

No. 19-211

IN THE
Supreme Court of the United States

TIME WARNER CABLE, INC., ET AL.,
Petitioners,

v.

SPRINT COMMUNICATIONS COMPANY, L.P.,
Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

**BRIEF FOR INTEL CORPORATION AS
AMICUS CURIAE IN SUPPORT OF PETITIONERS**

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INTEREST OF AMICUS CURIAE¹

Headquartered in the United States, Intel Corporation is a global leader in the design and manufacturing of semiconductor products, including hardware and software products for networking, telecommunications, cloud computing, artificial intelligence, autonomous driving, and other applications.

Intel is a strong believer in protection of intellectual property in general and patents in particular. It invests billions of dollars each year in research and development, and routinely ranks in the top ten annually in number of patents granted by the U.S. Patent and Trademark Office. As both a significant patent holder and a product manufacturer that is a frequent target of patent litigation, Intel has a strong interest in ensuring that patentees are only compensated for the actual value of their inventions, and further that only accurate and reliable expert damages testimony is presented during patent infringement trials.

INTRODUCTION AND SUMMARY OF ARGUMENT

This Court has made clear for over a century that the “true rule” of infringement damages is that a patentee seeking a reasonable royalty on sales of a multi-feature product must give evidence that separates between the value of the patented invention and the product’s unpatented features. This principle—known as “apportionment”—is embodied in the modern patent

¹ No counsel for a party authored this brief in whole or in part, and no entity or person, other than amicus curiae and its counsel, made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for the parties have consented to the filing of this brief.

damages statute, 35 U.S.C. § 284, and stands for the common-sense notion that a patentee is entitled to compensation for the infringer's use of the patented invention, but not for the features of an infringing product that the patentee did not invent. Apportionment is always important, but it is particularly important when an accused product is complex in technology-heavy industries, where products frequently consist of hundreds or thousands of features and components.

The Federal Circuit historically policed patent damages awards to ensure compliance with this Court's long-established apportionment principles. Recently, however, apportionment has become a paper tiger. While nominally reciting principles of apportionment, the Federal Circuit has increasingly tolerated damages methods and theories that sidestep apportionment, permitting patentees to pursue damages claims that wildly overshoot the value of the patented inventions at issue. These decisions are in direct conflict with this Court's longstanding precedent and even in tension with Federal Circuit decisions from only a few years ago. The Federal Circuit's drift from settled damages principles has sown confusion in the lower courts, which likewise now routinely permit patentees to present damages theories not apportioned to value only the contribution of the claimed invention in an infringing product.

The Federal Circuit's approach has significant consequences, resulting in duplicative and overlapping judgments for the manufacturers of complex, multi-component products and systematically overcompensating patentees. This imbalance in the patent system discourages innovation.

The petition presents an ideal vehicle for addressing this dangerous trend, as the patentee below successfully pursued several end runs around apportionment. Both the district court and the Federal Circuit considered these issues, yet failed to resolve them in a manner consistent with this Court’s precedent. The Court should grant the petition, reaffirm its longstanding apportionment principles, and correct the Federal Circuit’s increasingly errant patent damages law.

ARGUMENT

I. THIS CASE PRESENTS AN IMPORTANT AND RECURRING QUESTION CONCERNING THE FEDERAL CIRCUIT’S RETREAT FROM THIS COURT’S PRECEDENT GOVERNING PATENT INFRINGEMENT DAMAGES

A. Apportionment Has Been The “True Rule” Of Patent Damages For Over A Century And Is Critically Important To Ensuring Proportional Damages Awards

The Patent Act provides that a patentee, if successful in proving infringement of a valid patent, shall be awarded “damages adequate to compensate for the infringement,” which as relevant here may take the form of “a reasonable royalty for *the use made of the invention* by the infringer[.]” 35 U.S.C. § 284 (emphasis added). In other words, Congress has determined that reasonable royalty damages are meant to compensate patentees for the unlicensed use of their patented invention, but not to provide a windfall based on the value of distinct, non-patented features and components that the inventor had no hand in creating. *See Commonwealth Sci. & Indus. Research Org. v. Cisco Sys., Inc.*, 809 F.3d 1295, 1301 (Fed. Cir. 2015) (“*CSIRO*”) (“Under § 284, damages awarded for patent infringe-

ment must reflect the value attributable to the infringing features of the product, and no more.” (internal quotation marks omitted)).

