The authors suggest that the district courts are misinterpreting the entire market value rule for assessing patent infringement damages, and they propose ways to restore the equilibrium.

The Pendulum Has Swung Too Far: 
**Recent Misuse of the Entire Market Value Rule to Limit Reasonable-Royalty Patent Damages**

BY JOSEPH R. RE, KAREN VOGEL WEIL, AND REZA MIRZAIEN

**Introduction**

Over the past decade, much of the nation’s patent reform debate has focused on the belief that many patent infringement jury awards have been excessive. Based on that belief, courts, Congress, and commentators have weighed in on the debate and offered various ways to mitigate the perceived risk of excessive damages awards in patent infringement actions.

For its part, the appellate court with national jurisdiction over patent cases, the U.S. Court of Appeals for the Federal Circuit, issued a series of decisions to allay the fears of Congress that large damages awards by juries were often left unchecked by the courts. Those decisions call for rigor in the presentation and analysis of claims for reasonable-royalty damages.

For example, in *Lucent Technologies Inc. v. Gateway Inc.*, the Federal Circuit applied two different principles in overturning a reasonable-royalty damages award of $358 million. First, the court held the patent owner Lucent did not satisfy the Entire Market Value Rule (“EMVR”). Under that long-standing rule, a patentee who seeks damages based on the entire market

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3 Under the patent statute, a patent holder is entitled to “damages adequate to compensate for the infringement but in no event less than a reasonable royalty . . . .” 35 U.S.C. § 284.

4 580 F.3d 1301, 92 USPQ2d 1555 (Fed. Cir. 2009) (78 PTCJ 583, 9/18/09).
value of an infringing product that includes unpatented components must prove that the patented component is the basis, or at least a substantial basis, for the customer demand for the product.

Second, the court held that Lucent improperly relied upon past license agreements to support its reasonable-royalty award because those past licenses were not sufficiently comparable to the hypothetically negotiated license.6 The Federal Circuit has applied these general principles in several decisions since Lucent.6

More recently, in Uniloc USA Inc. v. Microsoft Corp.,7 the Federal Circuit continued scrutinizing damages awards by overturning a $388 million award because it was improperly based on the “25 percent rule of thumb.” That rule suggests that the licensee pay a royalty rate equivalent to 25 percent of its expected profits for selling the infringing product.8

The court held the rule is “a fundamentally flawed tool for determining a baseline reasonable royalty rate,” and “because it fails to tie a reasonable royalty base to the facts of the case at issue,” any evidence relying on the rule is inadmissible.9

Tasked with applying the decisions of the Federal Circuit, district courts have faced challenges in determining when and how to apply the recent damages-related decisions of the Federal Circuit. This paper focuses on the confusion experienced by district courts with regard to the EMVR in the context of reasonable-royalty damages.10 This confusion has resulted in disparate uses and misinterpretations of the rule, which, in some cases, has improperly prevented any meaningful patent damages.

This is no doubt why the EMVR continues to be seen by many as “the most controversial rule in patent damages.”11

The pendulum on patent damages has swung too far in favor of patent infringers. The confusion and misuse of the EMVR is causing a dramatic reduction in patent infringement awards, which could deprive patent owners of full compensation for the harm they have suffered. That, in turn, decreases the value of patent rights generally, an effect that can lead to further negative consequences.

Ironically, the recent application of the EMVR has not always subjected reasonable-royalty damages claims to greater rigor. To the contrary, some recent rulings are causing patentees to present reasonable-royalty analyses that are often divorced from business realities or past licensing practices to fit within the narrow confines of the EMVR.

Moreover, because district courts often weigh evidence to preclude damages claims under the EMVR before trial commences, misuse of the EMVR has denied patentees’ right to have a jury decide certain facts underlying their damages claims.

This paper first provides a brief review of the history of the EMVR, and how the Federal Circuit has been applying it to create today’s patent-damages climate. This paper continues by showing how the district courts are misinterpreting that EMVR law and the consequences of such misinterpretation.

Finally, this paper proposes several fundamental rules of law that should govern how to determine an appropriate reasonable-royalty base in an attempt to restore the patent-damages equilibrium.

I. THE HISTORY OF THE EMVR

Precursors of the current EMVR date back to nineteenth century Supreme Court cases. Those cases decided claims for disgorgement of an infringer’s profits under a now-superseded damages statute in the Patent Act of 1870. Under that statute, patentees could recover the infringer’s profits as well as the patentee’s actual damages.12

To prevent a potential windfall of compensation, cases decided under the 1870 Act often involved an “accounting,” which focused on the difficult task of apportioning the infringer’s profits between the patented invention and any unpatented components of the infringer’s product.13 In 1884, the Supreme Court in Garretson v. Clark held that such an apportionment was mandatory under the Patent Act of 1870 in cases where the patent covered an improvement on an infringing machine rather than the entire infringing machine.14

Congress’s 1922 amendments to the 1870 Act preserved a patentee’s ability to seek an infringer’s profits as a measure of damages.15 However, the 1922 Act also provided patentees with an alternative measure of damages: a “reasonable sum,” or what is today known as a reasonable royalty.16

In 1942, in Marconi Wireless Telephone Co. v. United States, the United States Court of Claims applied the amended damages statute in reviewing a reasonable-royalty award. In doing so, the court recognized that the precursor to the EMVR applied in the early Supreme Court cases “relates more directly to an accounting based upon profits rather than the type of accounting

5 The most common way of determining a reasonable royalty is to use a hypothetical negotiation, which “attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began.” Lucent, 580 F.3d at 1324-25.


7 632 F.3d 1292, 98 USPQ2d 1203 (Fed. Cir. 2011) (81 PTCJ 275, 1/7/11)

8 Id. at 1312.

9 Id.

10 Courts have also applied the EMVR in the context of lost-profits damages, a subject that is beyond the scope of this paper.


14 111 U.S. 120, 121 (1884) (“the patentee . . . must in every case give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented features and the unpatented features . . . .”).

