

# IP NEWSLETTER

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## CASTLE DEFENSE: FEDERAL CIRCUIT REINFORCES PATENT DAMAGES GATE IN *VIRNETX*

By [Rudy Kim](#) and [Michelle Yang](#)

*“Aggression, by an opposite if not always equal reaction, stimulates defense.”*

—John Keegan, *A History of Warfare* 139 (2d ed. 2004)

## INTRODUCTION

In medieval times, castle defenders developed countermeasures to thwart siege tactics. For example, large fortified gatehouses, or “gate keeps,” often were used to prevent attackers from breaching the castle’s gate.

Modern patent law involves a similar concept of a “gate keep,” at least in the damages context. As plaintiffs in patent cases have introduced expert testimony based on new patent damages theories, defendants have asked courts to fulfill their gatekeeping role by preventing certain types of expert testimony from reaching the jury. In its recent *VirnetX, Inc. v. Cisco Sys., Inc.*, decision, the Federal Circuit reinforced the damages “gate” in patent cases by further clarifying the district court’s responsibility for ensuring that unreliable expert testimony on purported patent damages does not reach the jury. Vacating a \$368 million jury award against Apple, the Federal Circuit concluded that the district court should have excluded expert testimony on damages because: (1) the purported royalty base was predicated on the “smallest salable unit” of the accused product and failed to apportion between patented and unpatented features, and (2) the purported royalty rate was determined using the assumption that the parties would have agreed to a 50/50 split of incremental profits as a starting point, without showing that such assumption was tied to the facts of the case.<sup>1</sup>

The *VirnetX* decision resolves discrepancies that had arisen among various district courts regarding apportionment and the use of generic assumptions such as the Nash Bargaining Solution in determining a proper royalty rate. The *VirnetX* decision, however, leaves open new potential strategies to be employed (and countered) by parties and their damages experts, which will have to be addressed by district courts in their role as gatekeepers.

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## APPORTIONMENT

### The “Smallest Salable Unit”

The term “smallest salable unit” was introduced in *Cornell v. Hewlett-Packard*.<sup>2</sup> Judge Rader, sitting by designation in the Northern District of New York, granted the defendant’s motion for judgment as a matter of law on damages because the plaintiff used CPU brick revenues as the royalty base rather than processors, which were “the smallest salable infringing unit with close relation to the claimed invention.”<sup>3</sup> The Federal Circuit subsequently explained in *LaserDynamics, Inc. v. Quanta Computer, Inc.* that calculating royalties on a multi-component product “carries a considerable risk that the patentee will be improperly compensated” for the non-infringing components.<sup>4</sup> Thus, “it is generally required that royalties be based not on the entire product, but instead on the ‘smallest salable patent-practicing unit.’”<sup>5</sup>

District courts soon split on the issue of whether further apportionment was required when an accused product has multiple components—some of which are infringing and others that are not—when the multi-component product is the smallest salable unit. Some courts concluded “additional apportionment is unwarranted” if the damages expert used revenues from the smallest salable unit as the royalty base.<sup>6</sup> Other courts, however, concluded that “apportionment is required even where . . . the accused product is the smallest salable unit.”<sup>7</sup> In those cases, if the patentee did not apportion, the patentee could alternatively “show that the patented feature drives demand for the entire product.”<sup>8</sup>

### *VirnetX, Inc. v. Cisco Systems, Inc.*

In *VirnetX*, the district court instructed the jury that it may not use the entire market value of the accused product to determine the royalty base, unless “the product in question constitutes the smallest saleable unit containing the patented feature.”<sup>9</sup> The district court allowed VirnetX’s damages expert to identify the iPhone, iPod, and iPad as the smallest salable units and use their entire base price as the royalty base, even though VirnetX only accused the “FaceTime” video calling and VPN On Demand features thereof infringement.<sup>10</sup> The district court rejected Apple’s arguments to exclude this expert testimony, noting that Apple “failed to advance a credible alternative” for an appropriate royalty base.<sup>11</sup>

The Federal Circuit vacated the damages award because the district court’s erroneous jury instruction tainted the jury verdict.<sup>12</sup> In doing so, the Federal Circuit clarified that, “[w]here the smallest salable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature . . .

the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology.”<sup>13</sup>

The Federal Circuit also concluded that the district court should have excluded the testimony of VirnetX’s damages expert on the applicable royalty base because he failed to remove unpatented features—such as the touchscreen, camera, processor, speaker, and microphone—from the iOS devices’ base price.<sup>14</sup> Rejecting VirnetX’s argument that the iOS software created the largest share of the iOS product’s value, the Federal Circuit reiterated, “[w]hether ‘viewed as valuable, important, or even essential,’ the patented feature must be separated.”<sup>15</sup>

As in *LaserDynamics*, the Federal Circuit rejected the excuse that “practical and economic necessity compelled [the patentee] to base its royalty on the price of an entire [device].”<sup>16</sup> Although Apple’s sales model did not charge separately for the accused FaceTime and VPN On Demand features, the Federal Circuit reiterated that “[t]here is no ‘necessity-based exception to the entire market value rule.’”<sup>17</sup> Even when faced with the difficulty of assigning value to a feature that may not have been sold, “[t]he law requires patentees to apportion the royalty down to a reasonable estimate of the value of its claimed technology, or else establish that its patented technology drove demand for the entire product.”<sup>18</sup>

## NASH BARGAINING SOLUTION

The *VirnetX* court also reinforced the requirement that the methodology employed to calculate royalty damages must be tied to the specific facts of the case. In particular, the court addressed VirnetX’s use of the Nash Bargaining Solution. Damages experts had applied this mathematical model, which assumes a 50/50 allocation between the parties of incremental profits attributable to the patented technology, as a starting point for determining a royalty rate.<sup>19</sup> While some district courts have accepted the use of the Nash theorem,<sup>20</sup> other courts have rejected it as “indistinguishable from [the] 25% rule rejected in *Uniloc*,” which assumed a 25/75 split of the entire profits for an infringing product.<sup>21</sup>

In determining a royalty rate for the accused FaceTime feature alone, VirnetX’s damages expert relied on the Nash theorem to assume a 50/50 split of incremental profits associated with FaceTime as the starting point.<sup>22</sup> He then adjusted the split to allocate 45% of the incremental profits to VirnetX because of its “weaker bargaining position.”<sup>23</sup> The Federal Circuit concluded that such testimony was improper.

The Federal Circuit further concluded that reliance on the Nash Bargaining Solution was akin to the “25 percent rule of thumb” rejected in *Uniloc*, which assumed a 50/50 profit

split regardless of the industry, technologies, parties, size of patent portfolio, or value of the patented technology.<sup>24</sup> While the court did not foreclose use of the Nash theorem if a damages expert can show that the premises of the theorem fit the facts of the case, VirnetX's damages expert failed to do so.<sup>25</sup> Noting that “[b]eginning from a fundamentally flawed premise” results in “a fundamentally flawed conclusion,” the Federal Circuit found that the expert’s “thin attempts” to explain his 10% deviation from the 50/50 baseline based on “conclusory assertions” actually highlighted how this methodology is “subject to abuse.”<sup>26</sup> The use of the 50/50 baseline would risk “skewing the jury’s verdict” because juries would “hesitate to stray” from that baseline.<sup>27</sup> Such testimony should therefore have been excluded.<sup>28</sup>

## POST-VIRNETX STRATEGIES

While the *VirnetX* decision provides important clarification, the decision leaves open several strategies that plaintiffs may now attempt to employ in attacking the patent damages gate—and which defendants must now counter.

### Royalty Base

One strategy plaintiffs may employ is to argue that an accused product is not a “multi-component” product. Though the *VirnetX* court noted that the patentee must apportion between patented and unpatented features “in every case,”<sup>29</sup> its holding was directed to situations “[w]here the smallest salable unit is, in fact, a multi-component product containing several non-infringing features.”<sup>30</sup> It remains to be seen how this holding will be applied in cases involving certain technologies. In *Astrazeneca*, for example, the district court rejected defendant’s attempt to apportion damages to the infringing subcoating of a delayed-release capsule for treating heartburn, accepting instead the value of the entire accused capsule as the royalty base.<sup>31</sup> According to the district court, “there is little reason to import these [apportionment] rules for multi-component products like machines into the generic pharmaceutical context.”<sup>32</sup> In light of *VirnetX*, some form of apportionment is likely required, but there may be limited “precedent for doing so” especially for certain types of technologies.<sup>33</sup>