Over 130 years ago, this Court set forth the basic rule for ensuring that, when the product found to infringe includes features beyond what is covered by the patent, damages may compensate only for the infringing use of the patent: “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 feature and the unpatented features.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884). “[S]uch evidence must be reliable and tangible, and not conjectural or speculative.” *Id.*

Garretson’s “apportionment” principle reflects the common-sense idea that when a patent relates to only one feature or component of a more complex product, any infringement damages owed to the patentee must reflect the value of only the patented feature or component, and not the unpatented features in the product or the full product itself. *See Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014) (“The essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product.”). “In other words, the patent holder should only be compensated for the approximate incremental benefit derived from his invention.” *Id.* at 1233.

For example, where a patent relates specifically to the disk drive of a laptop (which allows it to read CDs and DVDs), the patentee is not entitled to damages stemming from the total value of the entire laptop, which includes numerous other valuable features and components that are not covered by the patent (*e.g.*,

processor, battery, screen, keyboard, memory, internet connectivity, graphics, etc.). See *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 68 (Fed. Cir. 2012). In cases involving such complex products, “calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product.” *Id.* at 67. Accordingly, it is “generally required that royalties be based not on the entire product” (*i.e.*, the value of the full laptop), but instead are limited to the incremental value of the patented feature (*i.e.*, the value of the disk drive). *Id.*

This Court has long made clear that apportionment is “[t]he true rule” of patent damages. *Dobson v. Hartford Carpet Co.*, 114 U.S. 439, 445 (1885). This simple, yet critical, concept—that patentees should only be rewarded for the incremental value of their invention, and not a product’s unpatented features—has been the cornerstone of patent damages law for over a century. See *Lattimore v. Hardsocg Mfg. Co.*, 121 F. 986, 987-988 (8th Cir. 1903) (“[T]he rule for computing the plaintiff’s damages is well settled by repeated decisions of the Supreme Court of the United States.” (citing *Garretson*, 111 U.S. at 120)); *Westinghouse v. New York Brake Co.*, 140 F. 545, 549 (2d Cir. 1905) (“The general rule governing recoveries in infringement cases is stated ... in *Garretson v. Clark*[.]”); accord *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 614-615 (1912) (explaining that where “plaintiff’s patent only created a part of the profits, he is only entitled to recover that part of the net gains” (citing *Garretson*, 111 U.S. at 121)); Yang, *Damaging Royalties: An Overview of Reasonable Royalty Damages*, 29 Berkeley Tech. L.J. 647, 656 (2014) (“In 1884, the Court first recited the basic rule for apportionment in *Garret-*

son v. Clark, holding that the patentee must ‘separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features.’”). And it continues to govern—at least on paper—to this day. See *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275, 1283 n.3 (Fed. Cir. 2017) (“While these pre-§ 284 cases apply to a different damages regime, nonetheless, we find the basic principle of apportionment which they espouse applies in all of patent damages.”), *cert. dismissed*, 139 S. Ct. 44 (2018).

B. The Federal Circuit Increasingly Refuses To Enforce Established Apportionment Principles

Consistent with § 284 and *Garretson*’s mandate, as well as Rule 702 of the Federal Rules of Evidence and *Daubert v. Merrell Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), the Federal Circuit historically policed the admission of unreliable damages evidence and—applying apportionment principles—vacated inappropriately large damages awards that exceeded the value of the patent-in-suit’s contribution to the accused products. See, e.g., *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326, 1329 (Fed. Cir. 2014) (vacating \$368 million damages award where patentee’s expert “failed to apportion value between the patented features and the vast number of non-patented features contained in the accused [iPhone and iPad] products”); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (applying apportionment principles “derived from Supreme Court precedent” in *Garretson* to vacate \$388 million award and order new trial on damages); *LaserDynamics*, 694 F.3d at 67 (affirming trial court’s rejection of \$52 million jury verdict calculated from total

product revenues and ordering new trial on damages); *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1337 (Fed. Cir. 2009) (overturning \$357 million damages award calculated from total product revenue); accord Federal Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 161 n.6 (2011) (“*The Evolving IP Marketplace*”) (“With few exceptions, the largest jury verdicts awarded each year are typically reduced or overturned upon appeal[.]”).