15 See Act of February 18, 1922, ch. 58, § 8, 42 Stat. 389, 392 (1912).

16 Id. (permitting courts to “adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement”).
which is based on reasonable royalty . . . ."17 The Marconi court explained:

in applying a reasonable royalty rule . . . the differential between the patented and unpatented features of the machine would be taken into account by scaling down the percentage of royalty accordingly. It would make no difference in the ultimate compensation to plaintiff if the reasonable royalty were fixed at 5 percent of the selling price of the complete machine rather than 20 percent of one quarter of the sales price of the machine.18

Thus, the Marconi court observed that apportionment inherently can be achieved in reasonable-royalty cases by a downward adjustment of the royalty rate to account for the value of the invention relative to the entire product as sold.19

Nevertheless, the Marconi court held that, in that case, there was no need to lower the rate or apportion the base as used by the trial commissioner because the patented antenna-circuit tuner was "of such paramount importance that it substantially created the value of the patented antenna-circuit tuner was "of such paramount importance that it substantially created the value of the patented product as sold."20

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In 1946, Congress again amended the damages section of the Patent Act and, in the process, significantly altered the form of compensation patentees could receive for infringement.21 Under the 1946 amendments, which are still in effect today in Section 284 of the Patent Act, Congress preserved a patentee's right to seek a reasonable royalty, but eliminated a patentee's right to seek the infringer's profits as a damages measure. As one court observed:

This legislative history [of the damages section of the 1946 amendment] is not entirely free of ambiguity. However, it is clear that Congress was dissatisfied with the existing law because the determination of the infringer's profits seemed necessary in virtually every case in which the patent owner sought a monetary award; and this resulted in long and costly hearings before masters and insoluble problems of apportionment.22

Accordingly, after the 1946 amendments, the disposal of an infringer's profits—the measure of compensation that required the apportionment applied by the early Supreme Court cases—was no longer available as a measure of patent infringement damages. And ironically, Congress took this action to eliminate the "insoluble problems of apportionment."

Relying on the early Supreme Court cases decided under the disgorgement remedy of the Patent Act of 1870, the Court of Claims adopted and applied the EMVR under the amended damages statute.23 In 1986, in TWM Manufacturing Co. v. Dura Corp., the Federal Circuit continued this approach in its first application of the EMVR to a reasonable-royalty case under Section 284.24 In that case, the court held that the patentee could rely upon the EMVR to obtain reasonable-royalty damages based on the value of an entire apparatus containing several unpatented features, when "the feature patented constitutes the basis for customer demand."25

The next major EMVR-related development occurred in 1995, when the Federal Circuit issued its en banc ruling in Rite-Hite Corp. v. Kelley Co.26 There, consistent with its prior decisions, the court ruled that patentees can recover damages based on the value of the accused product as sold, even though it includes unpatented components or features, "when the patent-related feature is the 'basis for customer demand.'"27

However, the court determined that the patentee in that case could not satisfy another requirement of the EMVR, namely that the patented and unpatented components be part of the same "functional unit."28 The court has reiterated the basis-for-demand test in numerous subsequent cases, including in its most recent en banc ruling in a patent case.29

II. THE FEDERAL CIRCUIT'S LUCENT AND UNILOC DECISIONS

The Federal Circuit has reiterated and elaborated on its prior articulation of the EMVR in two important recent cases.

In Lucent, the infringer appealed a jury award of $358 million in reasonable-royalty damages, which was


18 99 Ct. Cl. at 47.

19 Indeed, courts today consider the portion of the profit attributable to the invention, as distinguished from unpatented elements or improvements by the infringer, in determining the reasonable-royalty rate under Georgia-Pacific factor no. 13. Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1120, 166 USPQ 235 (S.D.N.Y. 1970).

20 99 Ct. Cl. at 52.

21 Act of Aug. 1, 1946, ch. 726, § 1, 60 Stat. 778 (1946) (codified in 1952 as 35 U.S.C. § 284 in substantially the same form). The amended version of Section 284 of the Patent Act allows patentees to seek a reasonable royalty as a minimum award for the infringement of his patent rights. See, e.g., Bandag Inc. v. Gerrard Tire Co., 704 F.2d 1578, 1583, 217 USPQ 977 (Fed. Cir. 1983) (holding that, under the current statute, a reasonable royalty is "the floor below which damages shall not fall").


25 66 F.3d 1538, 35 USPQ2d 1065 (Fed. Cir. 1995) (en banc).


27 At 1549 (quoting State Industries Inc. v. Mor-Flo Industries Inc., 883 F.2d 1573, 1580, 12 USPQ2d 1026 (Fed. Cir. 1989) and citing TWM Manufacturing Co. v. Dura Corp.). The court determined that the patentee could not show that the unpatented dock levelers worked with the patented vehicle restraint "to achieve one result." 56 F.3d at 1551.

based on the sale of Microsoft Outlook and related products. The sale of those products infringed patent claims on a date-picker method that was used, along with many unpatented features, in Microsoft Outlook.

In scrutinizing the damages award under the EMVR, the Lucent court quoted language from the early Supreme Court cases, like Garretson, which decided claims where patentees were seeking disgorgement of infringer profits. The court then acknowledged that “translating the [Supreme] Court’s early stylistic description” of the EMVR “into a precise, contemporary, economic paradigm presents a challenge.”

“Notwithstanding this obstacle,” the court held that the patentee could not base its reasonable-royalty award on the sales of Microsoft Outlook because it did not present evidence showing that the patented date-picker method was “the basis—or even a substantial basis—of the consumer demand for” Microsoft Outlook. However, the court also added that “[t]here is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature.”

Thus, like the Marconi court, the Lucent court acknowledged the inverse relationship between the royalty rate and the base to which the rate is applied. Therefore, as the Lucent court recognized, a downward adjustment of the royalty rate can also accomplish an apportionment of the royalty award to account for unpatented components in the infringing device.

More recently, the Federal Circuit in Uniloc again attempted to clarify the EMVR. In that case, the court overturned a jury award in the amount of $388 million—based on the sale of Microsoft Office and Word products—for the infringement of a patent claim on the product-activation feature of the infringing products. Citing Garretson, the court held that the patentee failed to satisfy the EMVR because it did not present evidence showing that the patented product-activation feature created the “basis for customer demand or substantially created the value of the component parts” of Microsoft Office and Windows.

In attempting to limit the above-quoted statement in Lucent, the Uniloc court also stated that “[t]he Supreme Court and this court’s precedents do not allow consideration of the entire market value of accused products for minor patent improvements simply by asserting a low enough royalty rate.”

Lucent and Uniloc were unique cases that involved extraordinarily large damages awards for infringement of patent claims covering minor features of infringing software programs that included many noninfringing features. Those decisions signaled to Congress and those pushing for extensive legislative patent reform that the courts would scrutinize large jury damages awards.

Unfortunately, that laudable goal came at a price. Accused infringers and district courts are now improperly relying on Lucent and Uniloc, and the early Supreme Court cases cited by both decisions, to limit damages in cases with much different factual circumstances.

