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

Sabatino Bianco, M.D. v. Globus Medical, Inc., 2:12-cv-00147-WCB (TXED)

On July 1, 2014, United States Circuit Judge William C. Bryson issued an order awarding Dr. Sabatino Bianco an ongoing royalty of five percent of sales of Globus's products that incorporated certain trade secrets developed by Dr. Bianco for a maximum period of 15 years from the date the trade secrets were first disclosed. A jury previously rejected Dr. Bianco's request for disgorgement of Globus's profits on devices that embodied the misappropriated trade secrets, but awarded him damages at a rate of five percent of net sales, totaling $4.3 million. In post-trial motions, Dr. Bianco requested a permanent injunction, but after analyzing the evidence at trial and at an evidentiary hearing, and reviewing post-hearing briefs submitted by the parties, the Court instead granted Dr. Bianco an ongoing royalty. This is thought to be the first trade secret case under Texas law in which ongoing royalties were awarded in lieu of an injunction.

The Court reasoned that although this case involves trade secret misappropriation rather than patent infringement, the two torts are sufficiently analogous that the Federal Circuit's decision in *Paice LLC v. Toyota Motor Corp.* (as supplemented by Federal Circuit cases and cases that have applied *Paice* in this district), provides an appropriate starting point for this Court to decide whether to grant an ongoing royalty and what that amount should be. Globus argued because this case is a trade secret case, the *Paice* decision and its progeny do not apply. However, according to the Court, "The Fifth Circuit has noted that it is generally accepted that the proper measure of damages in cases of trade secret misappropriation is determined by reference to the analogous line of cases involving patent infringement."

The Court recognized there are differences between Texas trade secret law and patent law that require distinctions to be drawn between the method to be used in calculating an ongoing royalty in patent cases and the method to be used in trade secret cases. The Court concluded that based on the jury's award for past damages, Dr. Bianco was entitled to a royalty of five percent of the future net sales of the products at issue, or products not colorably different from those products.

Emblaze Ltd. v. Apple Inc., 5:11-cv-01079-PSG (CAND)

On June 25, 2014, Judge Grewal in the Northern District of California issued an order allowing Emblaze's damages expert to testify about her reasonable royalty damages opinions at trial. Based on the income approach and a *Georgia-Pacific* analysis, the expert concluded the facts of the case supported a $2.00

per unit royalty for hardware and a one percent royalty for software and application revenue. Apple raised three challenges to the expert's damages testimony.

First, Apple argued the expert used an inadmissible base consisting of Apple's unapportioned, additional gross margin following Apple's introduction of the allegedly patented feature. According to Apple, such a base violated the entire market value rule (EMVR) because this unapportioned margin is not focused on the smallest saleable patent-practicing unit. However, the Court found Apple's argument "puzzling," because "[t]o the extent [the expert] relie[d] upon the incremental gross margin, she [did] so in her estimate of the hypothetical royalty rate, not the base."

Second, Apple claimed the expert used an inadmissible unit base of every unit sold, arguing no Apple units directly infringe. However, the Court found that a royalty base limited to units deemed to directly infringe would make little sense in cases like this one, where indirect infringement is alleged and the bulk of the alleged direct infringement is performed by third parties.

Third, Apple argued the expert used no discernable or reliable methodology in determining her royalty rate, focusing on the "incomparable licenses or litigation demands" the expert relied on in her rate calculation. The Court, however, explained its task was not to determine whether the other licenses and demands are comparable, but to simply determine whether the expert had identified a sufficient nexus between the licenses and demands to the hypothetical license at issue. Accordingly, the Court determined the expert could not rely on the patentee's demands in *Apple v. Samsung* or the Apple-Motorola license disclosed in the *Apple v. Motorola* litigation, as the expert's report did not establish that those data points were technically and economically similar to the facts of the case at hand.

Apple also challenged the expert's reliance on certain publically available standards-essential technology licenses because Apple had produced its own licenses to that technology. However, the Court determined "The Federal Circuit…has approved the use of 'publicly available information' and also held that the 'existence of other facts' or data that could also have been relied upon does not make the evidence selected irrelevant. Even if data are 'imperfect, and more (or different) data might have resulted in a 'better' or more 'accurate' estimate in the absolute sense, it is not the district court's role under *Daubert* to evaluate the correctness of facts underlying an expert's testimony. Questions about what facts are most relevant or reliable to calculating a reasonable royalty are for the jury.' In addition, to the extent [the expert's] resulting estimates are imprecise, any reasonable royalty analysis 'necessarily involves an element of approximation and uncertainty.'" Accordingly, the Court declined to exclude the expert's testimony related to these licenses.