But while the Federal Circuit continues to pay lip service to apportionment, *e.g.*, *CSIRO*, 809 F.3d at 1301, it has increasingly permitted new ways to sidestep both apportionment and *Daubert*. With increasing frequency and consistency, the Federal Circuit has moved to an approach that, though reciting apportionment as a general matter, allows patentees and their damages experts to demand—and juries and district courts to award—reasonable royalties that do not comply with this Court’s long-established apportionment principles. *Cf.* Lemley, *The Surprising Resilience of the Patent System*, 95 *Tex. L. Rev.* 1, 11 (2016) (noting that in the 2000s the Federal Circuit had “begun to rein in outlandish theories of patent damages” but that “[b]y 2015, the tenor of the debate had changed”).

For example, in recent cases, the Federal Circuit has permitted royalties to be calculated from revenues for the entire accused product, even where the incremental benefit claimed by the patent was directed to only a specific component or narrow feature. *E.g.*, *Exmark Mfg. Co. v. Briggs & Stratton Power Prods.*, 879 F.3d 1332, 1348-1349 (Fed. Cir. 2018) (permitting royalty calculated using sales of entire lawn mowers, rather than the “flow control baffles” claimed by the asserted patents); *Astrazeneca AB v. Apotex Corp.*, 782

F.3d 1324, 1339-1340 (Fed. Cir. 2015) (permitting damages calculated on entire pharmaceutical, rather than the “subcoating” claimed in the patents). In these same cases, the Federal Circuit also permitted the patentees’ damages experts to avoid performing an actual apportionment analysis because they incanted the so-called *Georgia-Pacific* factors—a set of fifteen broad and non-exclusive factors originally set out in a district court opinion, *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). See *Exmark*, 879 F.3d at 1348-1349; *Astrazeneca*, 782 F.3d at 1340.

Taking their lead from the Federal Circuit, many district courts now routinely allow experts to omit any meaningful apportionment analysis from their testimony, instead permitting them to simply point (after the fact) to discussion of the *Georgia-Pacific* factors as sufficient approximation. As one recent decision candidly acknowledged, “[w]hile [the patentee’s expert] did not explicitly discuss apportionment of the patented versus unpatented features, he made related and substantially the same inquiries as part of his *Georgia-Pacific* royalty analysis.” *Bombardier Recreational Prods. Inc. v. Arctic Cat Inc.*, No. CV 12-2706 (JRT/LIB), 2017 WL 758335, at *10 (D. Minn. Feb. 24, 2017). Another district court similarly explained that, while the patentee’s damages expert “did not quantitatively reduce the royalty rate” to reflect apportionment, “he claimed to have used the *Georgia-Pacific* factors to qualitatively reduce the royalty rate.” *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, 329 F. Supp. 3d 1070, 1102 (N.D. Cal. 2018). On the basis of the Federal Circuit’s decision in *Exmark*, the court upheld the jury’s damages verdict because the expert “touched on the *Georgia-Pacific* factors during trial,” even though the court characterized that testimony as “relatively generalized.” *Id.* (cit-

ing *Exmark*, 879 F.3d at 1348); see also *Plastic Omnium Advanced Innovation & Research v. Donghee Am., Inc.*, 387 F. Supp. 3d 404, 414 (D. Del. 2018) (merely assuming expert testimony “account[ed] for the patented features” of the accused product by “determin[ing] reasonable royalty rates ... after extensive consideration of the *Georgia-Pacific* factors”); *Opticurrent, LLC v. Power Integrations, Inc.*, No. 17-CV-03597-EMC, 2019 WL 2389150, at *10 (N.D. Cal. June 5, 2019) (affirming damages award that began with the defendant’s “total revenues” on the accused products and then multiplied by a reasonable royalty rate derived from the *Georgia-Pacific* factors).