Another potential strategy for plaintiffs is to argue that substantially all of the components within an accused product are necessary to practice the asserted claims and are therefore the features with sufficiently close relation to the patented functionality. The *VirnetX* decision offered no opinion on whether the alternative royalty base, a \$29 software upgrade for Mac computers that added FaceTime functionality, was sufficiently related to the claimed feature.<sup>34</sup> Given this silence, plaintiffs may argue, as the district court found in *Personalized Media Communications*, that the damages expert could not have

# COMING IN HOT!

We’d like to extend our congratulations to our colleagues on recent awards and recognitions:

- IP Litigation practice chair [Rachel Krevans](#) on her induction into the [ChIPs Hall of Fame](#) and her recognition by *Law360* as an [MVP of the Year](#) and on its inaugural list of the [20 Most Influential Women in IP Law](#). Ms. Krevans was recognized for her exceptional achievements in IP law and for “leading the charge in waging high-stakes patent battles, managing billion-dollar portfolios and closing mega IP deals.”
- Patent Group chair [Michael Ward](#) and Patent partner [Mika Mayer](#), who were named to the *National Law Journal’s* 2014 [Intellectual Property Trailblazers & Pioneers list](#), recognizing lawyers who are “innovating in the field, helping to change the way copyright, patent, trademark or licensing law is practiced, or how IP is protected and managed.” Michael Ward was also named to *The Recorder’s* inaugural [Innovators of the Year list](#), recognized for his role in leading our plant IP practice specifically.

## OTHER RECENT ACCOLADES:



*The 2015 edition of BTI’s Litigation Outlook named MoFo to its list of “Awesome Opponents,” one of the ten firms that in-house counsel most feared seeing across the table in litigation.*



*MoFo ranked among the top IP firms in Japan, Hong Kong, and China in Legal 500’s newest Asia-Pacific edition.*



*MoFo was named to The National Law Journal’s annual Appellate Hot List, recognizing the top appellate practices in the U.S. for “outstanding achievements before the U.S. Supreme Court, federal circuit courts and state courts of last resort.”*



*Law360 has selected MoFo’s Intellectual Property Group as an Intellectual Property Practice Group of the Year.*

further divided the accused product and “still remained consistent with [plaintiff’s] theory of infringement.”<sup>35</sup> Defendants, however, may rely on other decisions rejecting attempts to use the entire accused product as the royalty base, particularly when there is only a “cursory recitation of the entire device in the asserted claims.”<sup>36</sup> As in *GPNE*, defendants may succeed by proposing a smaller royalty base, notwithstanding the recitation of generic “node” and “memory” elements, if the patented invention is directed to a specific feature.<sup>37</sup>

## Royalty Rate

Plaintiffs who wish to rely on the Nash Bargaining Solution or similar generic assumptions must now show how the underlying premises of the Nash Bargaining Solution (or any similar theorem) fit the facts of the case. The *VirnetX* decision cites several district court decisions where the plaintiff’s damages expert appropriately considered “the facts of the case, specifically the relationship between the parties and their relative bargaining power, the relationship between the patent and the accused product, the standard profit margins in the industry, and the presumed validity of the patent.”<sup>38</sup> The Federal Circuit, however, did not elaborate on the specific factual circumstances under which the use of the Nash Bargaining Solution or similar types of assumptions would be appropriate.

## Multiple Siege Attempts

Although risky, plaintiffs may attempt to wage successive siege campaigns by taking aggressive initial positions on damages and arguing for a second chance if their expert testimony is excluded. They may cite to *Cornell*, where Judge Rader allowed the expert a second chance to testify and apportion damages to a smaller component,<sup>39</sup> or other district court decisions that similarly allowed new expert reports.<sup>40</sup>

Defendants, however, may point to *Rembrandt*, where the Federal Circuit declined to hear an interlocutory appeal on the exclusion of a plaintiff’s damages expert’s testimony on the eve of trial, noting:

[G]iven the nature of the [apportionment] inquiries involved, the rules are not so precise in their application or scope as to make a single opportunity for compliance clearly or always enough—though, in the right circumstances, a district court may well decide that it is.<sup>41</sup>

The Federal Circuit has also previously held that reasonable royalty damages can be awarded even without expert testimony.<sup>42</sup> Defendants may raise this precedent to argue that “giving a second bite simply encourages overreaching on the first bite” on damages.<sup>43</sup>

## CONCLUSION

The Federal Circuit in *VirnetX* has reinforced the district court’s gatekeeping role against unreliable expert testimony that (1) fails to apportion damages even when an accused multi-component product is the “smallest salable unit,” or (2) relies on the Nash Bargaining Solution or similar generic assumptions without tying the underlying premises to the facts of the case. The *VirnetX* decision, however, also leaves open several potential strategies for plaintiffs to maximize damages (and potential counter-strategies for defendants), thereby creating further opportunities for district courts to exercise their gatekeeper role.

