# 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

### ***Microsoft Corporation v. Motorola, Inc., et al. 14-35393 ($9^{th}$ Cir.)***

On July 30, 2015, the United States Court of Appeals for the $9^{th}$ Circuit ($9^{th}$ Circuit Court) issued an opinion affirming a judgment by Judge Robart in the Western District of Washington in favor of Microsoft Corporation in an action brought by Microsoft, alleging Motorola breached its obligation to offer reasonable and non-discriminatory (RAND) licenses to certain of its patents in good faith. (Click **here** for an earlier summary of the case.)

In April 2013, Judge Robart established the RAND royalty rates for Motorola's H.264 and 802.11 standard essential patent (SEP) portfolios following a bench trial. His methodology for determining the RAND royalty rates was detailed in a 207-page decision. A jury awarded Microsoft damages of $14.5 million for Motorola's breach of its contractual commitments, based in part on those RAND royalty rates. Motorola appealed the Court's judgment to the Court of Appeals for the Federal Circuit (CAFC). The CAFC granted a motion by Microsoft to transfer the appeal to the $9^{th}$ Circuit Court.

After finding that it had jurisdiction over the appeal, the $9^{th}$ Circuit Court rejected Motorola's two merits challenges to the RAND bench trial. Specifically, it rejected arguments that the District Court lacked the legal authority to decide the RAND rate issue in a bench trial, and that the RAND rate analysis was contrary to Federal Circuit precedent. As it relates to the RAND rates, the $9^{th}$ Circuit Court concluded that in light of the evidence, the District Court's RAND determination was not based on a legal error or an erroneous view of the facts. Motorola's central RAND rate argument was that Judge Robart's analysis failed to meet *Georgia-Pacific*'s factor fifteen criterion, as interpreted and applied by the Federal Circuit, and thus constituted an error. The $9^{th}$ Circuit Court acknowledged that, to an extent, the District Court took into account the present-day value of Motorola's patents to Microsoft. However, it concluded that there were several reasons this partial present-day focus did not render the District Court's RAND-rate determination invalid.

First, the $9^{th}$ Circuit Court cited CAFC precedent indicating that some of the *Georgia-Pacific* factors are not relevant in every case, and that factor fifteen merits modification in some RAND contract contexts. Second, the $9^{th}$ Circuit Court found that Motorola never specified the past date the District Court should have used. Third, the $9^{th}$ Circuit Court found that it would have been impracticable for the District Court to consider only evidence that could pinpoint the value of Motorola's patents to Microsoft at a precise point in time, as neither party presented data that was pinpointed to a specific past date. Finally, the 9th Circuit Court found that Motorola had not shown, nor had it even argued, that it was prejudiced by the District Court's analysis.

In addition to challenging the District Court's legal analysis, Motorola objected to the Court's factual conclusions that the rates charged by two patent pools were relevant indicators of the RAND rate for Motorola's patents and that Motorola's historical licenses were not relevant. The District Court regarded the VIA Licensing 802.11 pool as somewhat probative of the RAND rate and range for Motorola's 802.11 portfolio, and regarded the MPEG LA H.264 patent pool to be a reliable indicator of the RAND rate for Motorola's H.264 portfolio. In both instances, the District Court credited testimony from Motorola's experts that patent pools generally license at lower rates than might be achieved in a bilateral agreement, because a company receives value from pool membership that goes beyond royalty payments, principally, grant-back licenses and promotion of the standard. To account for those benefits, the Court multiplied the pool rates by three.

Motorola contended that a rate set by a pool arrangement is too different from the rate the parties might have agreed upon bilaterally to serve as an appropriate RAND-rate indicator, even if the pool rate is multiplied by three. However, the 9th Circuit Court found that the District Court used the pool rate just as one relevant data point in its overall analysis for the 802.11 patents, and that it provided a reasoned explanation for its conclusion that the H.264 pool was a reliable indicator of the royalty for Motorola's H.264 patents. Motorola also argued that the District Court should have considered, as probative of the RAND rate, several licensing agreements that granted rights to Motorola's H.264 and 802.11 patent portfolios and which included royalty rates close or equal to the 2.25% it offered Microsoft. However, the 9th Circuit Court found that the District Court provided reasonable explanations for giving the Motorola bilateral licenses little to no weight. The 9th Circuit Court concluded that "[i]n sum, in determining the RAND rate and range for each SEP portfolio, the district court engaged in a thoughtful and detailed analysis, giving careful consideration to the parties' briefing and evidentiary submissions, and to the testimony. Although Motorola criticizes the district court's approach, it provides no alternative other than strict adherence to the *Georgia-Pacific* factors, without accounting for the particulars of RAND agreements—a rigid approach disapproved of by the Federal Circuit in *Ericsson*. We conclude that the court's RAND determination was not based on a legal error or on a clearly erroneous view of the facts in light of the evidence." (citing *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1230-31 (Fed. Cir. 2014) and *Teva Pharm. USA, Inc. v. Sandoz, Inc.*, 135 S. Ct. 831, 841 (2015)).