In other recent cases, the Federal Circuit has allowed patentees to import royalty rates from historical license agreements involving a third-party licensee that the patentee asserts is in a “comparable” position to that of the accused infringer—without performing any apportionment to isolate the contribution of the claimed invention to the specific accused product. In those cases, the Federal Circuit has allowed patentees’ experts to merely *assume* that apportionment was “built in” to the historical licenses, even though the allegedly comparable scenarios involved different parties, different patents, and/or different products. *E.g.*, *VirnetX Inc. v. Apple Inc.*, No. 18-1197 (Fed. Cir. Jan. 15, 2019) (summarily affirming \$302 million verdict based upon six allegedly comparable settlement agreements that the patentee’s expert assumed had “built in” apportionment, even though they were negotiated based on the full market value of the licensed end products); *Elbit Systems Land & C4I Ltd. v. Hughes Network Sys., LLC*, 927 F.3d 1292, 1299-1301 (Fed. Cir. 2019) (affirming \$21.1 million verdict based upon an allegedly comparable settlement agreement, where the patentee’s expert

merely assumed that apportionment was “implicit” in the prior agreement).

Again, the Federal Circuit’s lax enforcement of apportionment principles has increasingly resulted in district courts allowing damages experts to forgo real apportionment analysis and instead to import royalty rates from prior licenses, settlement agreements, and jury verdicts—without suitable modification to value the defendant’s use of the patented feature in the products found to infringe. *E.g.*, *Imagenetix, Inc. v. Robinson Pharma, Inc.*, No. 8:15-CV-00599-JLS-JCG, 2018 WL 5880798, at *8 (C.D. Cal. June 12, 2018) (upholding damages award based on an allegedly comparable “licensing agreement with a third party” where the patentee’s damages expert “testified that this agreement ‘already apportions’ the value of [the patented invention]”); *Opticurrent*, 2019 WL 2389150, at *10-11 (finding that apportionment may be “already built into the royalty rate in a comparable license” and permitting the expert to import a royalty rate of 3% from an earlier license, despite the fact that the expert’s discussion of the differences between the facts of the case and the circumstances of the earlier license was “not robust”).

The present case reflects each of these impermissible methods that contradict this Court’s apportionment requirement. At trial, Sprint’s damages expert offered a reasonable royalty analysis based upon a jury verdict from another litigation against another defendant (Vonage) concerning the same patents, where the jury awarded a royalty stemming from Vonage’s “entire revenues for its VoIP product.” *Sprint Commc’ns Co. v. Comcast Cable Commc’ns LLC*, 225 F. Supp. 3d 1233, 1249 (D. Kan. 2016). The trial court admitted the evidence, explaining that “other license agreements need not be identical in all ways to the present circum-

stances,” *id.*, but did not otherwise require that Sprint apportion its damages demand to the incremental contribution of the asserted patents to Time Warner’s different accused VoIP services.

As the petition explains (at 15-19), such analysis is fundamentally at odds with this Court’s longstanding apportionment requirement, which does not permit patentees to receive damages based on total product revenue except in the rare situation where “the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.” *Garretson*, 111 U.S. at 121. And there is no dispute that Sprint did not allege this case to be such a rare instance at trial.

The Federal Circuit compounded the trial court’s mistake. It ruled that the prior jury verdict against Vonage, based on the total revenues for Vonage’s entire VoIP product, was sufficiently reliable as a basis for a royalty from Time Warner because “[b]y operation of the hypothetical negotiation method of calculating damages, the award compensated Sprint for the incremental value of Sprint’s technology, not for the value of unpatented features of Vonage’s VoIP system.” Pet. App. 10.

The Federal Circuit’s conclusion is inconsistent with the requirement that damages be apportioned in every case. The “hypothetical negotiation method” is not a black box that automatically generates reliably apportioned royalties (much less reliably apportioned royalties for subsequent cases involving a different defendant and different products or services). Instead, like all methodologies, it is only helpful when properly applied to reliable evidence. *See i4i Ltd. P’ship v. Microsoft Corp.*, 598 F.3d 831, 852 (Fed. Cir. 2010) (ex-

plaining that expert testimony is reliable only “[w]hen the methodology is sound, and the evidence relied upon sufficiently related to the case at hand”), *aff’d*, 131 S. Ct. 2238 (2011). The mere fact that the prior jury was instructed to perform a “hypothetical negotiation” to reach a reasonable royalty as to Vonage did not relieve Sprint, or its expert, of the obligation to apportion the damages demand in this case to limit it to the incremental contribution of the claimed invention to Time Warner’s accused products.