- 1 *VirnetX, Inc. v. Cisco Sys., Inc.*, No. 2013-1489, --- F.3d --- (Fed. Cir. Sept. 16, 2014) (“slip op.”).
- 2 *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 284-85 (N.D.N.Y. 2009) (Rader, J., sitting by designation).
- 3 *Id.* at 288.
- 4 *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012).
- 5 *Id.* (quoting *Cornell*, 609 F. Supp. 2d at 287-88).
- 6 *Internet Mchs. LLC v. Alienware Corp.*, No. 6:10-cv-23, 2013 WL 4056282, at \*13 (E.D. Tex. June 19, 2013); see also *Summit 6 LLC v. Research In Motion Corp.*, No. 3:11-cv-367, 2013 U.S. Dist. LEXIS 95164, at \*34 (N.D. Tex. June 26, 2013).
- 7 See *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. C 11-05973, 2013 WL 4538210, at \*3 (N.D. Cal. Aug. 22, 2013); see also *Rembrandt Soc. Media, LP v. Facebook, Inc.*, No. 1:13-cv-158, 2013 WL 6327852, at \*5 (E.D. Va. Dec. 3, 2013).
- 8 *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. C 12-01106, 2013 WL 5402089, at \*7 (N.D. Cal. Sept. 26, 2013) (emphasis omitted).
- 9 *VirnetX, Inc. v. Apple Inc.*, 925 F. Supp. 2d 816, 840 (E.D. Tex. 2013).
- 10 *VirnetX*, slip op. at 4, 24, 30-31.
- 11 *VirnetX, Inc. v. Apple Inc.*, 925 F. Supp. 2d at 837 (rejecting Apple’s alternative royalty base of a \$29 software upgrade for Mac computers that added FaceTime functionality).
- 12 *VirnetX*, slip op. at 28-30.
- 13 *Id.* at 29.
- 14 *Id.* at 31.
- 15 *Id.* (quoting *LaserDynamics*, 694 F.3d at 68).
- 16 *Id.* at 32 (quoting *LaserDynamics*, 694 F.3d at 69).
- 17 *Id.* (quoting *LaserDynamics*, 694 F.3d at 70).
- 18 *Id.*
- 19 *Id.* at 24-25.
- 20 See, e.g., *Gen-Probe Inc. v. Becton Dickinson & Co.*, Nos. 09-cv-2319, 10-cv-0602, 2012 WL 9335913, at \*3 & n.3 (S.D. Cal. Nov. 26, 2012); *Sanofi-Aventis Deutschland GmbH v. Glenmark Pharm. Inc., USA*, No. 07-cv-5855, 2011 WL 383861, at \*12-13 (D.N.J. Feb. 3, 2011).
- 21 *Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. C 11-05973, 2013 WL 4538210, at \*5 (N.D. Cal. Aug. 22, 2013).
- 22 *VirnetX*, slip op. at 24.
- 23 *VirnetX, Inc. v. Apple Inc.*, 925 F. Supp. 2d 816, 839 (E.D. Tex. 2013) (discussing *VirnetX*’s weaker bargaining position because of its financial situation).
- 24 *VirnetX*, slip op. at 38.
- 25 *Id.*
- 26 *Id.* at 39 (quoting *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317 (Fed. Cir. 2011)).

