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PATENTS

The author suggests how *Apple v. Motorola* left open the possibility of a damages award of zero.

Getting to Zero—Proving a Patentee Is Entitled to No Infringement Damages After *Apple v. Motorola*



BY MATTHEW J. SILVEIRA

Much has been made of the U.S. Court of Appeals for the Federal Circuit's holdings in *Apple Inc. v. Motorola, Inc.*,¹ regarding the admissibility of expert damages testimony and the availability of injunctive relief for the infringement of standard essential patents. Another aspect of that decision has received less attention—the Federal Circuit's discussion of when, if ever, a patentee may be awarded no damages for patent infringement.

¹ No. 2012-1548, 2014 BL 115132, 110 U.S.P.Q.2d 1695 (Fed. Cir. Apr. 25, 2014) (88 PTCJ 12, 5/2/14).

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Although the Federal Circuit suggested that a finding of no damages will rarely be affirmed, particularly on summary judgment, it did not foreclose that result. Alleged infringers and patentees alike will need to address the court's reasoning when developing their damages theories to advocate for, or to avoid, an award of zero damages.

Section 284 of the Patent Act provides that upon a finding of patent infringement, "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty"² By the statute's terms, a reasonable royalty provides the floor for patent damages. But what if there is no evidence that would support the amount of a reasonable royalty? Although one may expect courts to hold a patentee to its burden to prove the amount of damages,³ the Federal Circuit had, prior to *Apple*, not conclusively addressed whether damages must be awarded in the face of a patentee's failure of proof.⁴

In *Apple*, the Federal Circuit emphasized that the reasonable royalty calculation is a heavily factual issue—even "if the record evidence does not fully support either party's royalty estimate, the fact finder must still determine what constitutes a reasonable royalty from the record evidence."⁵ The court noted it had never found that a record supported a zero royalty for infringement, while acknowledging that the Third Circuit

² 35 U.S.C. § 284.

³ See *Smithkline Diagnostics, Inc. v. Helena Labs. Corp.*, 926 F.2d 1161, 1164, 17 U.S.P.Q.2d 1922 (Fed. Cir. 1991).

⁴ See generally M. Gooding, *Patent Damages Mulligans? What Happens When the Patentee Fails to Sustain Its Burden of Proving a Reasonable Royalty?*, Bloomberg BNA's Patent Trademark & Copyright Journal (Mar. 9, 2012) (83 PTCJ 675, 3/9/12).

⁵ Slip op. at 64-65, 110 U.S.P.Q.2d at 1723.

had reached that conclusion in the pre-Federal Circuit era.⁶ The court also stressed that “if a patentee raises a factual issue regarding whether it is due any non-zero royalty, summary judgment must be denied.”⁷ Further, the court reaffirmed that the failure to submit expert evidence would not, on its own, support a finding of no reasonable royalty.⁸

Addressing the record before it as to the single Apple patent for which summary judgment did not hinge on the complete exclusion of expert damages testimony, the Federal Circuit closely analyzed the damages evidence that remained.⁹ Though the district court had excluded the Apple expert’s royalty theory based on the sales of a product the court found dissimilar, the expert had proposed an alternative royalty based upon the time it took another manufacturer (HTC) to design around the same patent.¹⁰ The district court did not exclude the proposed testimony concerning this alternative royalty.¹¹ Instead, the district court discredited the proposed testimony on the grounds that the testimony failed to sufficiently address differences between HTC and Motorola, and because the district court’s claim construction differed from the claim construction in the earlier case.¹² Because the district court’s objections to the expert’s testimony went to factual flaws in calculating the royalty base, rather than admissibility, the Federal Circuit concluded that there was sufficient evidence in the record to allow a jury to find some measure of damages, precluding summary judgment.¹³

Based on the Federal Circuit’s general tone and the result, some may attempt to cite *Apple* for the broad proposition that a finding of no damages is inconsistent with the Patent Act and should not be affirmed. But the Federal Circuit did not rule out the possibility of an award of no damages, and thus implicitly recognized that 35 U.S.C. § 284 does not discharge the patentee’s burdens of production and proof. Rather, the court recognized that there are at least two circumstances in which an award of zero damages may be appropriate.

First, “a record could demonstrate that, at the time of infringement, the defendant considered the patent valueless and the patentee would have accepted no payment for the defendant’s infringement.”¹⁴ The former half of this showing is straightforward enough—an alleged infringer could submit evidence establishing its genuine belief that the patent was valueless at the time of infringement, e.g., because it already had developed a design-around that would not require any switching costs.

But the Federal Circuit quickly pointed out the difficulty in making the latter half of this showing: “it seems unlikely that a willing licensor and willing licensee would agree to a zero royalty payment in a hypothetical negotiation, where both infringement and validity are

assumed.”¹⁵ Unless an alleged infringer can produce evidence that the patentee would have freely licensed a patent, it will likely be unable to reach a finding of zero damages with affirmative evidence.

Second, the Federal Circuit recognized that an award of zero damages could be appropriate in “a case completely lacking any evidence on which to base a damages award.”¹⁶ Although this standard undoubtedly would be met if neither party submitted any evidence of damages, expert or otherwise, a patentee’s complete failure to submit evidence seems unlikely. Footnote nine of the court’s opinion suggests the more likely scenario. If a patentee’s expert’s royalty “calculation was incorrect as a matter of law,” “pointing to flaws in [the expert]’s analysis could be enough to justify summary judgment.”¹⁷ In other words, while factual flaws in an expert opinion may not support summary judgment of zero damages, legal flaws going to the admissibility of that opinion may suffice.

