CRA Insights: Intellectual Property

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April 2016

CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation

Recent developments in IP damages

Omega Patents, LLC v. CalAmp Corp., 6:13-cv-1950-Orl-40DAB (MD Fla.)

On December 23, 2015, Judge Byron in the Middle District of Florida issued an order excluding portions of the testimony of CalAmp Corp.'s (CalAmp) damages expert related to the determination of a reasonable royalty. In its *Daubert* motion, Omega Patents, LLC (Omega) objected to each of the three distinct portions that comprised the expert's analysis.

First, Omega argued that the expert's calculation of CalAmp's incremental profits on sales of accused devices acted as an improper "hard cap" on Omega's damages claim. The Court disagreed with Omega on this issue, stating that "the first step in [the expert's] analysis is merely a starting point for his calculations" and thus accepted the expert's explanation that a party to a hypothetical negotiation would want to consider the incremental profit of each additional sale of the allegedly infringing product.

Next, Omega contested the first of the expert's two apportionment methods. In his first approach, the expert relied on two CalAmp marketing brochures, of which he conducted a word count to measure the "relative marketing emphasis" of certain phrases that he deemed to be related to the contributions of the patented technology. In his analysis, the expert divided the number of words that he considered to be related to the patents by the total number of words in the document to conclude that approximately seven percent of the value of the incremental profits should be assigned to the accused functionality.

Notably, the expert only counted the words in the main text on the front of the documents, ignoring bulleted "key features" on the front and backside of the brochures. The expert did not speak to anyone at CalAmp to determine whether his selection of "important" words and phrases was appropriate. The expert also gave equal weighting to words such as "the" and "and" in the phrases that he selected. Neither CalAmp nor the expert were able to give examples of this methodology being accepted or used by other courts or damages experts, and further, the expert admitted that it was impossible to calculate an error rate with this methodology. As a result, the Court excluded the expert's opinion under this step.

Finally, Omega contended that the expert used a modified version of the Nash Bargaining Solution in his second apportionment approach by proposing that the profit split should be proportional to the discount rates specific to the parties in the negotiation. Under this methodology, the expert utilized each company's weighted average cost of capital (WACC) to calculate the profit split. In determining the relevant discount rates, the expert used Bloomberg to determine CalAmp's WACC and an *Ibbotson Cost of Capital Yearbook* to find a proxy for Omega's WACC, as Omega is not a publicly traded company.

Since the expert did not attempt to calculate a WACC for Omega and it was unclear whether there were any economic similarities between Omega and the unidentified companies included in the Ibbotson source, the Court found that CalAmp failed to provide "an adequate and reliable WACC for Omega." The expert conceded that in the event that the WACC calculation was excluded, the model would result in a 50/50 split. As such, the Court deemed this portion of his analysis to be unreliable for the reason of "being insufficiently grounded in the particular facts of this case."

Radware, LTD., et al. v. F5 Networks, Inc., 5:13-cv-02024-RMW

On October 15, 2015, Judge Whyte in the Northern District of California entered an order granting F5 Networks, Inc.'s (F5) motion for summary judgment on lost profits.

Radware Ltd. (Radware) sought damages in the form of lost profits for 12% of F5's sales of the allegedly infringing technology. Radware's expert justified this opinion on the grounds that "Radware and its asserted technology [met] the *Panduit* test; therefore 100 percent of the sales [were] appropriately considered for lost profits." He then reduced this number by 88% based on a survey suggesting that 12% of F5's customers considered the asserted technology an "important" feature of its products. He concluded that these survey results meant 12% of F5's customers would have alternatively purchased Radware products but for F5's infringement. F5 moved to exclude Radware's lost profits theory as unreliable.

First, Radware and F5 disputed whether the first *Panduit* factor requires showing demand for the whole patented product, or just the patented features. The District Court found that this issue had been resolved by the Federal Circuit in *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*,[1] and that "whether demand exists for the patented feature is analyzed either under the second *Panduit* factor—the existence of non-infringing alternatives—or when the patentee seeks to invoke the entire market value rule in the context of lost profits."

Radware claimed that, because it was not seeking 100% of its lost profits on 100% of F5's sales, it was not applying the entire market value rule. However, the District Court found that Radware's expert's assertion that 100% of sales were appropriately considered for lost profits suggested that Radware was still applying that method. As such, Radware was required to show what portion of sales were driven by demand for the patented feature.

Radware attempted to justify its lost profits calculation based on a third party survey in which respondents were presented a list of product features and were asked to select any and all features that they considered important to performance. Twelve percent of respondents selected the accused feature as an "important" feature, and thus Radware's expert concluded that 12% of F5's customers who purchased the accused products would have alternatively purchased Radware's products but for the infringement. However, the District Court found that the survey demonstrated that multiple features, including those unrelated to the patent in suit, drove demand for the accused products, and did not suggest that the patented feature was the primary factor in customers' decisions to purchase the

[1] DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc., 567 F.3d 1314, 1330 (Fed. Cir. 2009).

accused products. Therefore, the District Court determined that the survey did not prove that had F5 exited the market, 12% of F5's customers would have become Radware's. In addition, the survey did not take into account those features proprietary to F5's products, and how those features may have influenced customers' decisions.

Radware filed a motion to reconsider, and on February 3, 2016, the District Court ruled on that motion, vacating its summary judgment after determining, upon reconsideration, that there were material issues of fact related to existence of acceptable non-infringing alternatives and the amount of lost profits.

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