with certain modifications. Wi-LAN's second expert recalculated consumers' willingness to pay for those modified benefits using the survey data from the first trial and Wi-LAN's damages expert again applied a profit-sharing percentage to those total numbers to arrive at a value for the infringing features. However, Wi-LAN's damages expert did not apply a 1% profit-sharing percentage, but rather applied four factors to arrive at a different profit-sharing percentage, and a different value for the voice quality feature. Wi-LAN's damages expert also again performed an infrastructure analysis and an analysis of Wi-LAN's license agreements involving a Wi-LAN Rate Sheet and four Wi-LAN licenses. Based on these modifications, Wi-LAN's damages expert again opined that Wi-LAN is entitled to damages of approximately $145 million.

Ruling on motion

In its ruling on Apple's motion, the Court determined that the analysis of the benefits of the asserted claims related to upload/download speeds was unreliable because the products tested by Wi-LAN's first expert did not practice those claims. With respect to the asserted voice quality claims, the Court determined that Wi-LAN's benefits methodology was not reliable because: 1) Wi-LAN could not identify another case in which the same methodology was used; 2) the first expert's opinion about the benefits of the voice quality claims was based on a report that tested Samsung phones, not the accused products; and 3) the first expert's own tests of the voice quality features of the accused products were not conducted pursuant to any scientific method.

The Court also determined that the infrastructure analysis performed by Wi-LAN's damages expert was unreliable because it was not apportioned to the value of the inventions and was speculative and unscientific.

Finally, with respect to Wi-LAN's damages expert's analysis of Wi-LAN's licensing history, the Court determined that Wi-LAN's Rate Sheets and one of its licenses were inadmissible. Regarding the remaining three Wi-LAN licenses, the Court stated that Wi-LAN's damages expert "failed to account for the fact that these licenses were to Wi-LAN's entire patent portfolio, not just the patents, or four claims, at issue in this case. Clearly, this is a distinction that needs to be accounted for. However, the Court cannot say [Wi-LAN's damages expert's] failure to do so renders his opinions on these licenses inadmissible. As stated above, the focus of the Daubert inquiry is on the methodology, not the expert's conclusions or opinions. The issues surrounding the [remaining Wi-LAN] licenses are more properly the subject of cross-examination rather than a basis for excluding [Wi-LAN's damages expert's] opinions. Accordingly, the Court denies Apple's motion to exclude this aspect of [Wi-LAN's damages expert's] testimony."

Mondis Technology LTD v. LG Electronics, Inc. et. al. **Case No. 15-cv-4431 (SRC)**

On September 24, 2019, US District Judge Stanley Chesler of the District of New Jersey vacated a $45 million compensatory damages award on the basis that Mondis failed to apportion its damages estimate to reflect only the value of the technology covered by the patent-in-suit.

Background

Mondis accused LG Electronics, Inc. (LG) of manufacturing televisions that infringe US Patent No. 7,475,180 (the '180 Patent). Following the trial and $45 million compensatory damages award, LG filed a motion for judgment as a matter of law seeking a new trial and/or remittitur regarding damages. LG argued:

1. Mondis's damages theory violates the apportionment requirement;
2. Mondis's threshold theory violates Federal Circuit law; and
3. Mondis's use of a damages multiplier (or "uncertainty discount") is legally improper.

The '180 patent is a part of a group of patents developed by Hitachi and transferred to Mondis (the DDC patents). The DDC patents are comprised of two patent families: one family that consists of eight patents (including the '180 patent) that relate to DDC/2 and DDC/2B electronics technology and another family that relates to DDC/CI electronics technology.