III. MISUSE OF THE EMVR AFTER LUCENT AND UNILOC

In elaborating on the EMVR in the context of the facts presented, Lucent and Uniloc focused on what evidence would not satisfy the EMVR. Neither decision provided instructions as to the circumstances when a patentee should be required to satisfy the EMVR or how a patentee can satisfy the EMVR.

In the wake of Lucent and Uniloc, accused infringers are offensively using the EMVR with alarming frequency to challenge patent damages claims. Meanwhile, district courts are struggling to understand the proper contours of the EMVR and are applying widely varying interpretations of the rule.

In some cases, district court confusion has led to a misinterpretation and misuse of the rule that, if widely applied, would require patentees to meet seemingly insurmountable evidentiary standards in order to pursue meaningful damages in almost any case.

A. Courts Are Indiscriminately Requiring Patentees to Satisfy the EMVR

Several recent district courts have misinterpreted the precedent regarding the EMVR to suggest that the rule should be used in nearly every case to limit a patentee’s damages. More specifically, these courts have required patentees to satisfy the EMVR in order to base their reasonable-royalty damages on the infringing product as sold, even where the asserted patent covers the infringing product and not just a component of that product.

Two recent cases that illustrate this problem are Dataquill Ltd. v. High Tech Computer Corp. and Inventio AG v. Otis Elevator Co. In Dataquill, the accused infringer moved in limine to exclude the patentee’s damages expert from presenting any damages claim based on the entire market value of the accused handset products. The patentee opposed the motion, arguing that “the patents-in-suit claim [the entire accused] apparatus, the HTC handsets, and not a component part” of the handsets.

While the Southern District of California agreed that the patent claims cover the entire apparatus, it observed that the handsets had numerous functions that were not part of the claimed invention, such as receiving phone calls and text messages.

Then, applying a narrow reading of the 19th century Supreme Court cases, the court required the patentee to satisfy the EMVR because the patents did not claim an “entirely new machine or contrivance.” Rather, because the patents claimed merely an improved “machine or contrivance,” the court required the patentee to satisfy the EMVR.

30 Lucent, 580 F.3d at 1337.
31 Id.
32 Id. at 1339.
33 Uniloc, 632 F.3d at 1318.
34 Id. at 1320.

36 No. 06 Civ. 5377 (S.D.N.Y. June 23, 2011). The authors are counsel of record in this case both at trial and before the Federal Circuit on the pending appeal.
37 Dataquill, No. 08-cv-543, slip op. at 24-26.
38 Id.
39 Id.
 Likewise, in Inventio, the infringer moved in limine to exclude the patentee from using as its reasonable-royalty base the entire value of the infringing elevator installations sold by the defendant.\textsuperscript{40} In granting the motion, the Southern District of New York ignored the scope of the infringed claims, which were directed to an entire elevator installation where the elevator was called and dispatched to a passenger’s floor seamlessly and wirelessly based on preprogrammed data about each passenger.

Instead, the court treated the “patented feature” as the part which distinguished the claims from the prior art, namely what the court called “seamless entry destination dispatching.”\textsuperscript{41} Citing the early Supreme Court cases, the court required the patentee to satisfy the EMVR to be able to assert a royalty base that included revenues for the entire installation.

Of course, one undeniable problem with the interpretations set forth in Dataquill and Inventio is that virtually every invention today concerns an “improvement” of an existing “machine or contrivance.”\textsuperscript{42} Thus, the analyses set forth in those cases effectively would require patentees to satisfy the EMVR in almost every case in order to use the value of the infringing product as the royalty base in their damages claim. This would amount to a major departure in the patent law and would require (absent satisfaction of the EMVR) a royalty base that included revenues for the entire installation.

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B. Courts Are Setting Nearly Insurmountable Evidentiary Hurdles for the EMVR

In addition to requiring patentees to satisfy the EMVR in virtually every case, district courts are also setting nearly insurmountable evidentiary standards to satisfy the rule. In particular, in excluding damages claims, several decisions have held that the patentee cannot rely on the entire value of the infringing product as a royalty base unless the patented technology is the sole basis for customer demand for the accused products.

For example, in granting the motion in limine to preclude the patentee from relying on the entire market value of the infringing elevator installations, the Inventio court held that Inventio did not show that the patented feature was “the basis for consumer demand” for the infringing installations.\textsuperscript{43} In so doing, the court acknowledged that evidence showed that the patented feature was desirable and that its absence would put the infringer at a competitive disadvantage. Nevertheless, the court held that this evidence was insufficient to satisfy the EMVR:

It is not enough to present evidence that the patented feature was desirable, or that it played some role—even a substantial role—in the customer’s decision to purchase a system containing the infringing product. . . . But as long as other features of a product contributed to the customer’s decision, Supreme Court precedent . . . demands that there be an apportionment of the defendant’s profits and patentee’s damages between the patented features and the various unpatented features of the “whole machine.”\textsuperscript{43}

Additionally, the Inventio court emphasized that, without statistical or regression analysis, customer interviews, or some kind of “marketplace-wide evidence of demand sensitivities,” there was no way to know “whether this feature alone drove the decision to purchase from the defendant.”\textsuperscript{44}

Similarly, in Mformation Technologies Inc. v. Research in Motion Ltd.,\textsuperscript{45} the accused infringers moved in limine to exclude the opinions of the patentee’s damages expert, who based his reasonable-royalty determination on the total profitability of the accused products. The Northern District of California granted the motion because the expert “did not adequately attribute all of Defendants’ customer demand to use of the Patent-In-Suit . . . as opposed to other features of the [accused] device.”\textsuperscript{46}

The Inventio and Mformation rulings should be contrasted with other recent decisions using more relaxed standards. For example, in ActiveVideo Networks, the patentee asserted a patent on Video-On-Demand against Verizon and its FiOS System.\textsuperscript{47} In denying a Daubert motion, the court held that the patentee had submitted “substantial evidence to demonstrate that VOD (the patented feature) is the basis for customer demand for the Verizon FiOS system or substantially contributed to the value of the system.”\textsuperscript{48}

Apparantly the court thought it necessary to set forth the more relaxed alternative test, similar to the alternative test mentioned in Uniloc, namely whether the patented feature “substantially create[s] the value of the component parts.”\textsuperscript{49}

Similarly, the Dataquill court used another relaxed test to deny a motion to exclude expert testimony. There, the court held the EMVR could be satisfied simply because the patentee presented “evidence that the patented feature was important to HTC’s ability to compete with the Apple iPhone.”\textsuperscript{50}

The high evidentiary standard set forth in Inventio and Mformation would render the EMVR impossible to satisfy.

