8th Annual
Advanced Patent Law Institute

January 24-25, 2013

United States Patent and Trademark Office
Alexandria, Virginia

Is This License Comparable?

Issues Facing Damages Experts When Determining Reasonable Royalties

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When determining reasonable royalty damages in patent infringement cases, the market approach is a valuation methodology that can potentially be used to determine the value of the patent(s)-in-suit. The valuation methodology typically requires a damages expert to analyze transactions involving the same or comparable patents. Recently, in *LaserDynamics, Inc. v. Quanta Computer, Inc.*, the Federal Circuit noted that: "[a]ctual licenses to the patented technology are highly probative as to what constitutes a reasonable royalty for those patent rights because such actual licenses most clearly reflect the economic value of the patented technology in the market place."[1] This approach is consistent with the *Georgia Pacific* factors 1, 2 and 12, which allow a damages expert to potentially consider certain comparable license agreements for purposes of determining a reasonable royalty in patent litigation.

To use the market approach and address *Georgia Pacific* factors 1, 2 and 12, a damages expert must determine which license agreements in the record, if any, are comparable to the hypothetical negotiation for the patent(s)-in-suit. Therefore, an important question faced by damages experts is: what exactly makes a license agreement comparable?

In the past decade, the Federal Circuit has devoted considerable attention to license comparability. The Court has provided several guideposts that may assist damages experts in navigating this inquiry. Specifically, the Federal Circuit has identified a number of factors that often render a prior license *incomparable* to the hypothetically negotiated licenses, and thus unreliable as evidence of that royalty. No single factor is dispositive; rather, courts take a holistic approach to determine whether a given license is sufficiently comparable.

This paper will address the topic of license comparability by first revisiting the Federal Circuit's rationales for using prior licenses as evidence of a hypothetical reasonable royalty. Secondly, this paper will examine the various factors identified by the Federal Circuit as tending to show a lack of comparability between a prior license and the hypothetically negotiated royalty. Third, this paper will compare two recent cases, *LaserDynamics v. Quanta Computer*,[2] and *ResQNet.com, Inc. v. Lansa, Inc.*,[3] to illustrate the Federal Circuit's holistic approach to license comparability.

Prior Licenses as Evidence of a
<u>Reasonable Royalty – Legal Framework</u>

Courts often consider evidence of prior licenses between the patent owner and third parties to be "the most influential factor" in determining a reasonable royalty.[4] Under the *Georgia-Pacific* framework, courts may consider evidence of "royalties received by the patentee

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[1] *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 79 (Fed. Cir. 2012).
[2] *Id.*
[3] *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010).
[4] *Procter & Gamble Co. v. Paragon Trade Brands, Inc.*, 989 F. Supp. 547, 607 (D. Del. 1997) ("Courts and commentators alike have recognized that the royalties received by the patentee under prior and existing licenses for patented technology is often the 'most influential factor' in determining a reasonable royalty"); *Mobil Oil Corp. v. Amoco Chems. Corp.*, 915 F. Supp. 1333, 1353 (D. Del. 1994).; 1-20 Chisum on Patents § 20.07 (2012) ("The most influential factor is that of prior and existing licenses negotiated under the patent in suit").

for the licensing of *the patent in suit*,"[5] because these licenses constitute direct and reliable evidence of the fair market value of a license under the patent.[6] *Georgia-Pacific* also invites courts to consider "the rates paid by the licensee for the use of *other patents comparable* to the patent in suit,"[7] under the theory that a willing licensor and a willing licensee, negotiating from positions of uncertainty as to the future profitability of the patented invention, would be guided to some degree by customary practice in the industry.[8]

Yet, the Federal Circuit has simultaneously cautioned that "comparisons to other licenses are inherently suspect because economic and scientific risks [between licenses] vary greatly."[9] Thus, while prior licenses may be considered in a reasonable royalty analysis, the license evidence proponent must prove by a preponderance of the evidence that the license agreements are "sufficiently comparable" and did not arise from divergent circumstances, or cover different technology.[10] Additionally, the damages expert's methodology in comparing licenses "must itself be sound and not speculative [or] far removed from the facts of the case."[11] In *Uniloc USA*, the Federal Circuit summarized the recent jurisprudence in this area:

> "The meaning of [*Lucent Technologies*, *ResQNet*, and *Wortech Systems*] is clear: there must be a basis in fact to associate the royalty rates used in prior licenses to the particular hypothetical negotiation at issue in this case. . . . [E]vidence purporting to apply to these . . . must be tied to the relevant facts and circumstances of the particular case at issue and the hypothetical negotiations that would have taken place in light of those facts and circumstances at the relevant time."[12]

Thus, in general, damages experts may consider the technological and economic circumstances that surrounded the prior license agreement, and also the terms and nature of the license itself. In each of these broad categories, the Federal Circuit has further identified specific aspects that often render prior licenses unreliable and problematic as evidence of a reasonable royalty. These factors are explored in the following section.

Factors That May Render Prior Licenses Incomparable to a Hypothetical Reasonable Royalty

In recent years, the Federal Circuit has highlighted several factors that may render an asserted prior license incomparable to the hypothetical reasonable royalty, and thus unreliable as evidence of that royalty. A prior license may be incomparable to the hypothetical royalty because: (1) the fee-structure, exclusive nature, and other terms of the prior license are

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5 *Georgia-Pacific Corp. v. United States Plywood*, 318 F. Supp. 1116, 1120 (S.D. N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971), *cert. denied*, 404 U.S. 870 (1971) (Factor 1).
6 *See Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1329-30 (Fed. Cir. 2009); 1-20 Chisum on Patents § 20.07 (2007).
7 *Georgia-Pacific*, 318 F. Supp. at 1120 (Factor 2) (emphasis added).
8 *See Trading Techs. Int'l, Inc. v. eSpeed, Inc.*, 2007 U.S. Dist. LEXIS 396376 (N.D. Ill. 2007) (citing 1-20 Chisum on Patents § 20.07 (2007)).
9 *Integra Lifescience I, Ltd. v. Merk KgaA*, 331 F.3d 860, 870 (Fed. Cir. 2003).
10 *Lucent Techs*, 580 F.3d at 1329-30.
11 *ePlus, Inc. v. Lawson Software, Inc.*, 764 F. Supp. 2d 807, 813 (E.D.Va. 2011) (citing *Lucent*, 580 F.3d at 1329).
12 *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011) (citing *ResQNet*, 594 F.3d at 870).

Title search: Is This License Comparable? Issues Facing Damages Experts When Determining Reasonable Royalties

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8th Annual Advanced Patent Law Institute session
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