The Federal Circuit further suggested that “the objective of apportionment can be achieved in different ways, one of which is through the determination of an appropriate royalty by application of the so-called *Georgia-Pacific* factors.” Pet. App. 11. That reasoning, again, improperly replaces the independent requirement of apportionment with a separate damages framework. An expert’s bare invocation of the fifteen non-exclusive factors in the district court decision in *Georgia-Pacific* does not guarantee a result that separates out the value of the patented invention from the value of other, unpatented features of the accused product. See *Whitserve, LLC v. Computer Packages, Inc.*, 694 F.3d 10, 31 (Fed. Cir. 2012) (holding that “superficial recitation of the *Georgia-Pacific* factors, followed by conclusory remarks, can not support the jury’s verdict”); *Lucent*, 580 F.3d at 1329 (explaining that a “damages award cannot stand solely on evidence which amounts to little more than a recitation of royalty numbers” and jurors cannot rely on “superficial testimony” with “no analysis”).

More importantly, the *Georgia-Pacific* factors, even if properly applied, are no substitute for the independent requirement to apportion. Whereas apportionment is an ironclad, standalone damages rule that

must be met “in every case,” *Garretson*, 111 U.S. at 121, *Georgia-Pacific* sets out fifteen “inter-penetrating factors bearing upon the amount of a reasonable royalty.” *Georgia-Pacific*, 318 F. Supp. at 1121. The *Georgia-Pacific* court described the factors as “mutatis mutandis” and freely admitted that “there is no formula by which these factors can be rated precisely in the order of their relative importance.” *Id.* at 1120, 1121. Nothing in over a century of apportionment law suggests that the need to apportion damages may be simply one potentially relevant factor among many in setting an appropriate reasonable royalty award. See Bensen & White, *Using Apportionment to Rein in the Georgia-Pacific Factors*, 9 Colum. Sci. & Tech. L. Rev. 1, 46 (2008) (“treating apportionment merely as a factor in the reasonable royalty analysis, where it may be given more or less weight or ignored altogether, is insufficient to meet long-standing apportionment requirements”). Indeed, the Federal Circuit previously (and correctly) suggested that the *Georgia-Pacific* factors should not be relied upon to ensure apportionment. See *Ericsson*, 773 F.3d at 1228 n.5 (“While factors 9 and 13 of the *Georgia-Pacific* factors allude to apportionment concepts, we believe a separate instruction culled from *Garretson* would be preferable in future cases.”).

The present case therefore represents merely the latest instance in a growing series of cases in which a patentee was able to sidestep this Court’s apportionment requirement. The fact that the Federal Circuit, in its amended decision, emphasized that “the jury was specifically instructed on apportionment,” Pet. App. 13, does not mean that the damages demand and ensuing award were properly apportioned. It is the job of the courts, not the jury, to ensure that only reliable evidence is admitted, particularly where the evidence con-

cerns economically complex issues. As Rule 702 and *Daubert* recognize, trial-based mechanisms—including cross-examination, competing expert testimony, and jury instructions—are not themselves sufficient to counter the harm caused by exposing the jury to unreliable expert damages testimony and correspondingly inflated damages demands that do not comply with this Court’s apportionment requirement. *See Daubert*, 509 U.S. at 596 (“These conventional devices ... are the appropriate safeguards where the basis of [expert] testimony meets the standards of Rule 702.”); *see also Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 147 (1999) (“In *Daubert*, this Court held that Federal Rule of Evidence 702 imposes a special obligation upon a trial judge to ‘ensure that any and all scientific testimony ... is not only relevant, but reliable.’” (quoting *Daubert*, 509 U.S. at 589)).

The Federal Circuit’s recent deviation from settled damages law, as reflected in this case and others, is contrary to *Garretson*’s mandate that patentees “must in every case give evidence tending to separate” the value of patented and unpatented features. *Garretson*, 111 U.S. at 121. The result is that the Federal Circuit has opened the gates to disproportionate damages claims that compensate patentees for far more than the defendant’s use of the patented invention in its accused products—contrary to both 35 U.S.C. § 284 and *Garretson*.