\textsuperscript{40} Inventio, No. 06 Civ. 5377, slip op. at 3-4. After a jury trial and the denial of JMOL motions, the district court entered final judgment that the defendant Otis did infringe the asserted claims.

\textsuperscript{41} Id. at 5.

\textsuperscript{42} Inventio, No. 06 Civ. 5377, slip op. at 5-6. (emphasis in original). The Inventio court held the patentee to this insurmountable standard even though the defendant’s expert agreed with the patentee’s expert that the reasonable royalty should be based on the entire revenue for six of the seven infringing installations. The court maintained that, because the patentee bore the burden of proof, the infringer’s expert’s opinion was not relevant.
satisfy because one feature or component of a product is rarely, if ever, the sole basis for customer demand of any product. Thus, alleged infringers will virtually always be able to show that their reputation, service, price and/or marketing at least partly drove various customers to purchase the infringing product.

Even if it were possible for patentees to meet this practically insurmountable test, the costs of attempting to obtain reliable statistical analyses, customer surveys or other “marketplace-wide evidence of demand sensitivities” could be prohibitive.51 Thus, if decisions like Inventio and Mformation become the law, patentees may simply decide that it is sometimes just not worth the cost of litigating to attempt to obtain reasonable-royalty damages.

IV. HARMFUL CONSEQUENCES OF MISUSING THE EMVR

District court misuse of the EMVR has resulted in overuse by defendants to curtail their exposure to patent damages. This undoubtedly has contributed to the dramatic reduction in the size of patent infringement awards, which, in turn, obviously decreases the value of patent rights.

Moreover, the misuse of the EMVR can also have the ancillary consequence of denying a patentee’s right to a trial by jury because EMVR challenges typically are made by way of pretrial motions to keep the issue from reaching the jury altogether. To make matters worse, the recent misuse of the rule has not been shown to cause any greater rigor in reasonable-royalty damages claims.

a. Misuse of the EMVR Causes a Significant Devaluation of Patents

The recent misuse of the EMVR is contributing to the already significant decrease in patentee compensation for infringement. One recent study reports that the median patent damages award in 2010, after Lucent, was $1.8 million.52 This amount is by far the lowest median award for any year during the 16-year time frame in which the data was gathered for the study, and significantly lower than the overall median award of $5.1 million for the same time span.

Because this decline is undoubtedly the result of the full-fledged assault on the patent system since the patent reform debate began back in 2003, the EMVR rulings cannot by themselves be the cause of this decline. But those rulings are causing the decline to continue even further.

A significant decrease in overall patent damages awards, especially where such decrease is perceived to be unprincipled, can have a major, negative impact on the patent system. Patent damages are the only form of compensation for past acts of patent infringement.

As such, the law governing patent damages reflects how our nation values infringed patents. It has even been suggested that a regime under which patent damages awards are too low would create a system of de facto compulsory licenses that neither adequately compensate the patent holder nor adequately deter future infringers.53 Significantly, the median 2010 patent damages award of $1.8 million is substantially less than the average cost to litigate a patent infringement action, which is $3 to $10 million.54

Thus, under the current damages regime, patentees may often choose to forego the expense of enforcing their patent. A natural consequence may be a decrease in the number of patent applications filed or, worse, a downward trend in the money invested in new patented technologies.

After all, no venture capitalist would be eager to invest in a new technology if there is a significant risk that the patentee cannot fully regain revenue lost due to infringement by others.55

b. Misuse of the EMVR Erodes Seventh Amendment Rights

Another, oft-overlooked consequence of misusing the EMVR is the erosion of a patentee’s Seventh Amendment right to a trial by jury. This adverse consequence is a by-product of the manner in which EMVR-based challenges are decided by district courts.

Defendants typically bring EMVR challenges through pretrial motions, such as motions in limine or Daubert motions, in which the opinions of an expert are challenged as not scientifically based.56 These pretrial motions are designed to keep various issues from being presented to the jury. In the past, these motions were seldom filed to preclude the testimony of patent damages experts. And when they were, they were rarely, if ever, granted. Courts would routinely wait until they watched the presentation of the evidence so as to give plaintiffs their day in court and then, after trial, decide whether the evidence, viewed in the light most favorable to the patentee, could support the damages awarded by the jury.

But in the wake of Lucent and Uniloc, these pretrial motions that attack the crux of the patentee’s damages case have become virtually routine. Believing that the Federal Circuit has demanded a significant increase in scrutiny of damages cases, district courts are now entertaining these motions and feel justified to judge the quality or force of the patentee’s damages case.

For example, the courts are making determinations regarding the basis for customer demand for the ac-
cused product without hearing any testimony.\textsuperscript{57} In doing so, however, the courts often are acting as the trier of fact by resolving genuinely disputed issues. Such a result is especially troubling where the patentee can offer competent evidence that would permit a juror to conclude that the patentee has satisfied the EMVR.

It should be improper for a district court to invade the province of the jury as the trier of fact.\textsuperscript{58} Moreover, such cases stand in sharp contrast to cases like Lucent and Uniloc, where there was no legitimate dispute that the patented feature did not form any basis for demand for the infringing product.\textsuperscript{59}

Under the Seventh Amendment, plaintiffs have the right to have a jury decide factual issues like those involved in determining compensatory damages.\textsuperscript{60} As a result, exclusions under Daubert motions and motions in limine—the most common vehicles that district courts use to exclude a patentee’s damages case—can be particularly unfair.

Unlike summary judgment motions and motions for judgment as a matter of law, district courts deciding a Daubert motion or motion in limine often do not view the evidence in the light most favorable to, or draw all reasonable inferences in favor of, the non-moving party, the patentee.\textsuperscript{61} Thus, district courts can be prone to go beyond their role as the evidentiary “gatekeeper” and improperly engage in an independent review of the evidence and substitute their conclusions for that of a jury on the factual issue of compensatory damages.\textsuperscript{62}

Moreover, also unlike summary judgment motions and motions for judgment as a matter of law, district court decisions on Daubert motions and motions in limine are not subject to de novo appellate review. Instead, they typically are subject to review under the abuse of discretion standard.\textsuperscript{63} Accordingly, an improper decision to exclude a patentee’s damages case, and resulting erosion of a patentee’s Seventh Amendment rights, can be harder to overturn on appeal.

