Ax Of $85M Verdict Shows Hurdles In Proving Patent Damages

By **Ryan Davis**

Law360 (March 4, 2022, 10:39 PM EST) -- A recent Federal Circuit decision tossing an $85 million patent verdict against Apple illustrates the pitfalls that patent owners face when basing their damages theories on previous licenses that cover vast numbers of patents and sheds light on how closely the appeals court scrutinizes large awards.

The Federal Circuit held last month in a patent dispute between Apple and Wi-LAN Inc. that an argument presented to a jury by a damages expert for the licensing firm was **"untethered to the facts of this case"** and sent the dispute back for a third damages trial.

The expert's rejected theory was based on a contention that the two patents at issue in the litigation were really the "key patents" that drove other companies to license a portfolio including hundreds of other Wi-LAN patents to avoid potential infringement litigation. But the Federal Circuit found almost no evidentiary support for the position.

The appellate court noted that the patents being litigated in the Apple case were either not discussed in the earlier licenses, or were mentioned only as part of a long list of other patents. The **opinion** concluded that the supposedly comparable licenses "treated the asserted patents as chaff, not wheat," so the "damages testimony should have been excluded."

Since then, **Apple** and Cisco **have cited** the ruling to urge the Federal Circuit to overturn large damages awards against them in other cases, arguing that plaintiffs' damages experts made similar errors.

It's common for companies to enter licenses involving many patents, but only a few patents can be asserted in an infringement lawsuit. When those licenses are used to develop damages theories, the Federal Circuit is showing that it will keep a close eye on whether the evidence supports claims that certain patents were the driving force in previous deals.

"What we have in Wi-LAN is an example of really what not to do. Clearly, you need to apply more rigor and develop better evidence than what happened in Wi-LAN," said Michael Powell of Cadwalader Wickersham & Taft LLP. "The opinion really leaves the door open on how you might tie the inventive footprint to damages, so it provides one possible road map when portfolio licenses are at issue."

There are many licensing companies that own hundreds or thousands of patents, and questions about how their existing licenses are tied to damages theories are "certainly something that comes up regularly," said Martin Bader of Sheppard Mullin Richter & Hampton LLP.

"When you have a worldwide license that's for 4,000 patents, what the Federal Circuit is saying is, 'You don't get to take that value and apply it to a couple of patents.' You really have to parse it out and really look at how those licenses were entered into and what drove

the value," he said. "If you can't do that appropriately to get to a real number, the Federal Circuit is going to ding you, say you can't base your damages model on those agreements."

The decision highlights the challenges presented when basing damages theories for a few patents on licenses that include many more, which is always a fact-specific analysis, said Thomas Cotter, a professor at University of Minnesota Law School.

"Trying to use that portfolio license as a comparable for a license to a single patent is just necessarily going to be fraught with difficulty," he said. "Has the expert sufficiently accounted for the value of the single patent in suit to that entire portfolio? It would be pretty easy to overestimate the importance."

The Federal Circuit didn't say that damages theories based on comparable licenses are not permissible, just that the arguments in this case were an overreach, said Frank West of Oblon McClelland Maier & Neustadt LLP.

"It's basically a cautionary tale to both plaintiffs attorneys and damages experts for plaintiffs that they have to find balance between trying to maximize damages for the patent holder against what is really well-established precedent that damages need to be carefully tailored so that they're only attributable to the invention and nothing else," he said.

The appeals court appeared to be looking for clear evidence from previous licenses or negotiations that certain patents were the important ones, but that may be difficult to produce. Bader of Sheppard Mullin said that when he has represented potential licensees in negotiations, he has asked patent owners to provide a list of the most valuable patents in the portfolio, and they usually refuse.

That's likely because if patent holders go on the record that just a few patents are the really valuable ones, that can undermine the portfolio as a whole, he said, especially if those patents expire or get invalidated in court or at the Patent Trial and Appeal Board.

"It's a tough balancing act for them," Bader said. "They're going to want to drive value to some patents, but you do that and lose and that really starts hurting the value of your overall portfolio."

There are any number of other damages theories that patent owners can put forth, such as trying to account for the value of the patented invention over earlier technology or the value of the patented feature to the infringer or to consumers.

All of those have their own difficulties in terms of producing sufficient evidence and may not get patent owners an award that is as large as relying on past licenses. Moreover, the Federal Circuit has a **long history** of vacating especially large damages awards and finding fault with the theories used, and the recent decision is the latest example.

"The trend is that they're cracking down on how these comparable license analyses happen," said Christopher Bruno of McDermott Will & Emery LLP. "There has been some significant scrutiny of these large damages figures, about whether the jury is really looking at the value of the patented features."

Courtland Merrill of Saul Ewing Arnstein & Lehr LLP said he was somewhat surprised by the Federal Circuit's conclusion that the patents in the case were not the key patents in the earlier licenses. He said that appeared to be outside the purview of an appeals court.

"You would think that the jury should be the one that determines whether it's true, since that's a fact-finding role, but here the Federal Circuit did it," he said.

If litigants can maintain on appeal that an expert's damages theory wasn't tied to the facts, that seems to set a low bar, so "you could make that argument in every case, and that's the concern if you carry this to the full extent," Merrill said.

The trial that produced the **$85 million verdict** against Apple was the second in the case, coming after a Southern District of California judge **set aside** a $145 million verdict in the first trial with a finding that it had also been based on a flawed damages analysis by Wi-LAN.

At **oral arguments** in October, the Federal Circuit appeared dismayed about the prospect of sending the case back for a third damages trial, but "I don't necessarily view that as a bad thing," said Powell of Cadwalader.

"It might be inefficient, but in the context of large damages awards in particular, it's very important that we get this right, because there's a lot of money at stake," he said. "I think it's a good thing that the Federal Circuit is so thoughtful in this area of the law."

The case is Apple Inc. v. Wi-LAN Inc., case number 20-2011, in the U.S. Court of Appeals for the Federal Circuit.

--Editing by Nicole Bleier and Jill Coffey.