II. THE FEDERAL CIRCUIT’S RETREAT FROM ENFORCING GARRETSON’S APPORTIONMENT REQUIREMENT RAISES SERIOUS POLICY CONCERNS

Though long and well established, the principle of apportionment has taken on critical importance in an era when new products and technologies are typically complex, multi-component machines. *See Geradin &*

Layne-Farrar, *Patent Value Apportionment Rules for Complex, Multi-Patent Products*, 27 Santa Clara Computer & High Tech. L.J. 763 (2011) (“The vast majority of the products developed by the information technology (‘IT’) industry are technologically complex, incorporating hundreds or thousands of different components, and many of these components read on an increasingly large number of patents held by a number of third parties.”); Jarosz & Chapman, *The Hypothetical Negotiation and Reasonable Royalty Damages: The Tail Wagging the Dog*, 16 Stan. Tech. L. Rev. 769, 815 n.215 (2013) (“Though increasingly important of late, apportionment is deeply rooted in case law.” (citing *Garretson*, 111 U.S. at 121)).

When apportionment principles are not properly enforced, creators of complex, multi-component products are uniquely vulnerable to the threat of outsized royalty damages derived from the value of unpatented features or even complete products. Returning to the example in *LaserDynamics*, if a laptop manufacturer licenses a battery-related patent from a third-party to build its laptop, but is later forced to pay royalty damages on the *whole* laptop for a patent related only to the disk drive, the manufacturer is in effect paying two royalties for the value added by the battery technology. See Love, *Patentee Overcompensation and the Entire Market Value Rule*, 60 Stan. L. Rev. 263, 280-281 (2007) (“[I]f a producer of a complex product has already been compelled to pay a reasonable royalty to a patentee based on the entire value of the complex product, the producer has effectively compensated the patentee for the value contributed by each and every component of that product.... Any additional liability faced by the producer is necessarily duplicative of that already paid to the patentee who first filed suit.”). In

such a scenario, the patent regime “systematically overcompensat[es] patentees who own patents covering only one component of a larger, complex device.” *Id.* at 293; *see also* Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 *Wm. & Mary L. Rev.* 655, 664 (2009) (“[S]ince there is always at least some value to the defendant’s product not attributable to the patent, any application of the entire market value rule in a reasonable royalty setting necessarily overcompensates the patent owner by giving it value not in fact attributable to the patent.”).

Companies like Intel have firsthand experience dealing with this problem. Intel creates products such as microprocessors and chipsets that are typically incorporated into larger products such as servers, desktop computers, laptops, tablets, and smartphones, and that are themselves comprised of millions—or even billions—of electronic components. *See* Intel, *Making Silicon Chips* (“The most sophisticated processor can contain hundreds of millions or billions of transistors interconnected by fine wires made of copper. Each of these transistors acts as an on/off switch, controlling the flow of electricity through the chip to send, receive, and process information.”), *available at* <https://www.intel.com/content/www/us/en/history/museum-making-silicon.html>. In turn, Intel’s complex products practice thousands of patents, many of which Intel owns and some of which Intel licenses from other companies. *See Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617, 635 (2008) (“[E]ach Intel microprocessor and chipset practices thousands of individual patents[.]”).

Intel has faced lawsuits where the asserted patent claims concern discrete components or features of Intel’s microprocessors and chipsets, yet the patentee seeks excessive damages amounts by bypassing the ap-

portionment requirement. For example, Intel was sued for *\$2 billion* for alleged infringement by its microprocessors, where the asserted patent concerned just a single circuit. See Greene, *Intel Claims Victory in \$2B Circuit Patent Jury Trial*, Law360 (May 10, 2017), available at <https://www.law360.com/articles/922745/intel-claims-victory-in-2b-circuit-patent-jury-trial>. Similarly, Intel faced a likely multi-billion dollar claim in a suit where the asserted patents related only to “algorithms and implementing mechanisms that allow for cache coherency”—one narrow feature among thousands in Intel’s complex products. See *Memory Integrity, LLC v. Intel Corp.*, 144 F. Supp. 3d 1185, 1187 (D. Or. 2015).²

