SEPTEMBER 2022

DEVOTED TO LEADERS IN THE INTELLECTUAL PROPERTY AND ENTERTAINMENT COMMUNITY

VOLUME 42 • NUMBER 8

THE Licensing Journal®

Edited by Gregory J. Battersby and Charles W. Grimes

Wolters Kluwer

Damages: "Built-In" Apportionment Using Comparable License Agreements

Daniel Cooley and Kathleen Hanley[1]

Daniel Cooley is a partner with Finnegan. He helps companies litigate intellectual property disputes in US district courts, the International Trade Commission (ITC), and the Patent Trial and Appeal Board (PTAB). Mr. Cooley also frequently practices before the US Court of Appeals for the Federal Circuit where he has participated in dozens of appeals and petitions, arguing several as lead counsel.

Kathleen Hanley is a law clerk with Finnegan.

Calculating patent damages is "not an exact science."[2] This is especially true when addressing principles of apportionment. The principle of apportionment seeks to ensure that the patent holder does not obtain an unfair benefit by receiving value for features of the infringing product that are not covered by the asserted patent. It does so by requiring that the patentee "apportion" the damages between the patented feature and all other non-patented features. But determining how to apportion, especially when there is evidence of comparable license agreements, requires careful analysis.

I. Background of Apportionment in Patent Infringement Damages

Under the Patent Act, a court "shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty, *for the use made of the invention by the infringer*."[3] The principle of apportionment was explained in the 1884 Supreme Court case *Garretson v. Clark* in which the Court stated that a 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."[4] The Federal Circuit has emphasized that "a reasonable royalty analysis requires a court to carefully tie proof of damages to the claimed invention's footprint in the marketplace."[5]

Calculating damages in patent infringement cases "necessarily involves an element of approximation and uncertainty."[6] The Federal Circuit has provided guidance related to applying apportionment principles to calculate reasonable royalty damages as part of the hypothetical negotiation analysis of *Georgia-Pacific Corp. v. U.S. Plywood Corp.*[7] If the entire value of the marketed product is attributable to the patented feature of that product, then no apportionment is required. To apply the entire-market value rule and thus avoid an apportionment analysis, the patentee must show that the patented feature of the product is the "basis for customer demand."[8]

An apportionment analysis should be conducted if the patented feature does not drive the market demand for the product. One method for calculating a reasonable royalty is to look to comparable license agreements to derive a royalty rate and royalty base. In some cases, a comparable license may have "built-in apportionment."[9] In other cases, a comparable license agreement is useful evidence, but a separate apportionment analysis should still be conducted. The cases below provide examples of the dividing lines between these situations.

II. When a License Agreement Provides "Built-In" Apportionment

In the Federal Circuit case, *Vectura Limited v. Glaxosmithkline LLC*, the court addressed the issue of comparability in prior license agreements.[10] In this case, plaintiff Vectura's damages expert relied on a 2010 license agreement between Vectura and GlaxoSmithKline (GSK), presenting a damages theory that the 2010 license was a comparable license, justifying a three percent royalty rate.[11] GSK argued that the damages expert's evidence was insufficient because she did not apportion the royalty base to account for non-infringing components of the accused product.[12]

The Federal Circuit found in favor of Vectura. It noted, "when a sufficiently comparable license is used as the basis for determining the appropriate royalty, further apportionment may not necessarily be required."[13] The court held that, even though the 2010 license encompassed rights to over 400 patents, "Vectura offered evidence that the circumstances of the 2010 license and the hypothetical negotiation in 2016 were highly comparable and the principles of apportionment were effectively baked into the 2010 license agreement."[14] In support of this finding, the court also noted that GSK's own damages expert testified that the 2010 license "was a very close comparable, much closer than you ever find in a patent case."[15] Vectura also introduced evidence that "the key component of the 2010 license was permitting GSK to use Vectura's invention of coating lactose particles with magnesium stearate" and the "2010 license and the hypothetical negotiation thus cover[ed] 'roughly very similar technologies.'"[16] The similarity was evident because "the mixtures Vectura points to as infringing the '991 patent would have been the very same mixtures covered by the 2010 license."[17]

