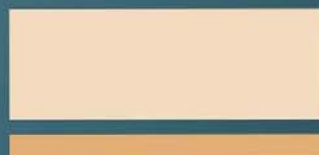


EXHIBIT A

THE EVOLVING IP MARKETPLACE

ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION

MARCH 2011



FEDERAL TRADE COMMISSION

standard is chosen is necessary for consumers to benefit from competition among technologies to be incorporated into the standard.

Recommendation. Courts should apply the hypothetical negotiation framework to determine reasonable royalty damages for a patent subject to a RAND commitment. Courts should cap the royalty at the incremental value of the patented technology over alternatives available at the time the standard was chosen.

Courts' Gatekeeping Role in Reasonable Royalty Damages Cases

Litigants frequently present damages evidence in patent cases to the jury through an expert witness who offers opinion on the appropriate damage award. The judge acts as a gatekeeper in determining whether that opinion testimony is sufficiently reliable to be admissible under Federal Rule of Evidence (FRE) 702. To be reliable, expert testimony must be: (1) based on sufficient facts or data; (2) the product of reliable principles and methods; and (3) result from reliable application of those principles and methods to the facts of the case.

Calls for more vigorous judicial gatekeeping excluding unreliable testimony on damages have received heightened attention in the patent community and generated broad agreement at the hearings. Such gatekeeping is especially important for achieving accurate awards in the context of the hypothetical negotiation, which can be difficult for jurors to apply. Panelists maintained, however, that courts rarely exercise their gatekeeping authority in patent damages matters. Decisions under *Daubert*¹⁷ that examine only the reliability of an expert's methodology, without fully considering whether he reliably applied that methodology to the facts of the case, can result in admission of improper testimony. The recent Federal Circuit opinion, *Uniloc v. Microsoft*,¹⁸ emphasizes the need for damages experts to tie accepted methodologies to the facts of the particular case.

Recommendation. In their gatekeeper role of enforcing FRE 702, courts should test the admissibility of expert testimony on damages by assessing whether it will reliably assist the trier of fact in determining the amount a willing licensor and willing licensee would have agreed to as compensation for use of the patented invention in the infringing product. Courts should not deem evidence as relevant, reliable and admissible solely because it falls within one of the *Georgia-Pacific* factors.

¹⁷*Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579 (1993).

¹⁸*Uniloc USA, Inc. v. Microsoft Corp.*, Nos. 2010-1035, 2010-1055, 2011 WL 9738 (Fed. Cir. Jan. 4, 2011).

Recommendation. Consistent with FRE 702, courts should require a showing that a damages expert’s methodology is reliable, that he reliably applies the methodology to the facts of the case, and that the testimony is based on sufficient data. Demonstration of a reliable methodology without satisfaction of the other two prongs should not establish admissibility.

Comparable licenses and averages. The issues surrounding the admissibility of royalty rates on licenses claimed to be comparable to the hypothetically negotiated license illustrate the importance of active gatekeeping. Basing reasonable royalty awards on royalty rates in patent licenses that are “comparable” to the license that would result from the hypothetical negotiation (or averages of such royalty rates) is a common methodology for setting reasonable royalty damages. Such evidence can reliably assist the trier of fact in setting the hypothetical negotiation license only if the patented invention and its infringing use are sufficiently similar to those of the comparable license. Key attributes in assessing comparability include the technology that is licensed, the rights licensed (e.g., whether a license covers one patent or several), and the type and terms of the license (e.g., running royalty or lump sum). In *Lucent v. Gateway*¹⁹ and other cases, the Federal Circuit has recently applied a more rigorous review of damage awards that considers whether licenses offered as “comparable” are sufficiently similar to support a jury verdict.

Recommendation. Courts should admit expert testimony based on comparable licenses as reliable only upon a satisfactory showing of similarity between the licensed patent and the infringed patent, and between the non-price terms of the comparable license and hypothetical license. That showing should be sufficient to support an inference that the royalty rate for the comparable license provides a reliable indicator of the royalty that would be reached in the hypothetical negotiation.

Choosing the Royalty Base: The Entire Market Value Rule

The entire market value rule arose in the context of calculating lost profits damages for a patent covering a component of a product. The law allows the patentee to recover lost profits damages based on the entire market value of the product when the patented component is the “basis for customer demand.” Otherwise lost profits damages will be based only on the value of the patented component or “apportioned.”

The entire market value rule as developed for lost profits has no corollary in the context of calculating a royalty by multiplying a royalty base times a royalty rate. There is no amount of potential damage funds, such as the profits lost on a product, to be entirely awarded or apportioned. Moreover, the base and rate are closely interrelated. Altering the base in response to a legal test should result in recalibrating the rate. Nonetheless, courts have imported this rule into reasonable royalty determinations as a technique for identifying the royalty base.

¹⁹*Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009).