Though the Federal Circuit noted that the absence of expert evidence alone will not support zero damages, it declined to address when, if ever, non-expert evidence would be sufficient to preclude summary judgment. For instance, admissible evidence of the royalty rate a patentee would have accepted at the time of the hypothetical negotiation would not necessarily create a disputed issue of fact unless there is admissible evidence of a royalty base to which that rate could be applied. Moreover, a court may conclude that the mere testimony of an inventor regarding the royalty rate she would have accepted at the time of infringement is inadmissible.¹⁸ Thus, the Federal Circuit’s decision does not foreclose an award of zero patent damages where the patentee submits non-expert evidence that fails to provide a jury with an adequate factual basis to establish a damages amount.

Apple’s reasoning necessarily is constrained by the specific facts and procedural posture of that case. Nonetheless, it provides valuable lessons for litigants. Where damages are based solely on expert testimony, alleged infringers may be able to point to flaws in the expert’s analysis showing that the expert’s calculations were incorrect as a matter of law.¹⁹

Moreover, Fed. R. Civ. P. 37(c)(1) remains a potent weapon where a patentee improperly discloses its damages evidence.²⁰ A record devoid of damages evidence due to the exclusion of expert testimony under Rule

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 68, 110 U.S.P.Q.2d at 1725 n.9.

¹⁸ Compare *AVM Techs., LLC v. Intel Corp.*, 927 F. Supp. 2d 139, 146, 2013 BL 47598 (D. Del. 2013) (inventor’s proposed “testimony as to what would have happened in a hypothetical negotiation” was inadmissible because not based on personal knowledge), with *Bowling v. Hasbro, Inc.*, 582 F. Supp. 2d 192, 203, 2008 BL 202342 (D.R.I. 2008) (concluding that patentee met its burden through testimony of inventor and two business executives).

¹⁹ Cf. *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311, 1313, 63 U.S.P.Q.2d 1819 (Fed. Cir. 2002) (64 PTCJ 350, 8/9/02) (vacating damages award premised on damages expert’s “legally incorrect” assumptions, but remanding where other record evidence could support a reasonable royalty).

²⁰ See, e.g., *Yeti by Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1105-07, 59 U.S.P.Q.2d 1833 (9th Cir. 2001) (affirming exclusion of damage expert’s testimony as a sanction for untimely disclosure).

⁶ *Id.* at 65-66, 110 U.S.P.Q.2d at 1723 n.7 (citing *Devex Corp. v. Gen. Motors Corp.*, 667 F.2d 347, 361, 212 U.S.P.Q. 643 (3d Cir. 1981)).

⁷ *Id.* at 66, 110 U.S.P.Q.2d at 1724 (emphasis added).

⁸ *Id.* at 68, 110 U.S.P.Q.2d at 1725.

⁹ *Id.* at 66, 110 U.S.P.Q.2d at 1724.

¹⁰ *Id.*; see also *Apple, Inc. v. Motorola, Inc.*, 869 F. Supp. 2d 901, 907-08, 2012 BL 157789, 104 U.S.P.Q.2d 1611 (N.D. Ill. 2012) (84 PTCJ 349, 6/29/12).

¹¹ *Apple*, slip op. at 66-67, 110 U.S.P.Q.2d at 1724.

¹² *Id.* at 67, 110 U.S.P.Q.2d at 1725.

¹³ *Id.* at 68, 110 U.S.P.Q.2d at 1725 & n.8.

¹⁴ *Apple*, slip op. at 65, 110 U.S.P.Q.2d at 1724.

37(c)(1) is no more susceptible to a reasonable royalty award than a record consisting solely of a legally invalid expert opinion. And, keeping in mind the Federal Circuit's admonition that expert evidence is not strictly required, accused infringers may still argue that a damages case should not be put to the jury without "either clear guidance from an expert about how to apply complex calculations or simple factual proofs about what [the] patentee has previously accepted in factually analogous licensing situations."²¹

Patentees, on the other hand, should of course strive to ensure that their expert's damages opinions are not legally flawed. However, they would also be wise to present some non-expert evidence to raise a triable issue of fact regarding damages in the event their expert testimony is excluded. Indeed, a patentee should begin laying that evidentiary record well before summary judgment, including by identifying damages witnesses (both their own and the accused infringer's), evidence and theories in initial disclosures and in response to damages interrogatories. In opposition to summary judgment, patentees would be well served to submit percipient witness declarations that attach relevant

²¹ *Unicom Monitoring, LLC v. Cencom, Inc.*, No. 06-1166 (MLC), 2013 BL 105034, *9 (D.N.J. April 19, 2013).

documents (e.g., contemporaneous evidence of the royalty rate the patentee would have agreed to accept and a reasonable explanation of the royalty base, evidence of analogous licenses entered by the patentee), particularly those that were properly disclosed during discovery. Patentees should not wait until expert discovery, let alone summary judgment, to begin developing their damages theories and proof.

In summary, the Federal Circuit has now spoken directly to whether a patentee is entitled to some measure of damages even if it fails to provide evidence to support the amount of a reasonable royalty.²² In the absence of proof, an award of zero damages is proper. The scope of that holding and the legal sufficiency of the proof relied upon, however, will be tested in the district courts in the years ahead. Getting to zero may be difficult, but asserting a failure to prove damages remains a viable defense tactic in patent litigation.

²² See Gooding, *supra* note 4. Notably, *Apple* does not answer all questions regarding "patent damages mulligans." Although the Federal Circuit left open a path for an award of zero damages, it did not address whether a patentee is entitled to submit a new expert damages analysis when its first analysis is stricken, or to supplement the record on remand if its initial showing does not pass muster on appeal.