Some commentators have suggested that deciding the EMVR issue in motions in limine is necessary to prevent jurors from seeing revenue figures that could prejudicially influence them into awarding excessive damages.\textsuperscript{64} But this is hardly a justification or excuse to preclude a patentee from presenting its damages case to the jury. Nor can this be a basis to change the law governing patent damages.

District courts should employ any of the numerous other procedural tools available to them to lessen or altogether eliminate any such prejudice. First, they should resort to Fed. R. Evid. 403 to insure that the evidence is presented in a fair and non-prejudicial way. They can prevent the presentation of specific demonstrative exhibits or testimony that overemphasizes figures in a way that is prejudicial.

Second, juries should be given more credit as competent fact-finders in our judicial system. Thus, both sides should be allowed to present to the jury their respective sides of the damages issue. This includes allowing the experts to address head-on the high revenue figures, allowing cross-examination of a plaintiff’s fact and expert witnesses,\textsuperscript{65} or providing instructions to the jury regarding the import or weight of any damages-related evidence or evidence.

Thus, it is rarely necessary or fair to altogether preclude a patentee from presenting its entire damages case in the name of preventing prejudice arguably caused by showing large figures representing the entire market value of the accused product.

c. Any Benefits Conferred by the Recent Interpretations of the EMVR Are, at Best, Questionable

Several commentators have suggested that the recent EMVR cases signal an emphasis on the need for greater “rigor” and “sound economic and factual predicates” in calculating patent damages.\textsuperscript{66} These are no doubt laudable goals.

However, recent misuse of the EMVR in many cases arguably has led to a decrease in such rigor. In particular, by misusing the EMVR, many district courts are forcing patentees to apply an arbitrary apportionment of their damages claim that is divorced from the facts that would govern any hypothetical negotiation and the business realities of the particular parties or industry at issue.

For example, in Inventio, actual intellectual property license agreements from both parties were based on

\textsuperscript{57} See, e.g., Oracle America Inc. v. Google Inc., 798 F. Supp. 2d 1111, 1115-16 (N.D. Cal. 2011); Inventio, No. 06 Civ. 5377, slip op. at 5-6.

\textsuperscript{58} See id L.P. v. Microsoft Corp., 598 F.3d 831, 860, 93 USPQ2d 1943 (Fed. Cir. 2010) (79 PTCJ 538, 3/12/10), aff’d, 131 S. Ct. 2238, 180 L. Ed. 2d 131, 98 USPQ2d 1857 (2011) (82 PTCJ 182, 6/10/11) (“Questions about what facts are most relevant,” [and] the jury was free to consider [the expert’s] testimony on . . . ”); Lucent, 580 F.3d at 1337-38 (“Lucent’s damages expert conceded that there was no ‘evidence that anybody anywhere at any time ever bought Outlook . . . because it had a date picker.’ ”).

\textsuperscript{59} See U.S. Const. amend. VII (“In Suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any Court of the United States, than according to the rules of the common law.”); see also Minks v. Polaris Industries Inc., 546 F.3d 1364, 1372, 89 USPQ2d 1102 (Fed. Cir. 2008) (76 PTCJ 899, 10/24/08) (vacating district court’s reduction of damages award because district court “necessarily engaged in an independent review of the evidence and substituted its conclusion for that of the jury on the factual issue of compensatory damages.”).

\textsuperscript{60} See generally Anderson v. Liberty Lobby, 477 U.S. 292 (1986).


\textsuperscript{62} See, e.g., Lucent, 580 F.3d at 1310.


\textsuperscript{64} See, e.g., Finjan Inc. v. Secure Computing Corp., 626 F.3d 1197, 1210, 97 USPQ2d 1161 (Fed. Cir. 2010) (81 PTCJ 55, 11/12/10) (holding that defendants’ objections to patentee’s damages analysis do not warrant retrial, in part because the patentee’s damages expert was “subject to cross-examination [and] the jury was free to consider [the expert’s] testimony on direct and on cross-examination.”).

revenues derived from the sales and service of the entire claimed elevator installation.\textsuperscript{67} Moreover, the smallest product covered by the patent claims that was sold by either party was the entire elevator installation—a fact that was acknowledged by the district court.\textsuperscript{68} This is one reason why damages experts from both parties used the entire value of the infringing elevator installations as a base in their reasonable-royalty damages calculations.

Despite these facts, the district court still precluded the patentee from presenting to the jury any damages figure based on the entire value of the claimed elevator installations.\textsuperscript{69} At no point, however, did the defendant suggest that there was another, more reasonable number to use for the base of the patentee’s reasonable-royalty damages claim. And the district court insisted that Inventio base its royalty claim on the price of “change orders” that bore no relationship to the claimed inventions.\textsuperscript{70}

Because Inventio maintained that the prices in the change orders were irrelevant to the value of the claimed invention, Inventio declined to limit its base to the change-order price. The district court precluded the patentee’s damages claim because the patentee refused to use another arbitrary reasonable-royalty base that undoubtedly would have been divorced from the claimed invention and business realities. This ruling cannot be viewed as an example of a district court applying increased rigor.

The district court in Lucent after remand provides another example of a misuse of the EMVR to require an apportionment with less sound “economic and factual predicates” than an alternative approach proffered by the plaintiff’s damages expert. In that case, the plaintiff’s damages expert apportioned the base of his reasonable-royalty calculation to include only 3 percent of the infringing Microsoft Outlook products, which, based on survey evidence, represented the number of Outlook users that used the patented date-picker technology and would not have purchased Outlook if it lacked that technology.\textsuperscript{71}

The patentee’s expert then calculated the reasonable-royalty damages based on a $67 per-unit figure.\textsuperscript{72} To support the $67 per-unit figure, the plaintiff presented to the jury Microsoft documents showing that: (1) the value of the standalone Outlook product was $87; (2) Outlook was “by far” the most popular and most used component of the Office package; and (3) the difference in price between the Office package including Outlook and that excluding Outlook was approximately $130.

After the jury awarded damages in accordance with the calculations of the plaintiff’s damages expert, the defendant moved for judgment as a matter of law, arguing that the plaintiff showed and that view simply caused a lower damages figure.

Thus, these recent EMVR cases do not reflect greater overall rigor in determining patent infringement damages, unless “rigor” simply means the courts have more freedom to lower damages awards. On this issue, while some commentators may maintain that damages awards generally should be reduced because they are typically excessive, there does not appear to be any empirical support for this notion.