In another recent case, Intel faced a *\$10 billion* damages claim—several times larger than the largest patent verdict ever awarded—based on patents that related only to discrete aspects of circuit architecture. See *Intel Corp. v. Future Link Sys., LLC*, No. 14-377, D.I. 621, at 2 (D. Del.) (noting claim for \$9.94 billion in damages on 14 patents-in-suit). In *Future Link*, the patentee’s damages experts engaged in many of the same dubious tactics that Sprint’s expert engaged in here. For one set of patents-in-suit, Future Link’s damages expert began with four allegedly comparable

² Former Chief Judge Rader of the Federal Circuit recognized that products like microprocessors are particularly susceptible to such abuse. See *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 287, 289 (N.D.N.Y. 2009) (Rader, C.J., sitting by designation) (“Cornell breezed by the unit closest to the claimed technology—the processors—as a starting point for the royalty base, choosing instead the CPU bricks that are just one rung down the price ladder from the excluded servers and workstations.... Indeed, all of Cornell’s proffered evidence of the superiority of the claimed invention compares the performance of different computer processors, not CPU bricks containing those processors.”).

licenses (that in fact related to less complex technology) and then conducted a “*Georgia-Pacific* analysis to determine whether any adjustments needed to be made” to the royalty rate, only to conclude that no adjustments were necessary. *Id.* at 3. The expert’s report made no reference to apportionment, and the expert later asserted that apportionment was “embedded” in the licenses’ royalty rate. *Future Link*, D.I. 541, at 8-9; *see also Future Link*, D.I. 634, at 14:21-15:2 (counsel for patentee arguing that “it is appropriate for an expert to determine ... that the parties *inherently apportioned* as part of their negotiations” (emphasis added)). The expert then applied the licenses’ rate to the entire market value of Intel’s accused products, resulting in a claim for \$6.16 billion in damages based on just six of the asserted patents. *Future Link*, D.I. 541, at 8; *Future Link*, D.I. 621, at 2.

Regarding the remaining patents-in-suit, Future Link’s second damages expert similarly did not reference apportionment in his report, and by Future Link’s own admission “did not conduct a technical apportionment analysis.” *Future Link*, D.I. 621, at 4. He instead assumed, based on testimony from Future Link’s technical experts, that *all* the value of the accused features in Intel’s microprocessors was attributable to the asserted patents, without any analysis identifying the incremental contribution of the patented inventions to Intel’s accused products. *Future Link*, D.I. 541, at 12-16. The district court allowed both experts’ testimony under Rule 702, *Future Link*, D.I. 621, permitting Future Link to proceed to trial with a damages claim *one thousand times* greater than Intel’s own damages theory—potentially presenting the jury with damages goalposts nearly \$10 billion apart. The case settled. *See Simpson, Intel Settles Patent Row That Future Link*

Valued At \$10B, Law360 (Aug. 18, 2017), *available at* <https://www.law360.com/articles/955712/intel-settles-patent-row-that-future-link-valued-at-10b> (noting that Intel’s damages theory placed the hypothetical value of damages at \$10 million).

Cases like *Future Link* underscore the potential to score windfall damages or favorable settlement agreements, enticing patentees to seek judgments in the hundreds of millions or even billions of dollars based on patents directed toward nominal features of complex products. For companies like Intel that create products with thousands of features and components, this has invited high-stakes litigations, the cost of which only continues to rise. *See* Spiezo, *IP Litigation Spending Is on the Rise, Survey Finds, With Larger and More Complex Matters*, Law.com (Aug. 8, 2019), *available at* <https://www.law.com/corpcounsel/2019/08/08/ip-litigation-spending-is-on-the-rise-survey-finds-with-larger-and-more-complex-matters/>. These costs show no sign of abating, as damages claims only continue to grow. As one district court judge explained: “These astronomical litigation costs are compounded by growing damage awards.” Saris, *The Indefinite Role of the Trial Judge in Patent Litigation*, 18 Lewis & Clark L. Rev. 751, 754 (2014) (“Before 2012, only three patent infringement cases had involved damages over \$1 billion. Yet, in 2012, juries in three separate cases awarded damages over \$1 billion. Meanwhile, over the last ten years, median damages in cases brought by non-practicing entities were on average more than double that of cases brought by practicing entities.”).³

