Courtroom developments and their impact on patent monetisation

When the value of a patent is tied to the ability to enforce it, what happens in the courtroom affects negotiations in the boardroom. Three trends in US litigation continue to have a key impact on monetisation and licensing

By **Ronald J Schutz, Christopher K Larus** and **Patrick M Arenz**, Robins, Kaplan, Miller & Ciresi LLP

Introduction

Patent law, like the technology underlying it, continues to change at ever-increasing speed. Recent developments in the US courts, particularly at Federal Circuit level, have had a substantial impact on the monetisation of patents. Three developments are especially relevant:

- The courts have increased their scrutiny over damage claims, requiring patent holders to demonstrate the incremental value of a claimed invention over available alternatives.
- The courts are wrestling with an increasingly common defence strategy which seeks to articulate reasonable royalty damages in terms of a paid-in-full, lump-sum royalty, thus avoiding claims for future royalties.
- Recent changes regarding venue selection for patent cases have made the International Trade Commission (ITC) an increasingly attractive forum for resolving disputes. However, patent holders should understand that this forum is available only for certain types of dispute.

Those involved in patent monetisation, licensing and valuation must be aware of these developments, as the value of a patent is tied to the ability to enforce it against infringers. Put simply, what happens in the courtroom affects negotiations in the boardroom.

Increased scrutiny of damages analyses

Since at least 2009 the Federal Circuit, led by current Chief Judge Randall R Rader, has issued a series of decisions that reflect increased scrutiny of damage claims in patent cases. These decisions, including *Lucent v Microsoft*, *Cornell v HP* and *Uniloc v Microsoft*, have stressed the need for patent holders that seek an award based on a reasonable royalty to apportion the value of their claimed invention and "carefully tie proof of damages to the claimed invention's footprint in the marketplace". As a result, proving damages in a patent case is often as technical as proving infringement.

The most critical threshold task in proving damages is to provide a clear identification and articulation of the claimed invention. Although this sounds simple, it is not. Parties have traditionally viewed it as a straightforward matter of determining whether the claims cover an accused product and whether prior art covers the claims. However, in seeking to prove (or disprove) damages in a patent case, they must now have a more robust and detailed understanding of the incremental value of a claimed invention, including the availability (or unavailability) of acceptable non-infringing options; only then can the parties properly value the claimed invention by comparison with the next best alternative.

One practical implication of this development is that the claim construction process has become critical to analysing damages. Claim construction has always been a

focus of disputes over infringement and validity, but parties involved in patent disputes or valuation must now carefully consider the effect of claim construction on damages. Having traditionally focused their construction of claim terms on a specific accused product or process, the parties in dispute must also take account of the consequences of the construction of disputed claim terms for the scope of potentially acceptable non-infringing alternatives. In most cases, patent holders will seek constructions that both avoid prior art and cover as many alternatives as possible, whereas accused infringers generally seek constructions that place non-infringing alternatives outside the defined patent scope. Those involved in negotiating licences or valuing patents outside the scope of litigation should bear in mind that greater uncertainty over claim construction will lead to greater uncertainty over potential damages.

Another practical implication of the increased scrutiny of damages analyses is that proving damages in court requires a more synergistic approach among damages and technical experts. For example, a technical expert may need to opine on non-infringing alternatives, their availability and feasibility and the cost of implementing them. A damages expert may subsequently rely on the technical expert's conclusion to apportion the value of the claimed invention from the accused product, ultimately arriving at a proposal for a reasonable royalty. Given this interplay between experts, a successful challenge to underlying technical opinions may lead to the exclusion of important testimony on damages. As a result, the increased scrutiny of damages claims can raise numerous risks for the inexperienced or unwary.

This trend has substantially altered the way in which parties prove damage claims. For example, although consumer surveys have long been a critical form of evidence in antitrust, trademark and false advertising litigation, they were seldom used in the context of patents. However, in recent years, parties seeking to demonstrate a claimed invention's 'footprint in the marketplace' have often turned to surveys. A well-crafted consumer survey can provide powerful evidence in relation to patent damages, including:

- The extent to which a patented feature is used by consumers.
- Consumer demand for a claimed invention.
- The extent to which consumers would pay extra for a given patented feature.