Motorola also appealed Judge Robart's judgment as a matter of law that a reasonable jury could find breach of good faith duty arising from either Motorola's opening offers or its pursuit of injunctive relief, and thus could also find that these combined actions amounted to a breach. However, the 9th Circuit Court found that Microsoft offered significant evidence upon which the jury could apply this standard and infer that the injunctive actions violated Motorola's good faith and fair dealing obligations. Specifically, the District Court identified the testimony of five different experts from which the jury could conclude that Motorola's actions were intended to pressure Microsoft into accepting a higher RAND rate than was objectively merited, and thereby to frustrate the purpose of the contract. The 9th Circuit Court noted that the evidence, "discretely and taken as a whole, is susceptible to contrary interpretations as well. But it was for the jurors to assess witness credibility, weigh the evidence, and make reasonable inferences. The record provides a substantial basis on which the jury could have based a verdict favoring Microsoft." (citing *United States v. Sanchez-Lima*, 161 F.3d 545, 548 (9th Cir. 1998) and *MCH Fin. Ltd. P'ship v. City of San Rafael*, 714 F.3d 1118, 1131–32 (9th Cir. 2013)).

Motorola also argued that the damages sought for attorneys' fees and litigation costs incurred in defending certain injunctive actions were precluded by the *Noerr-Pennington* doctrine and Washington law. However, the 9th Circuit Court found that the *Noerr-Pennington* doctrine does not immunize Motorola from liability for breach of its contractual RAND obligations. It further found that Washington courts would allow the damages award to include attorneys' fees and costs expended to defend against actions to enforce a RAND-encumbered patent where those actions violate the duty of good faith and fair dealing.

The 9th Circuit Court concluded that "[w]ith the parties' consent, the district court conducted a lengthy, thorough bench trial on the RAND rate and range. The court analyzed that evidence in its exhaustive findings of fact and conclusions of law, in a manner consistent with the Federal Circuit's recent approach to establishing damages in the RAND context. The court's factual findings were properly admitted at the jury trial. The jury's verdict was supported by substantial evidence, and its damages award was proper."

### *Smartflash LLC, et al. v. Apple Inc., et al., 6:13-cv-00447-JRG (TXED)*

On July 7, 2015, Judge Gilstrap in the Eastern District of Texas entered an order granting Apple's request for a new trial on damages. In February 2015, a jury awarded Smartflash $532.9 million for Apple's infringement of three patents generally related to digital rights management, data storage, and access management. The jury also found the infringement was willful. Smartflash sought $852 million in reasonable royalty damages based on Apple's sales of iPhones, iPads, and Mac computers that were used to access iTunes. Apple argued that damages should amount to no more than $4.5 million. (Click **here** for an earlier summary of the case.)

During the trial, and at Apple's request, the Court instructed the jury on the entire market value rule (EMVR). Smartflash argued that it did not employ the EMVR at trial. In a post-trial hearing, Apple argued that if in fact Smartflash's expert did not employ the EMVR, then there was no basis for the Court's EMVR instruction. The Court agreed, finding that a new trial on damages is necessary in light of the instruction the Court provided to the jury.

The Court reasoned that if the jury defined the entire market as only the sales of certain Apple devices, it then subtracted from the royalty base a portion of the total value of these sales based on the answer to particular consumer survey questions. Thus, Smartflash's royalty base encompassed less than 100% of the total revenue generated by the sales of the accused products. Accordingly, the Court found that Smartflash's damages model apportioned the royalty base and rate calculations, and that "the confusion created by the jury instruction regarding EMVR noted above warrants a new trial on damages in this case."

The Court indicated that it had "separate and material concerns" about the ultimate combination of royalty base and royalty rate that Smartflash used during trial to identify the value attributable to the infringing features of the accused products, and that in light of these concerns, it anticipated that Smartflash would present a different model in the new trial. Jury selection for the new trial is currently scheduled for September 14, 2015.

### *Good Technology Corporation, et al. v. MobileIron, Inc., 5:12-cv-05826-PSG (CAND)*

On July 5, 2015, Judge Grewal in the Northern District of California issued an order excluding certain portions of the testimony by the damages expert for Good Technology Corporation (Good) related to reasonable royalties. The Court previously granted MobileIron's motion for summary judgment of no lost profits damages.

Good's expert calculated reasonable royalty damages under four scenarios. For each scenario, the number of licenses for product bundles that included the accused functionality was multiplied by a percentage of MobileIron's weighted profit margin. The percentages of MobileIron's weighted profit margin applied in each scenario were 100% in the first scenario, 30% in the second scenario, 18.75% in the third scenario, and 5.625% in the fourth scenario (i.e., 18.75% of 30%).

The Court excluded the expert's testimony regarding the first, second, and fourth royalty scenarios. First, the Court found that in the expert's first royalty scenario, he did not sufficiently apportion the royalty base. The Court noted, "[t]o be fair, even though [the expert's] deposition testimony suggests otherwise, [the expert's] analysis does focus on Advanced Management rather than the broader bundles in which it is sold, and Good offers evidence that no smaller unit is available for purchase. But the Federal Circuit requires that [the expert] further apportion to exclude from the Advanced Management products the value of unpatented functionalities. This he plainly fails to do."

As to the second and fourth scenarios, the Court found that the 30% figure was derived from an inappropriate application of the Nash bargaining solution. According to the Court, the expert "counts up the ten Gartner inclusion criteria, assigns equal value to each one, and uses the resulting 30 percent to apportion MobileIron's profits. [The expert] does no investigation into whether any of the criteria is more important than others, or how strongly each criterion is tied to the patents. This is insufficient."

Regarding the third scenario, the Court found that this royalty method avoids the fatal errors of the first two by apportioning the average sales price of Advanced Management to estimate a reasonable royalty for the app store contained within. While MobileIron argued that the expert failed to appropriately apportion, mirroring his first method, the Court found that the expert did consider only the feature of the product alleged to infringe the disputed patent. Thus, the Court noted, "[h]is analysis on this discreet issue passes muster."

On August 4, 2015, a jury found that none of the patents at issue were infringed, and that the asserted claims of two of the Good's patents were invalid as obvious.

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