In fact, a recent study that included analyses of patent damages data from 1995 until 2008 found no evidence of excessiveness or unpredictability in patent damage awards.\textsuperscript{74} Significantly, the study also found that the eight largest patent damages awards, which included the original award overturned by the Federal Circuit in Lucent, represented nearly one-half of the total damages awarded in all cases over the 14-year period.\textsuperscript{75}

Accordingly, the study shows that claims that patent damages are systematically excessive are not supported by empirical evidence, and that there may be only a very small number of aberrational cases with large damages awards. Put simply, there was little need for a backward swing of the damages pendulum in the first place.

And the current misuse of the EMVR to curtail patent damages cannot be justified just because there may have been excessive damages awards in a handful of cases since 1995.

\section*{V. SIMPLE SOLUTION: GO BACK TO THE BASICS}

There is much precedent, both at the Federal Circuit and at the district courts, which courts can and should use to restore equilibrium in patent damages law. This precedent provides several basic rules that should govern how to determine the appropriate royalty base. First, district courts should analyze the patent claims to determine whether the patentee truly is seeking damages beyond the “patented” invention. If damages are not sought beyond the claimed invention, there would be no need to satisfy the EMVR. Second, district courts should also look to the specific “business” realities or facts of each case to determine whether the patentee should be required to satisfy the EMVR even if it is claiming damages beyond the claimed invention. Third,

\begin{itemize}
\item \textsuperscript{67} See, e.g., Inventio, No. 06 Civ. 5377, Transcript of Record at 78-82, 86 [Dkt. 304].
\item \textsuperscript{68} Inventio, Transcript of Record at 93 [Dkt. 304].
\item \textsuperscript{69} Inventio, No. 06 Civ. 5377, slip op. at 5-6; see also Transcript of Record at 1342 [Dkt. 314].
\item \textsuperscript{70} Change orders simply reflect the additional cost of modifying an elevation installation.
\item \textsuperscript{72} Id. at 15.
\item \textsuperscript{73} Id. at 18.
\item \textsuperscript{74} Michael Mazzeo, et al., Excessive or Unpredictable? An Empirical Analysis of Patent Infringement Awards, 45 (June 17, 2011), http://www.kellogg.northwestern.edu/faculty/mazzeo/htm/resrchpg.htm.
\item \textsuperscript{75} Id. at 34-35.
\end{itemize}
in cases in which a patentee should satisfy the EMVR, the patentee should be able to satisfy the rule by showing that the patented feature is a "substantial basis" for customer demand of the accused product, rather than the "sole basis."

**a. Patentees Should Not Be Required to Satisfy the EMVR When Seeking Damages on Products That Correspond With the Asserted Claims**

Under long-standing Federal Circuit case law, a patentee should not be required to satisfy the EMVR where the asserted claims read on the entire infringing apparatus. In other words, the scope of the claims necessarily controls the permissible royalty base when the accused device corresponds to the claimed invention. For example, in *Slimfold*, the Federal Circuit affirmed a reasonable-royalty damages award based on the entire value of the infringing doors. In rejecting the plaintiff's assertion that the district court "inherently" applied the EMVR, the Court observed that "it is most likely that the district court used the entire door as the basis for the royalty award simply because the claims of the Ford patent are themselves directed to the entire door." Similarly, in *Railroad Dynamics Inc. v. A. Stucki Co.*, the asserted claim encompassed a "snubber assembly." As a result, the Federal Circuit held that the appropriate royalty base was the value of the infringing snubber assemblies, as opposed to biasing springs, which were components of the snubber assemblies.

By contrast, patentees have been required to satisfy the EMVR where the asserted claims cover only one component or feature of an infringing product. For example, in *Uniloc*, the court required the patentee to meet the EMVR where the patentee sought damages on Microsoft Office and Windows, while the asserted claims covered only the product-activation feature of those software products. Similarly, in *Lucent*, the Federal Circuit required the patentee to satisfy the EMVR when the patentee sought damages on Microsoft Outlook and the asserted method claims covered only a date-picker function. Also, in *Imonex Services Inc. v. W. H. Munzprufler Dietmar Trenner GmbH*, the Federal Circuit required the patentee to satisfy the EMVR where the patentee asserted a claim covering only coin selectors, but sought a royalty base that included the entire laundry machines.

Recent cases like *Dataquill* and *Inventio* are legally flawed because they ignore the scope of the claims in favor of an analysis of the patent's contribution over the prior art. The interpretations set forth in those cases are based on a misreading of the early Supreme Court cases to require that the royalty base be limited to the patent's "improvement" or specific contribution over the prior art if the patentee cannot satisfy the EMVR. However, as previously discussed, these early Supreme Court cases involved a precursor to the EMVR that was applied under a vastly different statutory framework allowing patentees to recover the infringer's profits.

More importantly, attempting to limit the royalty base to features alleged to be the claimed invention's improvement over the prior art would be difficult, if not impossible, to apply. For example, where a claim includes a novel combination of old features, there is no individual novel feature. Additionally, if courts were to require patentees to show that the "improvement," "point of novelty," or "contribution" over the prior art drove demand for the infringing device, patentees would be required to satisfy the EMVR in every case, even where the asserted claims recite a combination of elements that read on the entire accused device. Such a requirement would overly complicate virtually every patent case and interject validity issues in the damages phase. Obviously, such a rule would greatly increase the difficulty of proving damages for patent infringement beyond any benefit that might result.

In addition, focusing on only a part of the claimed invention draws the decision-maker's attention away from what was actually claimed. For that reason, both the Supreme Court and the Federal Circuit have rejected "point of novelty" or "contribution over the prior art" analyses in other areas of patent law. For similar reasons, Congress has rejected attempts to so modify the law on patent damages in the recently-enacted America Invents Act ("AIA").

A predecessor of the AIA, the Patent Reform Act of 2007, included a provision that would have required patentees seeking damages on the entire value of an infringing product to show that the invention's "specific contribution over the prior art" is the predominant basis for market demand for that product. But this proposed provision, which was acknowledged as "repealing" the existing law on reasonable-royalty damages, was intensely criticized and later eliminated before passage of the AIA.
Among the widespread criticism, members of Congress recognized that the “specific contribution over the prior art” test would have been “unworkable given the complexity of modern products.” Other members acknowledged that the “specific contribution over the prior art” test would have allowed a de facto re-litigation of claim construction and validity issues during the damages phase of a lawsuit.

In other words, the proposed provision would have “overla[id] a second (and presumably different) set of validity standards over current law.”