Again, the use of such evidence carries numerous risks for the inexperienced. Most fundamentally, a valid and reliable survey requires a clear and accurate understanding of the scope of the claimed invention. Surveys that are not clearly linked to this scope may yield data that is not helpful – or even admissible – in seeking to prove patent damages.

The new trends in the scrutiny of damages present those involved in patent litigation with a changing landscape. Patent holders and accused infringers alike must be familiar with evolving standards and strategies to ensure that they can effectively present their positions in the courtroom. However, the changes in the courtroom are equally relevant to the licensing and valuation of patents in a non-litigation setting. Above all, this changing landscape requires a detailed and accurate understanding of the claimed invention and its incremental value in the marketplace.

Form of damages awards and effect on future infringement

The US Supreme Court fundamentally changed the patent monetisation landscape with its 2006 decision in *eBay v MercExchange*. The court overruled longstanding Federal Circuit precedent and held that injunctions are not automatic remedies for victorious patent holders. In the years immediately following *eBay*, in the absence of an injunction, trial courts generally identified a reasonable royalty rate that would apply to any future infringement. In so doing, courts have enhanced damages to account for the willfulness of the future infringement and in order to compensate the patent holder for losing its right to exclude the infringer from practising its invention. In general, the royalty for post-judgment infringement is higher than a reasonable royalty for past damages.

However, in recent years alleged infringers have often pursued a radically different approach to damage awards: a paid-in-full, lump-sum award. They generally argue that

such an award moots the issue of future damages because it effectively grants a licence to the infringer to cover all future use. Patent holders tend to oppose such relief on the grounds that it denies their right to exclude others from practising their invention – a fundamental right of any patent grant. So far, the Federal Circuit and Supreme Court have not decided whether damage awards based on a paid-in-full, lump-sum amount can result in a going-forward licence to an infringer, but some district courts have accepted this argument. As a result, accused infringers have come to rely increasingly on this form of patent damages.

The trend has a profound impact both on patent cases and on negotiations outside litigation. In the litigation context, paid-in-full, lump-sum awards generally reduce the value of patents for two reasons. First, the award covers the full life of the patent and applies to all future unreleased products – as such, it is likely to extend benefits to the accused infringer that are unrelated to the latter's actual use of the invention. Second, the award at trial is based on the standard of a hypothetical 'willing licensor-licensee'. This standard may not take into account the wilful nature of an infringer's future infringement, unlike an ongoing royalty award.

In addition, the trend has practical implications for those involved in licensing and patent valuation outside litigation. As the Federal Circuit's recent decision in *ResQNet v Lansa* demonstrates, courts assessing damages are likely to place substantial weight on actual licences that cover the patented invention. Licences granted or offered to third parties in a paid-in-full, lump-sum form may weigh in favour of a lump-sum award in litigation. Similarly, offers to sell patents for a lump sum may be viewed as supporting the claim – for the purposes of the hypothetical negotiation at trial – that the patent holder would have agreed to such a lump sum. These possibilities are particularly relevant now because courts have increased the discovery, and perhaps the admissibility, of licences and their underlying negotiation. Thus, even if a patent holder does not reach an agreement, past negotiations to sell or license patents for a lump sum may be used to its disadvantage at trial against the same or different infringer.

Presumably, the Federal Circuit or the Supreme Court will soon resolve the legal dispute over paid-in-full, lump-sum awards. Until then, patent holders must consider any effects that negotiations over patent licensing or sale may have on future litigation – whether against the licensee or a different party – and should consult trial counsel as necessary.

Federal Circuit – shaking up patent holders' preferred venues

The location of patent enforcement efforts often has a substantial impact on the monetisation of patents. Before 2009, if alleged infringement took place on a national scale, patent litigation generally took place in the venue selected by the patent holder. As long as an alleged infringer was subject to personal jurisdiction and sold an accused product in a given venue, the patent holder was free to choose a venue that favoured it. However, since 2009 the Federal Circuit and other circuit courts have issued decisions that reduce the weight given to a plaintiff's choice of venue. In addition, the US Supreme Court's decision in *MedImmune v Genentech* and later interpretive decisions by the Federal Circuit have lowered the bar for declaratory judgment jurisdiction in actions filed by alleged infringers.