- 27 *Id.* at 39-40.
- 28 *Id.* at 41.
- 29 *Id.* at 26 (emphasis added) (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)).
- 30 *Id.* at 29.
- 31 *Astrazeneca AB v. Apotex Corp.*, 985 F. Supp. 2d 452, 490 (S.D.N.Y. 2013).
- 32 *Id.*
- 33 *Id.*
- 34 *VirnetX*, slip op. at 32 n.3.
- 35 *Personalized Media Commc'ns, LLC v. Zynga, Inc.*, No. 2:12-cv-00068, 2013 WL 5979627 (E.D. Tex. Nov. 8, 2013).
- 36 *GPNE Corp. v. Apple Inc.*, No. 12-cv-02885, 2014 WL 1494247, at \*12 (N.D. Cal. Apr. 16, 2014).
- 37 *Id.* at \*12-13.
- 38 *Sanofi-Aventis Deutschland GmbH v. Glenmark Pharm. Inc.*, USA, No. 07-cv-5855, 2011 WL 383861, at \*12-13 (D.N.J. Feb. 3, 2011); *see also Gen-Probe Inc. v. Becton Dickinson & Co.*, Nos. 09-cv-2319, 10-cv-0602, 2012 WL 9335913, at \*3 (S.D. Cal. Nov. 26, 2012).
- 39 *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283-84 (N.D.N.Y. 2009) (Rader, J., sitting by designation).
- 40 *See, e.g., Dynetix Design Solutions, Inc. v. Synopsis, Inc.*, No. C 11-05973, 2013 WL 4538210, at \*5 (N.D. Cal. Aug. 22, 2013); *Wi-Lan Inc. v. Alcatel-Lucent USA Inc.*, Nos. 6:10-CV-521, 6:13-CV-252, slip op. at 8 (E.D. Tex. June 28, 2013).
- 41 *Rembrandt Soc. Media, LP v. Facebook, Inc.*, 561 F. App'x 909, 910, 912-13 (Fed. Cir. 2014).
- 42 *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381-82 (Fed. Cir. 2003).
- 43 *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. C 12-01106, 2013 WL 5402089, at \*8 (N.D. Cal. Sept. 26, 2013).

## STANDARDS PATENT LICENSING: ALWAYS APPORTIONMENT, SOMETIMES STACKING

By [Jason R. Bartlett](#)

What is a Fair, Reasonable, and Non-Discriminatory (FRAND) royalty for a few patents essential to practicing a technical standard like WiFi and how should the jury in such a case be instructed on damages? The Federal Circuit addressed these questions in *Ericsson, Inc. et al. v. D-Link Systems, Inc. et al.* (Fed. Cir. Dec. 4, 2014). The answer is that the jury should be instructed to base royalties on the contribution of the patents-in-suit to the standard-practicing component and the contribution of that component to the accused product as a whole. The jury should not, however, be instructed to consider whether the aggregate royalty “stack” for the standard as a whole would be reasonable if all standard patent owners charged similar royalties – unless there is evidence that royalties are already in fact starting to stack up.

Patent owner Ericsson sued D-Link Systems and other implementers for infringing three patents relating to the WiFi standard. The jury found that D-Link infringed and awarded a royalty of fifteen cents per unit. The district court upheld the jury’s decision. The Federal Circuit

affirmed most of the liability findings but vacated the damages award and remanded.

The principal basis for remand was the lower court’s failure to properly instruct the jury on royalty apportionment. The Federal Circuit held that royalties must always “reflect the value attributable to the infringing features of the product, and no more.” Accordingly, the district court must instruct the jury that the reasonable royalty award must be based on the “incremental value of the invention, not the value of the standard as a whole or any increased value the patented feature gains from its inclusion in the standard.” The accused products were end-user products that incorporated chip components that implement the WiFi standard. To properly apportion damages, the jury should have been instructed to consider both the standard-implementing component’s contribution to the accused product as a whole, and the asserted patents’ contribution to that component. “Just as we apportion damages for a patent that covers a small part of a device, we must also apportion damages for [Standards Essential Patents] that cover only a small part of a standard.”

The opinion also addressed the issues of “holdup” and “royalty stacking” – both hot topics in the standards-essential patent realm. “Holdup” occurs when the owner of an SEP demands excessive royalties after implementers are “locked into using a standard.” “Royalty stacking” occurs when implementers are forced to pay excessive aggregate royalties to all SEP owners. Several well-publicized recent district court cases have addressed the issues of holdup and royalty stacking by setting a theoretical aggregate royalty limit and then apportioning some of that aggregate royalty to the patents-in-suit. In the trial below, D-Link requested and was denied special instructions that the jury should consider holdup and royalty stacking when awarding royalty damages.