Because Vectura demonstrated the economic and technological similarities between the asserted patent and the prior license agreement in this case, the Federal Circuit found that the district court did not abuse its discretion in denying GSK's motion for a new trial on damages.[18]

III. When License Agreements Fail to Apportion for Improved Features

In *Omega Patents, LLC v. CalAmp Corp.*, CalAmp appealed a jury-awarded $5.00-per-unit royalty rate, arguing that the value did not reflect apportionment.[19] The Federal Circuit found deficiencies in Omega's apportionment analysis because the support for the $5.00-per-unit rate was testimony from Omega's president that "under Omega's licensing program the licensing fee was 'five dollars [per unit] whether it's one patent or 50 patents.'"[20] The court found this testimony did not support the determined royalty rate because the "internal 'policy'" did not account for the comparability of the prior license and the asserted patent.[21] The court noted that using a company's internal licensing policy as the basis for a reasonable royalty rate would "permit Omega to hide behind its generic licensing arrangement to avoid the task of apportionment."[22] Omega "failed to show that the agreements attributed a $5.00-per-unit royalty rate to the value of the [asserted patent]."[23] The court emphasized that for "built-in apportionment to apply the license must be 'sufficiently comparable' in that 'principles of apportionment were effectively baked into' the purportedly comparable license."[24] The court found that "Omega failed to adequately account for substantial 'distinguishing facts' between the proffered licenses and a hypothetical negotiation over a single-patent license."[25] These deficiencies in Omega's apportionment analysis led the Federal Circuit to order a new trial on damages.

In *MLC Intellectual Property, LLC v. Micron Technology Inc.*, the Federal Circuit again addressed "built-in" apportionment in light of prior license agreements.[26] On appeal, MLC argued that the district court erred in excluding its damages expert's testimony that two prior license agreements contained a 0.25 percent royalty rate as a basis for the damages award.[27] The Federal Circuit noted that the expert "provided no evidence or explanation for how the 0.25 percent royalty rate he derived from the Hynix agreement accounts for apportionment of Micron's accused products."[28] In particular, he "conducted no assessment of the licensed technology versus the accused technology to account for any differences."[29]

IV. Conclusion

Although the Federal Circuit has provided some guidance on using comparable license agreements to show built-in apportionment, this analysis is fact dependent. These cases emphasize the importance of tying damages analyses to the facts of the case to prove the economic and technological comparability of prior licenses.

1. The authors are an attorney and law clerk at the intellectual property firm of Finnegan, Henderson, Farabow, Garrett & Dunner LLP. This article is for informational purposes, is not intended to constitute legal advice, and may be considered advertising under applicable state laws. This article is only the opinion of the authors and is not attributable to Finnegan, Henderson, Farabow, Garrett & Dunner LLP, or the firm's clients.
2. *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1309 (Fed. Cir. 2014).
3. 35 U.S.C. §284 (emphasis added).
4. 111 U.S. 120, 121 (1884).
5. *Virnetx, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1327 (Fed. Cir. 2014).
6. *Unisplay, S.A. v. American Elec. Sign Co.*, 69 F.3d 512, 517 (Fed. Cir. 1995).
7. 318 F.Supp. 1116, 1120 (S.D.N.Y.1970).
8. *State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).
9. *Commonwealth Sci. & Indus. Rsch. Organisation v. Cisco Sys., Inc.*, 809 F.3d 1295, 1303 (Fed. Cir. 2015).
10. 981 F.3d 1030 (Fed. Cir. 2020).
11. *Id.* at 1040.

12. *Id.*
13. *Id.*
14. *Id.* at 1041.
15. *Id.*
16. *Id*.
17. *Id*.
18. *Id.*
19. 13 F.4th 1361 (Fed. Cir. 2021).
20. *Id.* at 1379.
21. *Id.*
22. *Id.*
23. *Id.*
24. *Id.* at 1377 (quoting *Vectura Ltd. v. Glaxosmithkline LLC*, 981 F.3d 1030, 1041 (Fed. Cir. 2020)).
25. *Id.* at 1380.
26. 10 F.4th 1358 (Fed. Cir. 2021).
27. *Id.* at 1367.
28. *Id*. at 1374-75.
29. *Id*. at 1375.