One consequence of this venue restriction is that patent holders have substantially increased their efforts to obtain jurisdiction in the ITC. The ITC is attractive because it resolves cases comparatively quickly: it normally holds a trial within nine to 12 months of the complaint being filed and usually issues its final determination within 15 or 16 months of filing. In the event of a finding of infringement, it issues injunctive relief by excluding infringing products from entering the United States. Moreover, the ITC recently reiterated its view that exclusionary orders remain proper remedies even for standards-essential patents, which some district courts have viewed as ineligible for injunctive relief.

However, the ITC option is available to patent holders only upon a showing of a domestic industry. Traditionally, this criterion has often been satisfied by a patent holder demonstrating manufacturing activity of a product of its own that is covered by the asserted patents, but licensing the patents may

also qualify. Moreover, the Federal Circuit has concluded that in some circumstances, litigation expenses associated with licensing asserted patents may establish domestic industry. Consequently, non-practising entities have a greater chance at establishing jurisdiction in the ITC. To do so, they are likely to need an established licensing programme or objective, along with the ability to establish a nexus between such a programme and litigation expenses. In addition, the litigation expenses must be substantial – in one case, the Federal Circuit considered US$43,000 in litigation expenses associated with licensing to be a "close call".

Therefore, the ITC is an important consideration for any future patent dispute, particularly in light of the limitations that patent holders now face in terms of venue selection in district court cases. The ITC's fast schedule and the availability of injunctive relief both benefit patent holders by increasing pressure on infringers to resolve disputes on an efficient and timely basis. These considerations – in any forum – maximise patent value. Those involved in the licensing and valuation of patents outside the litigation context should consider whether this forum would be available for enforcement of a particular patent portfolio. This consideration will depend on:

- The nature of the patented technology – whether it is likely to be imported from sources outside the United States.
- The alleged infringers – whether they are likely to be located outside the United States.
- The patent holder – whether it will be able to establish the domestic industry requirement in respect of the patented invention.

Conclusion

The recent developments in patent law affect the overall value of patents. Now more than ever, it is imperative for entities to evaluate their patent portfolios – and their decisions to buy, sell or license additional patents – with trial counsel. Decisions about the value of patents are directly tied to the holders' options for enforcing the patents in US courts. Only through early and thorough analysis and preparation can parties maximise value in light of the current changes in the law. *iam*

ROBINS, KAPLAN, MILLER & CIRESI L.L.P.

Robins, Kaplan, Miller & Ciresi LLP
2800 LaSalle Plaza, 800 LaSalle Avenue,
Minneapolis MN 55402-2015, United States
Tel +1 612 349 8500
Fax +1 612 339 4181
Web www.rkmc.com

Ronald J Schutz
Chair of the national IP litigation group
rjschutz@rkmc.com

Ronald J Schutz is the chair of the national IP litigation group, regional managing partner of the New York office and a member of the executive board at the national law firm of Robins, Kaplan, Miller & Ciresi LLP. He is a fellow of the American College of Trial Lawyers. In 2008 the *National Law Journal* named him in its annual list of the "Top 10 Winning Litigators" in the United States.

Christopher K Larus
Chair of the Minneapolis IP litigation group
cklarus@rkmc.com

Christopher K Larus is the chair of the firm's Minneapolis IP litigation group. As a trial lawyer, he focuses on helping inventors, developers, authors and brand holders to maximise the value of their intellectual property. He works on complex patent, trademark, copyright and licensing cases on behalf of both plaintiffs and defendants in courts throughout the Unites States, and also has extensive experience as an arbitrator in both national and international arbitration.

Patrick M Arenz
Attorney
pmarenz@rkmc.com

Patrick M Arenz is an attorney in the firm's IP litigation group, where he focuses on patent litigation. Mr Arenz represents plaintiffs and defendants ranging from individual inventors to Fortune 100 companies across a vast range of technologies.