

## Appellate Judge Excludes Damages Theory from Patent Trial

March 5, 2010

As is known among many in the intellectual property field, Judge Randall R. Rader, of the U.S. Court of Appeals for the Federal Circuit, periodically takes a break from his appellate duties to preside over trials of patent cases at the district court level. In one such case, he recently issued a decision reminding lawyers, litigants, and expert witnesses that plaintiffs must have a firm evidentiary foundation before submitting a broad damages theory to the jury.

In late 2009, the parties in *IP Innovation L.L.C. v. Red Hat, Inc.* were preparing to try their case before Judge Leonard Davis in the Marshall Division of the Eastern District of Texas, when they got a surprise—Judge Rader, sitting by designation, would be presiding over the trial. Earlier this week, Judge Rader made his presence in the case felt when he issued an order completely excluding the proposed testimony of the plaintiffs' damages expert.

The asserted patents in this case involved a method for allowing computer users to switch around among multiple different workspaces. The plaintiffs and their expert accused the defendants' Linux-based operating systems of infringement, and sought to recover a royalty for each system in question based on the value of the *entire operating system*. The plaintiffs' damages model was based on the theory known as the "entire market value rule," which can allow a patentee to collect damages based on the entire market value of an accused instrumentality, even if the patented invention is only one component of a larger apparatus. Under the facts of this case, Judge Rader emphatically rejected the plaintiffs' approach.

Judge Rader began by noting that the entire market value rule may only be invoked where the patented feature forms "the basis for customer demand" for the larger accused device. In this case, he found that "[t]he claimed invention is but one relatively small component of the accused operating systems. The evidence shows that the workplace switching feature represents only one of over a thousand components included in the accused products." Although the plaintiffs' expert pointed to some isolated statements about the popularity of workplace switching in general, the court held that such evidence had no "relationship to the actual claimed technology."

Judge Rader went further and noted that the record in the case "suggests that users do not buy the accused operating systems for their workspace switching feature." He noted that some accused products did not even include the allegedly infringing feature, others did not have the feature enabled, and, even in those products where it was included and enabled, many consumers still did not use the feature.

In the decision, Judge Rader noted that the plaintiffs had tried to "shift the burden" to the defendants by arguing that they had failed to produce evidence sufficient for the plaintiffs' expert to perform the kind

of analysis the court required. The court was unmoved, noting that it was the plaintiffs' burden to prove damages and that they "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."

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