³ These costs are further exacerbated by the fact that non-practicing entities (“NPEs”) can now bring claims with the backing of litigation funding entities—a practice once barred as cham-

In addition to unfairly saddling defendants with excessive damages judgments and litigation expenses, overcompensation creates harmful social costs by discouraging innovation, investment, and the manufacture

party. See Bessen & Meurer, *The Direct Costs from NPE Disputes*, 99 Cornell L. Rev. 387, 391 (2014) (observing that “over the last few years, NPE litigation has reached a wholly unprecedented scale and scope” with the growth due in part to “new sources of funding”); Richey, *Tilted Scales of Justice? The Consequences of Third-Party Financing of American Litigation*, 63 Emory L.J. 489, 510 (2013) (noting that litigation funders are particularly active in patent lawsuits due to the availability of treble damages). For example, in a case in which a jury ultimately found that Intel did not infringe, the NPE plaintiff received approximately \$2 million to maintain a suit seeking \$2 billion in damages. See Bultman, *3rd-Party Funding Finding A Home In Patent Litigation*, Law360 (Sept. 29, 2017), available at <https://www.law360.com/articles/959672/3rd-party-funding-finding-a-home-in-patent-litigation>.

The result is that “commercial claims” are increasingly viewed as an “asset class” by entities like venture capital firms and hedge funds. See Lindsay, *Third-Party Litigation Funding Finds Favour with Hedge Fund*, Hedge Funds Review (2012), available at <https://fulbrookmanagement.com/third-party-litigation-funding-finds-favour-with-hedge-fund/>. These entities are drawn to litigation as a “diversifier to a portfolio with no correlation to any other major asset class.” *Id.* While individual lawsuits carry high degrees of risk, hedge funds manage this risk by investing in diverse portfolios of cases. See Steinitz, *The Litigation Finance Contract*, 54 Wm. & Mary L. Rev. 455, 495 (2012). Indeed, different kinds of cases are themselves viewed as distinct asset classes. *Id.* at 460-461; see also *The Rise of Litigation Funders in the USA*, Leaders League (Mar. 13, 2019), available at <https://www.leadersleague.com/en/news/the-rise-of-litigation-funders-in-the-usa>. “What began a decade ago as “a trickle of investments by hedge funds ... has recently turned into a flood,” Steinitz, 54 Wm. & Mary L. Rev. at 461, which has itself led to an increase in case filings. McQueen, *Litigation Funders Become the Litigants as Industry Grows*, Law.com (May 24, 2019), available at <https://www.law.com/2019/05/14/as-litigation-funders-grow-so-do-lawsuits-against-them/>.

of complex products. See Michel, *Bargaining for RAND Royalties in the Shadow of Patent Remedies Law*, 77 Antitrust L.J. 889, 895 (2011) (“[I]nflated damage awards can discourage innovation by raising the costs of product development and increasing the risks of investment for other innovators and manufacturers.”); FTC, *The Evolving IP Marketplace*, at 148 (“Patent damages that ... overcompensate patentees for infringement compared to the market can have detrimental effects on innovation and competition.”); Love, 60 Stan. L. Rev. at 279-280 (explaining why “overcompensation of patentees creates a disincentive for the production of complex products”).

This Court’s apportionment requirement, if properly enforced, is critical to managing these problems. Such enforcement requires district courts to fulfill their gatekeeping roles by excluding unreliable or speculative expert damages evidence that does not adhere to apportionment rules, and further requires the Federal Circuit to enforce a meaningful apportionment requirement. But as explained above, despite this Court’s mandate, both the Federal Circuit and many district courts are increasingly reluctant to require actual apportionment and routinely permit awards that compensate far beyond the incremental contribution of the patented invention to the defendant’s product. Such improper damages awards strike at the heart of the patent system, which should represent “a carefully crafted bargain for encouraging the creation and disclosure of new, useful, and nonobvious advances in technology and design.” *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-151 (1989). This “carefully crafted bargain” is upset when patentees receive windfall damages out of proportion to the contri-

bution their patented invention provides to an accused product.

The petition therefore presents an important question related to the healthy functioning of the patent system, which warrants this Court's attention.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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