



# 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.

## Recent developments in IP damages

### ***Ericsson, Inc., et al. v. D-Link Systems, Inc., et al. 2013-1625, -1631, -1632, -1633 (CAFC)***

On December 4, 2014, the Court of Appeals for the Federal Circuit (CAFC) issued a ruling in *Ericsson, Inc., et al. v. D-Link Systems, Inc., et al.*, vacating the jury's damages award against D-Link and remanding the case for further proceedings.

The case involves three of Ericsson's patents generally related to Wi-Fi technology employed by electronic devices for accessing the Internet. Ericsson alleged that all of the patents at issue were essential to the Wi-Fi standard, which would mean that all Wi-Fi-capable devices infringe Ericsson's patents. At trial, the jury found D-Link infringed the asserted claims of the three patents and awarded roughly \$10 million in damages, approximately 15 cents per infringing device. After post-trial motions, the District Court upheld the jury's infringement and validity findings and refused to grant a new trial based on (1) an alleged violation of the "entire market value rule" (EMVR), and/or (2) allegedly deficient jury instructions regarding the standard-setting context and Ericsson's "reasonable and non-discriminatory" (RAND) licensing obligations derived from that context.

In its appeal, D-Link argued that the District Court prejudicially erred by not excluding the testimony of Ericsson's damages expert, which D-Link claimed violated the EMVR because it was based in part on licenses which were tied to the entire value of the licensed products, even though the technology being licensed related to only a component of those products. After providing discussion of the "governing legal rule" and "an important evidentiary principle" related to apportionment, the Court concluded that the District Court properly admitted evidence of the licenses. It noted "licenses are generally negotiated without consideration of the EMVR, and this was specifically true with respect to the Ericsson licenses relating to the technology at issue. Making real world, relevant licenses inadmissible on the grounds D-Link urges would often make it impossible for a patentee to resort to license-based evidence." It added "when licenses based on the value of a multi-component product are admitted, or even referenced in expert testimony, the court should give a cautionary instruction regarding the limited purposes for which such testimony is proffered if the accused infringer requests the instruction. The court should also ensure

that the instructions fully explain the need to apportion the ultimate royalty award to the incremental value of the patented feature from the overall product.”<sup>1</sup>

D-Link further argued that the District Court erred by failing to provide more detailed instructions related to the issues of patent holdup and royalty stacking, which arise from Ericsson’s commitment to grant licenses to its standard essential patents on RAND terms. On appeal, D-Link argued that enforcing RAND commitments is critical to preserving the benefits of standards and must be considered in any damages award. According to D-Link, the District Court reversibly erred by giving the jury instructions including the customary *Georgia-Pacific* factors because many are either not applicable, or may be misleading, in the RAND context. D-Link further argued that the District Court erred by refusing to instruct the jury to consider patent hold-up and royalty stacking.

The CAFC noted “[t]his is an issue of first impression for us. To our knowledge, only three other courts have considered the issue of appropriate RAND royalty rates—all district courts.”<sup>2</sup> After a detailed analysis, the Court concluded, “In sum, we hold that, in all cases, a district court must instruct the jury only on factors that are relevant to the specific case at issue. There is no *Georgia-Pacific*-like list of factors that district courts can parrot for every case involving RAND-encumbered patents. The court should instruct the jury on the actual RAND commitment at issue and must be cautious not to instruct the jury on any factors that are not relevant to the record developed at trial. We further hold that district courts must make clear to the jury that any royalty award must be based on the incremental value of the invention, not the value of the standard as a whole or any increased value the patented feature gains from its inclusion in the standard. We also conclude that, if an accused infringer wants an instruction on patent hold-up and royalty stacking, it must provide evidence on the record of patent hold-up and royalty stacking in relation to both the RAND commitment at issue and the specific technology referenced therein.” Accordingly, the CAFC found that the District Court committed legal error in its jury instruction by: (1) failing to instruct the jury adequately regarding Ericsson’s actual RAND commitment; (2) failing to instruct the jury that any royalty for the patented technology must be apportioned from the value of the standard as a whole; and (3) failing to instruct the jury that the RAND royalty rate must be based on the value of the invention, not any value added by the standardization of that invention, while instructing the jury to consider irrelevant *Georgia-Pacific* factors. It concluded that these errors collectively constituted prejudicial error, and thus vacated the jury’s damages award and remanded the case for further proceedings.

### ***SimpleAir, Inc. v. Google Inc., 2:11-CV-416-JRG (TXED)***

On December 10, 2014, Judge Rodney Gilstrap in the Eastern District of Texas issued a memorandum and order denying Google’s motion for judgment as a matter of law (JMOL) that the jury’s damages verdict be overturned. A jury had previously awarded SimpleAir \$85 million for infringement of US Patent No. 7,035,914, which was found to be valid and infringed by the operation of Google’s Cloud Messenger

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<sup>1</sup> D-Link also argued that the District Court prejudicially erred by allowing Ericsson’s counsel to compare the cost of the end product to the requested royalty at trial. According to D-Link, because Ericsson did not dispute that the asserted claims are practiced entirely by the Wi-Fi chips, not by other components of the accused end products, Ericsson should never have been allowed to base its damages award or its arguments at trial on the price of the end products. However, the Court found that any objection to counsel’s references to the cost of items incorporating the allegedly infringing chips was waived, and the Court saw no prejudice or injustice that would require it to address this issue for the first time on appeal, and therefore declined to do so.

