

LITIGATION
AND VALUATION

ADVISER

Helping Litigants

With a large staff dedicated solely to litigation, fraud, and valuation consulting, we deliver competent, credible service to businesses, municipalities, not-for-profits, and high net worth individuals. We are respected by both the plaintiff and defendant bar, and prosecutors at the state and federal levels.

Patent Infringement: Damage Computation Considerations

Lucent Case Highlights the Need for Detailed Expert Testimony

Courts are generally loath to disturb a jury's verdict on damages. But in last year's decision in *Lucent Technologies, Inc. v. Gateway, Inc. et al.*, the U.S. Court of Appeals for the Federal Circuit threw out a \$350 million patent infringement award that wasn't supported by substantial evidence.

The court was particularly critical of Lucent's damages expert, who, among other things, had failed to explain to the jury how eight "real-world" license agreements were sufficiently comparable to support the lump-sum damages award.

A reasonable royalty?

The main dispute in this case was between Lucent and Microsoft over Lucent's patented "date-picker" technology, which allowed Microsoft Outlook® users to input a date by clicking on a calendar rather than using the keyboard. Microsoft sold approximately 110 million units incorporating this feature, with total sales of around \$8 billion.

U.S. patent law allows a patentee to recover its lost profits, but in no event can it recover less than a "reasonable royalty." In this case, both sides offered evidence of a reasonable royalty using the "hypothetical negotiation" approach, which is based on the royalty the parties would have agreed to had

they successfully negotiated a license agreement just before infringement began.

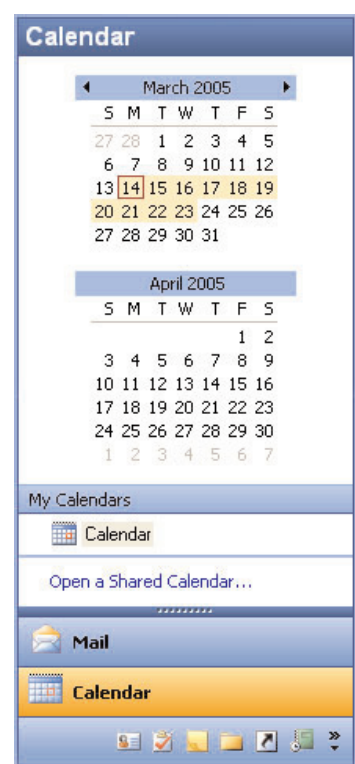
The hypothetical negotiation was reconstructed based on the 15 *Georgia-Pacific* factors, which include considerations such as the nature of the patented invention, the infringer's use of the patented invention, and rates paid by licensees for comparable patents.

Lucent asked for \$562 million in damages based on an 8% royalty rate applied to the full amount of Microsoft's sales revenues from the infringing product. Microsoft countered that a lump-sum royalty payment of \$6.5 million would be appropriate.

Damages were speculative

The Federal Circuit found that the jury's award wasn't supported by substantial evidence, but was "based mainly on speculation or guesswork." For one thing, given the complexity of Outlook and the seemingly small role played by the infringing component, the court found it inconceivable, based on the record, that the date-picker constituted a substantial portion of Outlook's value.

In addition, although Lucent relied on eight license agreements to support its royalty claims, several of the



agreements were "radically different" from the hypothetical agreement at issue. As to the others, Lucent's expert provided no explanation about the patents or subject matter they covered.

Role of expert testimony

Lucent illustrates the need for detailed expert testimony, which will establish credible evidentiary facts and conclusions and, thus, support a claim for patent infringement damages. It also reveals how some courts are willing to scrutinize jury awards and take a more active role in evaluating damages when such testimony is lacking. **h**

To view other litigation and valuation-related articles, visit
<http://www.holtzrubenstein.com/lvc/lvc.php>



CERTIFIED PUBLIC ACCOUNTANTS. BUSINESS ADVISERS.

Superior Thinking.
Unmatched Integrity.

Holtz Rubenstein Reminick LLP • www.hrrllp.com

1430 Broadway
New York, NY 10018
212-697-6900

125 Baylis Road
Melville, NY 11747
631-752-7400

To change contact
information, please contact
info@holtznews.com

This publication is intended to provide accurate and authoritative information on the subject matters covered. The articles do not render an opinion by Holtz Rubenstein Reminick LLP, its partners, or employees on any technical matter, but rather are of an educational nature. They should not be used in any litigated matter in which a representative of the firm acts as an expert witness. ARTICLES ARE NOT INTENDED OR WRITTEN TO BE USED, AND THEY CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER.

©2010 Holtz Rubenstein Reminick LLP.