The Court of Appeals in *Ericsson* “express[ed] no opinion” on the recent district court opinions, but generally rejected the notion that juries in standards-essential patent cases should always be instructed on holdup and royalty stacking. No evidence was adduced to show that D-Link and other defendants were in fact already paying excessive aggregate royalties or that Ericsson had held them up for additional royalties after standardization. The Court reasoned that “[t]he mere fact that thousands of patents are declared to be essential to a standard does not mean that a standard-compliant company will necessarily have to pay a royalty to each SEP holder.”

Thus, although the *Ericsson* opinion does not directly address the FRAND royalty-setting methodologies coming up through the district courts, it does call parts of them into question. Appellants and amici emphasized that if every WiFi standards patent owner were awarded royalties comparable to those that Ericsson was awarded

in this case, WiFi chips that now cost a dollar or two would have to cost more than \$150. The Federal Circuit's view appears to be that so long as the jury is properly instructed on apportionment, it need not be instructed to consider what its damages assessment would imply for the aggregate royalty of the standard as a whole (at least until there is evidence that the aggregate royalty actually starts to become excessive).

The opinion is also notable for its commentary on the long-established *Georgia-Pacific* royalty factors. It cautions that the Federal Circuit has “never described the *Georgia-Pacific* factors as a talisman for royalty rate calculations . . .” Citing *WhitServe, LLC v. Computer Packages, Inc.* (Fed. Cir. 2012), the Court criticized expert testimony and jury instructions that merely “parrot” the fifteen *Georgia-Pacific* factors and leave the jury to sort them out. In the case of SEPs encumbered by a FRAND licensing commitment, many of the *Georgia-Pacific* factors are “simply not relevant” and even “contrary to [F]RAND principles.” On remand, the district court will be required to consider carefully the damages evidence presented in the case and craft instructions that address only the relevant factors.

## SUPREME COURT TO CONSIDER GOOD-FAITH BELIEF OF INVALIDITY DEFENSE

By [Joseph R. Palmore](#), [Richard S.J. Hung](#), and [Kirk A. Sigmon](#)

On December 5, 2014, the Supreme Court granted certiorari in *Commil v. Cisco* to decide whether an infringer's good-faith belief of patent invalidity is a defense to induced infringement. The case could prove significant for patent litigation and, as discussed below, also represents the fourth case before the Court this term involving intent or knowledge standards under federal law.

### THE SUPREME COURT'S FOCUS ON INTENT

This Supreme Court Term is turning into a blockbuster for cases involving intent standards under federal law. The Court now has four pending cases that involve the type of intent or knowledge necessary to establish civil or criminal liability (or, in *Commil*, the kind of intent available as a defense to liability) under four different statutory schemes:

- In *Omnicare v. Laborers District Council Construction Industry Pension Fund*, which was argued on November 3, the Court is considering whether, for purposes of a claim under Section 11 of

the Securities Act of 1933, a plaintiff may plead that a statement of opinion in a securities registration statement was “untrue” merely by alleging that the opinion itself was objectively wrong, or whether the plaintiff must instead allege that the statement was subjectively false – requiring allegations that the speaker's actual opinion was different from the one expressed.

- *Elonis v. U.S.*, which was argued on December 1, presents the question whether a criminal prohibition on threats (18 U.S.C. § 875(c)) requires proof of the defendant's subjective intent to threaten, or whether it is enough to show that a “reasonable person” would regard the statement as threatening.
- Finally, in *Equal Employment Opportunity Commission v. Abercrombie & Fitch Stores*, which has not yet been scheduled for argument, the Court will decide what kind of knowledge an employer must have of an employee's religious practice and need for an accommodation in order to be liable under Title VII of the Civil Rights Act of 1964 for refusing to hire her based on that practice.

Although each of these cases is governed by different statutory schemes (and, in the case of *Elonis*, constitutional standards), they present some common arguments. The defendants generally contend that fairness interests should preclude a finding of liability for conduct they did not understand as wrongful (or at least not illegal) at the time they acted. The plaintiffs and the government counter that legitimate enforcement interests should not be frustrated by difficult-to-establish intent standards (or difficult-to-disprove intent defenses). How the Court will balance these interests will likely vary from case to case, depending on the particulars of the statutes at issue and the perceived strengths of the competing interests in the different settings in which the cases arise.