<sup>2</sup> Citing *Realtek Semiconductor, Corp. v. LSI Corp.*, No. C-12-3451, 2014 WL 2738216, at \*5–6 (N.D. Cal. June 16, 2014); *In re Innovatio IP Ventures, LLC Patent Litig.*, No. 11 C 9308, 2013 WL 5593609 (N.D. Ill. Oct. 3, 2013); *Microsoft Corp. v. Motorola, Inc.*, No. C10-1823JLR, 2013 WL 2111217 (W.D. Wash. Apr. 25, 2013).

and Cloud to Device Messenger services. The jury's award fell between the \$6 million damages figure presented by Google's expert and the \$146 million figure presented by SimpleAir's expert. In its motion for JMOL, Google argued that SimpleAir failed to offer sufficient evidence to support the jury's award, and that SimpleAir's expert witnesses provided unreliable testimony, which should have been excluded or stricken under Federal Rule of Evidence 702.

The Court determined that the jury verdict was supported by SimpleAir's license agreements with Microsoft and Apple involving the '914 patent. Google argued that SimpleAir's expert relied upon these licenses, while ignoring other licenses that Google claimed are comparable, in order to inflate his damages opinion. The Court disagreed, explaining that "both parties' experts presented their opinions as to which agreements would have been germane to the hypothetical negotiation between the parties. Confronted with such competing testimony, the jury was free to consider the credibility of the witnesses, weigh the competing evidence, determine who had persuaded them, and then award damages accordingly." (citing *Powell v. Home Depot U.S.A., Inc.*, 663 F.3d 1221, 1241 (Fed. Cir. 2011); *Kinetic Concepts, Inc. v. Smith & Nephew, Inc.*, 688 F.3d 1342, 1362 (Fed. Cir. 2012); *VirnetX, Inc. v. Cisco Sys.*, 767 F.3d 1308, 1331 (Fed. Cir. 2014))

The Court also determined that the jury verdict was supported by the *Georgia-Pacific* analysis presented by SimpleAir's expert. Google argued that the jury's damages award of \$85 million was "so outrageously high... as to be unsupportable as an estimation of a reasonable royalty," and that the analysis presented by SimpleAir's expert failed in four additional respects: (1) it was unrelated to Google's actual infringement; (2) it was not based on the smallest saleable unit; (3) it failed to account for non-infringing alternatives; and, (4) it failed to show how the *Georgia-Pacific* factors impact the hypothetical negotiation. However, the Court found that each of Google's arguments lacked merit.

Google also argued that SimpleAir's damages calculations were "divorced of all relation to a potential non-infringing alternative," and therefore fail to provide a legally sufficient evidentiary basis for the jury's award. However, the Court found that to the extent Google's arguments represented "an attempt to cap damages at the cost of implementing its non-infringing alternative, that argument fails as a matter of law." In addition, the Court recognized that SimpleAir had presented evidence that the proposed alternative would not have been acceptable and that it would merely substitute its exposure under the '914 patent for exposure under another SimpleAir patent. The Court concluded "[d]etermining the weight to be given to proposed noninfringing alternatives is 'a task for the jury, and a reasonable jury could have chosen to give very little weight to this evidence.' After considering this evidence, the jury was entitled to choose a damages award within the amounts advocated by the opposing parties." (citing *Spectrallytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1346 (Fed. Cir. 2011))

### ***Power Integrations, Inc. v. Fairchild Semiconductor International, Inc., et al.*, 09-5235-MMC (CAND)**

On November 25, 2014, Judge Maxine Chesney in the Northern District of California issued an order granting a motion for reconsideration submitted by Fairchild and ordering a new trial on damages. The case was tried in March 2014, and the jury had awarded Power Integrations damages of \$105 million for infringement of two of its patents. Fairchild's original motion for JMOL, a new trial or remittitur on the jury's damages verdict was denied by the Court on September 9, 2014. Fairchild moved for reconsideration on October 10, 2014 in light of the decision by the CAFC in *VirnetX*.

Fairchild argued "[t]he law...requires patentees such as Power Integrations to 'apportion the royalty down to a reasonable estimate of the value of its claimed technology, or else establish that its patented

technology drove demand for the entire product,’ and that Power Integrations ‘steadfastly refused to satisfy this legal requirement at every turn of this case.’” (citing *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 68 (Fed. Cir. 2012)) It added “[t]he *VirnetX* decision leaves no question that apportionment is required for any reasonable royalty damages award.” The Court agreed, finding that Power Integrations’ expert was obligated to apportion the royalty solely to the patented features and that the expert expressly acknowledged his royalty calculation did not include such apportionment. It concluded that without the requisite apportionment, the jury lacked sufficient evidence on which to base its damages award, and, consequently, a new trial on the issue of damages was appropriate.

Fairchild also argued that the expert improperly used the Lerner Markup Rule without establishing the necessary premise as required by *VirnetX*. However, given its decision on the issue of apportionment, the Court did not address Fairchild’s argument pertaining to the expert’s use of the Lerner Markup Rule.

The Court is scheduled to conduct a status conference regarding the damages retrial proceedings in this case on January 26, 2015.

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