The Entire Market Value Rule

Michael E. Florey

FR FISH & RICHARDSON

EMVR Back to Basics – What Did You Invent?

(Have a listen)

The New Sheriff – Circuit Judge Rader

- "The entire market value rule in the context of royalties requires adequate proof of three conditions:
  1) the infringing components must be the basis for customer demand for the entire machine including the parts beyond the claimed invention,
  2) the individual infringing and non-infringing components must be sold together so that they constitute a functional unit or are parts of a complete machine or a single assembly of parts; and
  3) the individual infringing and non-infringing components must be analogous to a single functioning unit."

Cornell Univ. v. Hewlett-Packard Co., 609 F. Supp.2d 279, 286-287 (N.D.N.Y. 2009)(Rader, Cir. J. sitting by designation)

The New Sheriff – Circuit Judge Rader

- "Notably, these requirements are additive, not alternative ways to demonstrate eligibility for application of the entire market value rule."

Cornell Univ. v. Hewlett-Packard Co., 609 F. Supp.2d 279, 287 (N.D.N.Y. 2009)(Rader, Cir. J. sitting by designation)

The New Sheriff – Circuit Judge Rader

- "Cornell relied on . . . internal Hewlett-Packard documents predicting that the type of out-of-order execution achieved in the '115 patent "would be a competitive requirement."
- "Cornell did not offer any customer surveys or other data to back these predictive claims."
- "Nowhere does Cornell offer evidence that the claimed invention drove demand for Hewlett-Packard's CPU bricks."

Cornell Univ. v. Hewlett-Packard Co., 609 F. Supp.2d 279, 288-289 (N.D.N.Y. 2009)(Rader, Cir. J. sitting by designation)

The Deputies Arrive on the Scene

- "[T]he infringing use of the date-picker tool in Outlook is but a very small component of a much larger software program."
- "The vast majority of the features, when used, do not infringe."
- "The date-picker tool's minor role in the overall program is further confirmed when one considers the relative importance of certain other features, e.g. e-mail."

Lucent v. Tech., Inc. v. Gateway, Inc., 580 F.3d 1301, 1337 (Fed. Cir. 2009)

. . . And Leave a Cloud of Dust

- "Although our law states certain mandatory conditions for applying the entire market value rule, courts must nevertheless 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)."

Lucent v. Tech., Inc. v. Gateway, Inc., 580 F.3d 1301, 1338-39 (Fed. Cir. 2009)(emphasis added)

. . . And Leave a Cloud of Dust

- "Thus, even when the patented invention is a small component of a much larger commercial product, awarding a reasonable royalty based on either sale price or number of units sold can be economically justified."

- "There 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."

Lucent v. Tech., Inc. v. Gateway, Inc., 580 F.3d 1301, 1338-39 (Fed. Cir. 2009)(emphasis added)

The Posse Takes Both Forks in the Road

- "Mr. Gemini included 100% of Red Hat's and Novell's total revenues from sales of subscriptions to the accused operating systems in his proposed royalty base. Mr. Gemini's methodology however does not show a sound economic connection between the claimed invention and this broad proffered royalty base."

- "IPI must show some plausible economic connection between the invented feature and the accused operating systems before using the market value of the entire product as the royalty base."

IP Innovation LLC v. Red Hat,Inc., 2010 WL 986620 at * 3 (E.D.TX)((Rader, Cir. J. sitting by designation)(Emphasis added)

The Posse Takes Both Forks in the Road

- "The Court finds Mr. Bratic's report inadequate for applying the entire market value rule to establish a royalty base. Mr. Bratic's report fails to demonstrate the patented inventions are bases for consumer demand for these products."

- "The Court recognizes, however, that this does not appear to be a case where a small saleable infringing unit is readily available to establish a narrower royalty base. Therefore, reliance on the market value of the entire product may be appropriate. *See Lucent*, 580 F.3d at 1339."

Fenner Investments, Ltd. v. Hewlett-Packard Co., Civ. No. 6:08-CV-273 (Slip Op. April, 16, 2010 E.D.TX)

The Posse Takes Both Forks in the Road

- Mr. Bratic's report is inadequate, however, for failing to identify and support an appropriate "multiplier" that takes into account the relative significance of the patented inventions and their contribution to the overall value of the accused products."

- "The Court grants Plaintiff leave to serve a supplemental report repairing these inadequacies."

Fenner Investments, Ltd. v. Hewlett-Packard Co., Civ. No. 6:08-CV-273 (Slip Op. April, 16, 2010 E.D.TX)

Only to be Met by a Dust Storm. . .

- Uniloc argues that the entire market value of the products may appropriately be admitted if the royalty rate is low enough, relying on the following statement in *Lucent Technologies:*

> "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). . . . Microsoft surely would have little reason to complain about the supposed application of the entire market value rule had the jury applied a royalty rate of .1% (instead of 8%) to the market price of the infringing programs."

Uniloc USA, Inc. v. Microsoft Corporation , Fed. Cir. Jan. 4, 2011, at p. 50.

Only to be Met by a Dust Storm. . .

- "Just before this statement, however, this court held that one of the flaws in the use of the entire market value in that case was "the lack of evidence demonstrating the patented method of the Day patent as the basis—or even a substantial basis—of the consumer demand for Outlook. . . . [t]he only reasonable conclusion supported by the evidence is that the infringing use of the date-picker tool in Outlook is but a very small component of a much larger software program." *Id*. at 1338. Thus, in context, the passage relied on by Uniloc does not support its position."

Uniloc USA, Inc. v. Microsoft Corporation , Fed. Cir. Jan. 4, 2011, at p. 50.

Only to be Met by a Dust Storm. . .

- "This case provides a good example of the danger of admitting consideration of the entire market value of the accused where the patented component does not create the basis for customer demand. As the district court aptly noted, "[t]he $19 billion cat was never put back into the bag even by Microsoft's cross-examination of Mr. Gemini and re-direct of Mr. Napper, and in spite of a final instruction that they jury may not award damages based on Microsoft's entire revenue from all the accused products in the case."

Uniloc USA, Inc. v. Microsoft Corporation , Fed. Cir. Jan. 4, 2011, at p. 51.

But No Dust Here . . . .

- "This court now holds as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Evidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence, because it fails to tie a reasonable royalty base to the facts of the case at issue."

Uniloc USA, Inc. v. Microsoft Corporation , Fed. Cir. Jan. 4, 2011, at p. 41.

- Apportionment cannot be achieved by the mere downward adjustment of the royalty rate in a purported effort to reflect the relative value of the accused features because doing so fails to remove the revenues associated with the non-accused features from the revenue base. *Id.* (clarifying *Lucent* and rejecting the argument that "the entire market value of the products may appropriately be admitted if the royalty rate is low enough").

Mirror Worlds, LLC v. Apple, Inc., 2011 WL 1304488 at *4 (April 4, 2011 E.D.Tex.)