Apple also argued the expert performed "no specific math" in her rate estimate. On this point, the Court explained that in contrast to the expert testimony recently rejected by Judge Koh in *GPNE v. Corp. v. Apple, Inc.*, Emblaze's expert's analysis did not "fundamentally reduce to taking [her] opinion based on [] years of experience for granted," and thus declined to exclude the expert's testimony.

Golden Bridge Technology v. Apple Inc., 5:12-cv-04882-PSG (CAND)

On June 1, 2014, Judge Grewal in the Northern District of California issued an order to exclude in its entirety the testimony of Golden Bridge Technology's (GBT) damages expert. In May 2014, Judge Grewal excluded the opinions expressed in GBT's expert's original report, but allowed the expert to tender a new report. In the June 1st order, the judge also excluded the new expert report, finding that "Apple would suffer undue prejudice if GBT were to offer a new damage expert with yet a third theory," and concluded the expert would not be permitted to testify in the upcoming trial.

The patent-in-suit relates to a patent deemed by GBT to be essential to the "3GPP" or "WCDMA" standard. In his original report, the expert opined that Apple would have agreed to a fair, reasonable and non-discriminatory (FRAND) royalty of between 0.05% and 0.07% of the sales price of each and every infringing iPhone 4, 4S, and 5 and iPad 2nd generation, without any cap or upper limit on total royalties owed, totaling between $38.7 million and $54.1 million. The Court, however, found the expert's base and rate methodology violated the standards of Rules 702 and 703 and *Daubert*.

The Court concluded the expert did not apportion the royalty base to reflect the value of the patent-related feature in the absence of the non-infringing features, and "[t]ry as it might, the court cannot square this no-base-apportionment, no-demand-analysis methodology with *Lucent's* central holding." GBT argued the expert relied on industry practice in using the unit price of each accused product as a base for an uncapped royalty. However, "although the court [] carefully studied the record looking for any hard evidence of such a practice or custom, it could find none." GBT also argued the iPhone and iPad represented the smallest saleable unit available for consideration. However, the Court determined that, given GBT's position that the entire infringing functionality lies in the baseband processor and not the accused product as a whole, using the iPhone and iPad as the royalty base was inconsistent with the Court of Appeals for the Federal Circuit's (CAFC) findings in *LaserDynamics*.

The Court also found the expert made three errors which rendered the reasonable royalty rate analysis unreliable. First, the Court determined the expert erred in his use of portfolio licenses secured in settlement of various GBT patent infringement cases which did not involve the patent-in-suit, but rather other various patents. Given the absence of any hard evidence that those licenses were comparable to the proposed license in this case, the Court noted "their incorporation flies in the face of the Federal Circuit's explicit teaching that parties may not rely on licenses that have 'no relationship to the claimed invention' or are not 'commensurate with' the accused products." Second, the expert erred in relying on a maximum, cumulative royalty rate for WCDMA patents. The expert relied on papers which attempt to predict what such a rate would be. The Court determined there was no evidence that any party ever agreed to such a rate. Third, the Court found the expert erred in assuming the value of the patent-in-suit was no different than the value of each of the other WCDMA standard-essential patents considered, noting "[i]f anything, the case law is clear that mere patent counting and dividing is not enough."

In his second expert report, the expert abandoned his earlier theory that the parties would have agreed to an uncapped percentage of the sales price of each and every iPhone 4, 4S, and 5 and iPad 2nd generation, instead advocating a per-unit royalty of $0.0869, based in large part on his analysis of portfolio licenses Apple signed with Ericsson and Nokia. In the June 1st order, the Court concluded "[the expert's] new report reflects a genuine effort to improve upon the problems identified with the original version. [The expert] has abandoned his 'entire market value' theory and looked to Apple's real-world licenses to substantiate his new, per-unit calculation. Unfortunately, a new but flawed methodology is no better than an old and flawed methodology."

The Court agreed with Apple's contention that "[the expert] improperly and *sub silencio* allocated the entire value of Apple's portfolio licenses with Ericsson and Nokia to a tiny subset of a subset of a subset of a subset of the patents and standards in those portfolios" and that this flaw was fatal to the expert's testimony. The Court explained the expert's calculation was fundamentally unsound as it relied on broad license that covered technologies far beyond the patents-in-suit without accounting for the differences in his calculation, contrary to established Federal Circuit law. Accordingly, the Court concluded the expert would not be permitted to testify in the upcoming trial, but that GBT was free to offer evidence of its damages from fact witnesses.

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