

## Federal Circuit Again Reins in Damages Award

February 11, 2010

Last fall, in its decision in *Lucent v. Gateway*, the Federal Circuit vacated a \$357 million verdict, signaling to litigants and district court judges that “speculation” and “superficial testimony” were insufficient to support the amount of damages awarded. Last week, in its February 5 opinion in *ResQNet.com, Inc. v. Lansa, Inc.*, the appellate court delivered a similar message, albeit on a smaller scale—this time vacating a damages award of \$506,305. In doing so, the court provided detailed guidance on the important issue of which prior licenses can be used to set the royalty rate in a patent case.

The claimed invention in *ResQNet.com* involved a method of communicating data between a host computer and a remote terminal. After infringement was found and invalidity defenses were unsuccessful, the district court awarded \$506,305 in reasonable royalty damages, based on a hypothetical royalty rate of 12.5%. The plaintiff’s damages expert had arrived at this number by looking primarily at two things: (1) a group of “re-bundling licenses,” as part of which the plaintiff/patentee had provided “finished software products and source code, as well as services such as training, maintenance, marketing, and upgrades”; and (2) a single license limited to just the patented technology. The first group of agreements included top royalty rates of 25% to 40%, while the single-patent license had a much lower royalty rate (apparently in the range of 5%). The plaintiff’s expert arrived at his proposed rate of 12.5% by choosing a number “somewhere in the middle.”

The Federal Circuit rejected this approach for two primary reasons. First and foremost, the plaintiff’s expert “offer[ed] little or no evidence of a link between the re-bundling licenses and the claimed invention.” Although he suggested in his testimony that the re-bundling licenses were somehow related to the asserted patent, there was insufficient evidence to establish that any of the products or services provided to the licensees actually embodied the claimed invention. Thus, the court held that “[t]he re-bundling licenses simply have no place in this case.”

Second, the Federal Circuit criticized the plaintiff’s expert for relying on licenses that clearly covered more than just what was in the patent (for example, training, marketing, and customer support services). The court reasoned that the royalty analysis “must consider licenses that are commensurate with what the defendant has appropriated. If not, a prevailing plaintiff would be free to inflate the reasonable royalty analysis with conveniently selected licenses without an economic or other link to the technology in question.” For both of these reasons, the Federal Circuit found that the district court had not fulfilled its obligation to “carefully tie proof of damages to the claimed invention’s footprint in the marketplace.”

The opinion of the appellate court was not unanimous on the issue of damages. Judge Newman filed a lengthy dissent in which she criticized her colleagues (Judges Rader and Lourie) for “creat[ing] a new rule whereby no licenses involving the patented technology can be considered, in determining the value of the

infringement, if the patents themselves are not directly licensed or if the licenses include subject matter in addition to that which was infringed by the defendant here.” Judge Newman called this conclusion “unprecedented, and incorrect.”

The opinion is available online at <http://www.cafc.uscourts.gov/opinions/08-1365.pdf>.

If you have any questions or would like more information on any of the issues discussed in this LawFlash, please contact any of the following Morgan Lewis attorneys:

#### **Houston**

Winn D. Carter, Jr.	713.890.5140	<a href="mailto:wcarter@morganlewis.com">wcarter@morganlewis.com</a>
C. Erik Hawes	713.890.5165	<a href="mailto:ehawes@morganlewis.com">ehawes@morganlewis.com</a>

#### **New York**

Brian P. Murphy	212.309.2108	<a href="mailto:bmurphy@morganlewis.com">bmurphy@morganlewis.com</a>
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#### **Palo Alto**

Michael J. Lyons	650.843.7507	<a href="mailto:mlyons@morganlewis.com">mlyons@morganlewis.com</a>
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#### **Philadelphia**

Thomas B. Kenworthy	215.963.5702	<a href="mailto:tkenworthy@morganlewis.com">tkenworthy@morganlewis.com</a>
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#### **Washington, D.C.**

J. Kevin Fee	202.739.5353	<a href="mailto:jkfee@morganlewis.com">jkfee@morganlewis.com</a>
Anthony C. Roth	202.739.5188	<a href="mailto:aroth@morganlewis.com">aroth@morganlewis.com</a>

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