Expressing serious concerns about the proposed damages provision, then-Chief Judge Paul R. Michel of the Federal Circuit echoed similar sentiments to members of Congress. Ultimately, the collective criticisms and concerns caused Congress to strike the entire damages provision before it passed the final iteration of the bill, the AIA of 2011.

Allowing the breadth of the claim to control the scope of the royalty base does not elevate form over substance. Virtually every issue in patent law boils down to the precise language set forth in the asserted patent claim. The claim defines the legal rights being asserted and should also control whether the EMVR is even at issue.

The only realistic and practical way for courts to conduct the damages analysis is to first analyze the scope of the patent claims and then require patentees to satisfy the EMVR only if they claim damages beyond that scope and no other exceptions exist. Otherwise, courts will continue to apply an unanchored analysis based upon a gut feel for how important or valuable they think the patent is relative to the prior art. With regard to patent damages, that type of “analysis” is obviously unsatisfactory and unworkable.

Furthermore, numerous other legal rules, aside from the EMVR, can appropriately limit damages to prevent overcompensation. For example, when patentees seek reasonable royalties, they are not allowed to overshoot their claim by using “rules of thumb” to derive reasonable-royalty rates.

Moreover, patentees are not allowed to use inflated royalty rates from past licenses unless they first prove that those licenses are sufficiently comparable to the hypothetical negotiation. Still further, various Georgia-Pacific factors, including factors 10 and 13, require the patentee to apportion the total award to take into account the importance of the value of the patented invention over old modes or contributions added by the infringer.

Accordingly, even when a large royalty base is used, patentees can and should be required to adjust the royalty rate to prevent a windfall. These requirements force patentees to tie their damages claims to the facts of each case and naturally limit the amount of damages that a patentee can collect.

b. Patentes Should Not Be Required to Satisfy the EMVR if Specific Business Realities Support Use of a Larger Compensation Base

Beyond analyzing the scope of the patent claims, courts should also look to the business realities of the parties, the specific industry, and the products involved before determining the appropriate reasonable-royalty base. Business realities include any facts regarding how the parties sell their products or license their intellectual property.

After all, the goal of any reasonable-royalty determination is to recreate a hypothetical scenario, based on specific facts of the case, to determine what a willing licensor and willing licensee would have agreed upon in a hypothetical negotiation. Thus, ignoring such facts would result in a damages calculation that is not tied to “sound economic and factual predicates.”

Two examples of business realities that should exempt patentees from having to satisfy the EMVR are: (1) where the smallest salable unit is the product on which a claim for damages is being made; and (2) where the parties have comparable license agreements that use as a royalty base the product on which a damages claim is being made.

i. The Accused Product is the Smallest Salable Unit on Which Damages Could Be Based

Patentes should not be required to satisfy the EMVR where the accused product is the smallest patent-practicing unit sold on which a reasonable royalty could be based. One case that suggests this common-sense approach is Cornell University v. Hewlett-Packard Co. In Cornell, the patentee sought reasonable-royalty damages on “CPU bricks” that included, among many other components, a processor chip. Chief Judge Randall R. Rader of the Federal Circuit, sitting by designation, held that the patentee was required to satisfy the EMVR because the CPU bricks were not the smallest salable unit that practiced the patent at issue, which covered an instruction reorder buffer.

Rather, the smallest salable unit was the infringing processor, of which the instruction reorder buffer was a

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88 Id. at 50.
89 Id. at 51.
90 See Letter from Paul R. Michel, Chief Judge, Court of Appeals for the Federal Circuit, to John Conyers Jr. (D-Mich.) and Lamar S. Smith (R-Texas), U.S. House of Representatives, at 1 (May 21, 2007) (urging committee to delete proposed damages provision as “unworkable.”); Letter from Paul R. Michel, Chief Judge, Court of Appeals for the Federal Circuit, to Sens. Patrick J. Leahy (D-Vt.) and Orrin G. Hatch (R-Utah), U.S. Senate, at 2 (May 3, 2007) (explaining that proposed damages provision would require “a massive undertaking for which courts are ill-equipped”)
91 Indeed, the Federal Circuit counsels that claim drafting techniques provide the solution to address various requirements of the patent law. See, e.g., BMC Resources Inc. v. Paymentech L.P., 498 F.3d 1373, 1381, 84 USPQ2d 1545 (Fed. Cir. 2007) (74 PTCJ 644, 9/28/07) (concerns that entities can avoid infringement by merely cooperating with others “can usually be offset by proper claim drafting”); Hoganus AB v. Dresser Industries Inc., 9 F.3d 948, 951, 25 USPQ2d 1936 (Fed. Cir. 1993) (patentee “could have prevented” finding of no literal infringement “through clearer drafting” of patent claims).
part, because there was a reliable market value on the processors separate from the CPU brick itself.\textsuperscript{98} Thus, had the patentee sought damages on the infringing processors, it seems logical that it would not have been required to satisfy the EMVR.

This approach makes sense because the smallest salable unit logically would be a likely choice for the royalty base of any real-world negotiation between two parties.

A more recent decision in Broadcom Corp. v. Emulex Corp.\textsuperscript{99} from the Central District of California adhered to the logic set forth in Cornell. After finding infringement, the jury found that the proper base on which to calculate a reasonable royalty was the infringing computer chip at issue.\textsuperscript{100}

After trial, the defendant filed a motion for judgment as a matter of law to preclude the patentee from obtaining damages based on the entire value of the accused computer chips because it failed to satisfy the EMVR.\textsuperscript{101} The court denied the motion, holding that the patentee was not required to satisfy the EMVR because there was sufficient evidence for a jury to decide that the chips themselves, and not some smaller "SerDes Core" component of the chip, was the smallest salable unit.\textsuperscript{102}

The Broadcon ruling is both legally and logically correct. From a legal standpoint, the ruling is supported by Federal Circuit precedent, including the Lucent court’s acknowledgment that "[t]here is nothing inherently wrong with using the market value of the entire product, especially when there is no established market value for the infringing component or feature, so long as the multiplier accounts for the proportion of the base represented by the infringing component or feature."\textsuperscript{103}

From a logical standpoint, the ruling makes perfect sense because a patentee should not be required to find some arbitrary, smaller unit on which to base a reasonable-royalty damages claim where the market has not placed an established value for any such smaller unit. If the EMVR compelled patentees to limit their royalty base in this arbitrary manner, then the EMVR would once again not promote any more rigor in calculating damages.

