

## Vacating \$357 Million Award, Federal Circuit Addresses Key Patent Damages Issue

September 17, 2009

On September 11, the U.S. Court of Appeals for the Federal Circuit vacated Lucent's \$357 million patent infringement award against Microsoft. *Lucent Technologies, Inc. v. Gateway, Inc.*, Nos. 2008-1485, 1487, 1495 (Fed. Cir. Sept. 11, 2009).

In an opinion by Chief Judge Michel (joined by Judges Newman and Lourie), the court reaffirmed that application of the "entire market value rule," which allows patent infringement damages to be assessed based on the value of the product into which a patented item is placed, requires a showing that the patented feature is the basis for customer demand. The court, however, reiterated that determination of the "precise methodologies" to be used in determining infringement damages is committed to the district court's sound discretion and 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)." In its detailed substantial evidence analysis, which emphasizes that "speculation, without more," and "superficial testimony" are not sufficient, the court provides extensive guidance to litigants regarding necessary damages proofs.

Lucent sued Gateway alleging infringement of "the Day patent," which the Federal Circuit described as "generally directed to a method for entering information into fields on a computer screen without using a keyboard." Microsoft intervened and a jury trial was held in the U.S. District Court for the Southern District of California. At trial, Lucent alleged that four Microsoft products indirectly infringed the Day patent. Lucent sought reasonable royalty damages of \$561.9 million "based on an 8% royalty [on sales of] the accused software products" and Microsoft countered that "a lump-sum payment of \$6.5 million" adequately compensated Lucent. The jury returned a verdict awarding Lucent a lump sum royalty payment of \$357,693,056.18. Microsoft appealed, arguing that the verdict was based on an improper application of the entire market value rule and was not supported by "substantial evidence."

After reaffirming that "the precise methodology used in 'assessing and computing damages is committed to the sound discretion of the district court,'" and noting that "sophisticated parties routinely enter into license agreements based on the value of the patented invention as a percentage of the commercial products' sales price," the Federal Circuit rejected the suggestion "that the entire market value rule should have little role in reasonable royalty law." There are, however, "certain mandatory conditions for applying the entire market value rule." The court found a complete lack of evidence that the patented feature, "a very small component of a much larger software program," was the basis for consumer demand for Microsoft's infringing products or any evidence to support Lucent's request for an



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