

Litigation: Entire Market Value Clarified

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The Federal Circuit recently injected some clarity into a key principle of patent damages known as the entire market value rule (EMVR).

The EMVR allows a winning patentee to collect damages based on sales of unpatented technology if it is sold with patented technology, such as a patented muffler in an otherwise un-patented car.

Applying EMVR, the market value of the entire car would be used as a starting point to calculate the appropriate value of the patented muffler.

The EMVR can also be used to establish the value of a patented product, like a razor, if it leads to sales of additional, unpatented follow-on products, like razorblades.

One caveat is that the EMVR does not apply unless the patented feature acts, to some extent, as the sales driver. Using the car example, if an accused infringer could prove that consumers bought the car because of its stylish appearance (rather than because of the infringing muffler) the EMVR would not apply.

The EMVR is feared by accused infringers because it has led juries to make higher damage awards despite the fact that the infringing article (eg, the muffler) was a low-value item. The EMVR can apply whether damages are based on lost profits or a reasonable royalty.

Critics (including some in Congress) have called for abolishing the EMVR. In their view, trial judges sometimes allow patent holders to bombard juries with hyperbolic expert opinions and evidence of massive revenue streams from accused sales,

leading jurors to incorrectly inflate the value of small patented features or components.

In *Lucent v Gateway*, a California jury found that defendant Microsoft was liable to patentee Lucent for \$358 million for Microsoft's infringement of Lucent's patent covering a "date picker" software feature, used in numerous applications, such as Microsoft Outlook's calendar, Microsoft Money and Windows Mobile.

Post-trial, Microsoft moved to vacate the damages award for insufficient evidence. The trial judge denied Microsoft's motion, allowing the award to stand.

However, on appeal, the Federal Circuit vacated the district judge's decision and remanded the case for a redetermination of damages, holding that the damages calculation "lacked sufficient evidentiary support".

Federal Circuit Chief Judge Paul Michel found that the EMVR was misapplied by the jury. Although the jury's verdict sheet did not indicate that the jurors had used the EMVR, the Federal Circuit reasoned that they had.

The Federal Circuit then concluded that use of EMVR was not supported by the evidence because:

- a) There was no direct evidence that anyone purchased Outlook, Money or Windows Mobile because of the date picker; and
- b) Lucent's expert had, after having been rebuffed in an attempt to use an inflated base to calculate the royalty, then used an inflated rate on a smaller base.

Judge Michel also held that there was no "apples-to-apples" royalty evidence. Although Lucent presented evidence in support of a running royalty (per unit sold), the jury found that Microsoft was liable for a lump-sum, paid-up royalty. Judge Michel held that since the risks to each party in a running royalty scheme are inherently different from those in an up-front deal, Lucent's evidence could not support a verdict based on a lump-sum royalty.

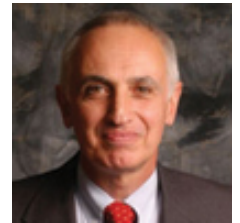
Judge Michel also provided some guidance for future cases:

Courts must . . . be cognizant of a fundamental relationship between the entire market value rule and the calculation of a running royalty damages award. Simply put, the base used in a running royalty calculation can always be the value of the entire commercial embodiment, as long as the magnitude of the rate is within an acceptable range (as determined by the evidence).

In the wake of the *Lucent* case, trial courts may be more willing to exclude expert opinions on damages that are not based on hard evidence. They will probably also be more sympathetic to challenges to outlandishly high royalty calculations.

Litigants – both patent holders and accused infringers – should take notice.

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