\section*{ii. The Parties' License Agreements Base Royalties on Total Revenues}

Where comparable license agreements use the entire value of the accused device as the royalty base, the patentee likewise should not have to satisfy the EMVR, even if the patent covers only a component. A recent case that reached this very result was Mondis Technologies Ltd. v. LG Electronics Inc.\textsuperscript{104}

In Mondis, the patentee presented evidence of comparable party licenses that involved a royalty based on the entire value of the products containing the patented feature. Citing Lucent’s rule that "awarding a reasonable royalty based on either sale price or number of units sold can be economically justified" even when "the patented invention is a small component of a much larger commercial product," the Eastern District of Texas held that the patentee was not required to satisfy the EMVR.

In so doing, the court held that Uniloc cannot be read to completely eliminate the Lucent rule. Otherwise, the court held, the patentee would be in a "tough position" because it would be forced to either ignore the comparable licenses, which likely would be "the most reliable evidence" from which to calculate a royalty, or else speculate how the parties to those licenses would have apportioned the patented feature in the patented products.\textsuperscript{105} Either result, the court indicated, would lead to far less rigor than applying the same base as that used in comparable licenses, which the Federal Circuit has previously recognized as potentially the most reliable evidence in determining a reasonable royalty.\textsuperscript{106}

\section*{c. For All Other Cases, Patentees Should Be Required to Show That the Patented Invention Was a Substantial Basis for Customer Demand}

When a patentee chooses to seek damages based on a product with only one infringing component, and none of the above business realities apply, then the patentee should be required to satisfy the EMVR. However, the EMVR does not require that the patentee show that the patented feature is the sole basis of customer demand for the product. Indeed, as previously discussed, such a rule would be insurmountable to satisfy in virtually every case.

Decisions such as the one in Inventio are legally flawed for applying a sole-basis test. These decisions incorrectly focus only on the general statement of the EMVR in prior Federal Circuit cases, such as Rite-Hite, which say that the rule can be satisfied where the patented feature is "the basis" for demand for the infringing product.\textsuperscript{107} They ignore other Federal Circuit precedent, such as Lucent, which hold that the EMVR is also met where the patented feature is a substantial basis for customer demand.

Moreover, Inventio improperly ignored the application of the EMVR in Federal Circuit cases in which it was determined that the patentee satisfied the rule.\textsuperscript{108}

A thorough review of Federal Circuit EMVR case law shows that the court has never required a patentee to show that the patented feature was the sole basis of customer demand. To the contrary, the court applies a more relaxed standard for satisfying the EMVR. For example, in Fonar, the Federal Circuit applied Rite-Hite to hold that the patentee satisfied the EMVR because the patented invention formed "the basis for customer demand."\textsuperscript{109} And the only evidence the court relied upon to hold that the jury could find that the patentee satisfied the EMVR would be that the patentee had a "different market" for the patented product.

\textsuperscript{98} Id.
\textsuperscript{100} Id.
\textsuperscript{101} Id.
\textsuperscript{102} Id.
\textsuperscript{103} 580 F.3d at 1339.
\textsuperscript{104} Nos. 2:07-CV-565; 2:08-CV-478, slip op. at 3 (E.D. Tex., June 14, 2011).
\textsuperscript{105} Id.; see also Boeing Co. v. United States, 86 Fed. Cl. 303, 319 (Fed. Cl. 2009).
\textsuperscript{106} See, e.g., ResQNet.com, 594 F.3d at 869-73. But see Lighting Ballast Control LLC v. Phillips Electronics North America Corp., No. 7:09-cv-29, slip op. at 10 (N.D. Tex. June 10, 2011) (rejecting patentee’s reliance on prior license agreements as a way to avoid or satisfy the EMVR).
\textsuperscript{107} 56 F.3d at 1549.
\textsuperscript{108} See, e.g., Funai Electric, 616 F.3d at 1375-76 (patentee satisfied basis-for-customer-demand test); Tix Air, 192 F.3d at 1362 (same); Fonar, 107 F.3d at 1552-53 (same).
\textsuperscript{109} 107 F.3d at 1552.
fied that test was the infringer’s technical literature emphasizing the patented feature.110

Similarly, in Tec Air, the Federal Circuit held the patentee satisfied the EMVR because the jury could rely upon evidence that a single customer required the defendant to provide the patented method.111 The court observed: “From this evidence, the jury could have reasonably concluded that the demand for the entire assembly depended on the patented invention.”112

More recently, in Funai Electric, the Federal Circuit upheld a damages award based on the EMVR because the patented invention furthered a “general industry demand for smaller, cheaper, faster, and more reliable VCRs.”113 The court determined that evidence showed that “these benefits were the basis for customer demand.”114

And most recently, in Marine Polymer, the Federal Circuit, through the en banc court, upheld a jury verdict based on the EMVR, observing that the defendant’s president admitted that the claimed invention was “critical” to the “core hemostatic function of the accused products.”115

Thus, none of the Federal Circuit decisions applying the EMVR supports a “sole basis” test. Instead, a substantial basis of customer demand for the patented invention—an inquiry that is dependent on the specific facts in each case—was sufficient in those decisions.

CONCLUSION

With decisions like Lucent and Uniloc, the Federal Circuit succeeded in keeping Congress from passing a new statute governing patent damages. In Lucent and Uniloc, the court overturned large jury awards because the patentees in those cases improperly based their reasonable-royalty damages on the entire value of the multi-featured products of which the infringing feature was a minor part.

However, district courts are indiscriminately applying those decisions, as well as the early Supreme Court decisions cited in Lucent and Uniloc, to all kinds of cases regardless of the factual circumstances presented. Often, these rulings prevent juries from weighing conflicting evidence to determine the appropriate reasonable-royalty base.

As a result, the value of intellectual property is eroding, as is the patentee’s right to trial by jury. Nothing suggests the Federal Circuit intended such drastic and harmful consequences when it decided either Lucent or Uniloc.

The time has come for the pendulum to swing back. Courts should allow the claimed invention to define the royalty base and resist using any contribution-to-the-art approach. Courts likewise should try to adhere to the business realities that would have governed any hypothetical negotiation.

And finally, the courts should never require that the patented invention be the sole basis of the demand for the infringing product to satisfy the EMVR. Only once the courts adhere to these fundamental principles will patentees be given a fair shot to prove their damages cases at trial.

110 Id.
111 192 F.3d at 1361.
112 Id. at 1362.
113 616 F.3d at 1375-76.
114 Id. at 1376.
115 Marine Polymer, No. 2010-1548, slip op. at 16.