Mondis's damages expert's theory was based on previous licenses for the DDC/2, DDC/2B, and DDC/CI technology. Mondis's previous licenses contained a lower pre-litigation royalty rate and a higher post-litigation rate. The damages expert for Mondis described the lower pre-litigation royalty rates as containing an "uncertainty discount" that reflected the uncertainty of patent validity and infringement. The post-litigation royalty rate (0.75%) was three times higher than the pre-litigation royalty rate (0.25%). Mondis's damages expert concluded that the hypothetical negotiation for a license to the '180 patent would have resulted in the parties agreeing to the larger, post-litigation royalty rate of 0.75% of sales since the patent would be assumed valid and infringed by both parties at the hypothetical negotiation (described by LG as a "damages multiplier").

The entire market value of the 19 million infringing televisions was about $10 billion, which the parties did not dispute. Thus, Mondis asked for a reasonable royalty of about $75 million ($10 billion * 0.75%)

Apportionment requirement

Regarding the apportionment requirement, Mondis argued that no additional apportionment of the starting point royalty rate of 0.25% (the pre-litigation rate) was required because the royalty rate is based on comparable licenses which "already built-in apportionment," citing the Federal Circuit case Commonwealth Sci. & Indus. Research Organisation v. Cisco Sys., 809 F.3d 1295, 1303 (Fed. Cir. 2015) (CSIRO).

However, the Court pointed out that in CSIRO, the royalty rate negotiations between the parties that were used as the basis for the hypothetical negotiation were centered on a license to the patent-in-suit in that case and only the patent-in-suit. He went on to state that "[c]rucially, in the instant case, Mondis has not argued that any of the previous licenses on which it based its damages case were limited to the incremental value of the '180 patent." Rather, the previous licenses were structured to have a scope limited to a particular technology (and not particular patents). Thus, the Court opined that "[n]one of these licenses can be said to have apportionment built in. None of these licenses reflects the value attributable to the features of the product which infringe claims 14 and 15 of the '180 patent, and no more."

Threshold theory

Mondis's threshold theory is that its previous licenses were threshold licenses which "involve[] a single rate for access to the technology of the patent family being licensed, regardless of the number of patents, and regardless of how many of them block." LG argued that Mondis failed to satisfy the Federal Circuit requirement that parties account for "distinguishing facts" between prior licenses and the hypothetical negotiation "when invoking [prior licenses] to value the patented invention."

The Court agreed with LG, stating that "a license which is designed so that the underlying patents have no incremental value cannot at the same time be evidence of 'the incremental value that the patented invention adds to the end product'… [t]he problem is not that these licenses are simply too different from the subject matter of the hypothetical negotiation, but that Mondis did not account for or adjust for the differences so as to satisfy the apportionment requirement."

The Court also opined that "Mondis did not attempt to disentangle the incremental value added by the '180 patent to the finished product from the value of the DDC standard captured in the prior licenses."

Uncertainty discount

Regarding Mondis's use of an uncertainty discount, or damages multiplier, LG argued Mondis's damages expert's opinion that the 0.25% royalty rate would be multiplied by three to reflect the lack of "uncertainty discount" is legally improper and not supported by substantial evidence. The Court disagreed, opining that it was proper for the jury to consider application of an "uncertainty discount" because LG's damages expert conceded the point. The Court also pointed to the Federal Circuit's recognition that such adjustments to patent value can be proper.

The Court considered whether or not the evidence supports an upward adjustment to the royalty rate of the magnitude awarded by the jury. A $10 billion royalty base multiplied by a 0.25% royalty rate equals damages of $25 million. The parties agreed that the jury likely performed this calculation, then applied a $20 million, or 80%, upward adjustment to arrive at the damages award of $45 million ($20 million / $25 million = 80%). The Court concluded that the evidence does support an 80% upward adjustment.

Finally, the Court ordered the parties to brief the Court on the issue of whether or not Mondis waived its right to a damages award on the basis that it "deliberately abandon[ed] valid theories of recovery in a singular pursuit of an ultimately invalid damages theory," citing Promega Corp. v. Life Techs. Corp., 875 F.3d 651, 666 (Fed. Cir. 2017).

About the editors

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