*Commil* presents a very similar situation. As explained in more detail below, the question presented in *Commil* relates to whether an infringer's good-faith belief of the invalidity of a patent negates the intent required for inducement of infringement. Like the defendants above, Cisco argues that its good faith belief that *Commil*'s patent was invalid should preclude a finding that it had the requisite intent to induce others to infringe *Commil*'s patent. *Commil*, in turn, argues that such a defense would create an “unwarranted and unnecessary escape hatch that will serve only to increase the expense of litigation and release defendants who are inducing infringement of valid patents from all liability.”<sup>1</sup> With such strong arguments on both sides, it is expected that the patent bar will closely watch *Commil*.

## ABOUT COMMIL

A party that induces infringement is liable for infringement.<sup>2</sup> To induce infringement, the defendant must “knowingly induce[] infringement and possess[] specific intent to encourage [another party’s direct] infringement.”<sup>3</sup>

In *Commil v. Cisco*, Commil sued Cisco for infringing patents relating to improving wireless network “hand-offs.” These hand-offs occur when a device changes wireless access points on a network. Cisco was aware of Commil’s patents as early as 2004 or 2005, but nonetheless sold products that allegedly induced infringement of Commil’s patents. An East Texas jury in a first trial found that Cisco was infringing, but the district court granted a partial new trial on the issues of inducement and damages due to counsel’s potentially prejudicial statements to the jury.

At the second trial, Cisco argued that it should not be liable for induced infringement because it believed in good faith that Commil’s patents were invalid and thus not infringed. The district court disagreed and excluded related evidence. The jury subsequently determined that Cisco was liable for inducement.

On appeal, the Federal Circuit agreed with Cisco that “evidence of an accused inducer’s good-faith belief of invalidity may negate the requisite intent for induced infringement.”<sup>4</sup> Accordingly, the court of appeals held that the district court erred by excluding evidence of Cisco’s good faith belief that the patent was invalid.

Judge Newman dissented, arguing that Cisco’s argument that it should have a defense of good-faith belief of invalidity was contrary to the principles of tort liability. In Judge Newman’s view, “[a] mistake of law, even if made in good faith, does not absolve a tortfeasor.”<sup>5</sup>

## THE PETITION FOR CERTIORARI IN COMMIL

On January 23, 2014, Commil petitioned the Supreme Court for certiorari, challenging both: (i) the Federal Circuit’s approval of Cisco’s good-faith belief of invalidity defense; and (ii) a jury instruction regarding inducement. At the Court’s request, the Solicitor General filed a brief on whether certiorari should be granted. The Solicitor General supported the grant of *certiorari* on the first issue, arguing that such a defense would be hard to refute and would make it more difficult for patentees to sue infringers.<sup>6</sup>

The Court granted Commil’s petition on December 5, 2014, limited to the first question presented. The case will likely be argued in the spring, and a decision is expected by the end of June.

- 1 Petition for Certiorari, p. 19, *Commil USA, LLC v. Cisco Systems, Inc.*, Nos. 13-896 and 13-1044 (Oct. 16, 2014), available at <http://sblog.s3.amazonaws.com/wp-content/uploads/2014/06/Commil-v.-Cisco-Petition.pdf>.
- 2 35 U.S.C. § 271(b).
- 3 *DSU Med. Corp. v. JMS Co.*, 471 F.3d 1293, 1306 (Fed. Cir. 2006).
- 4 *Commil USA, LLC v. Cisco Systems, Inc.*, 720 F.3d 1361, 1368-69 (Fed. Cir. 2013).
- 5 *Id.* at 1374.
- 6 Brief for the United States as Amicus Curiae, p. 15, *Commil USA, LLC v. Cisco Systems, Inc.*, Nos. 13-896 and 13-1044 (Oct. 16, 2014), available at <http://sblog.s3.amazonaws.com/wp-content/uploads/2014/10/Commil-v.-Cisco-OSG-invitation-brief.pdf>.

## THE CONVERGENCE OF LIFE SCIENCES AND HIGH TECH: IMPLICATIONS FOR ENGAGING THE UNENGAGED

By [Van Ellis](#) and [Mika Mayer](#).

Over the past decade, the life sciences have evolved dramatically by integrating technologies from a variety of other scientific disciplines. The application of computational sciences and supercomputing to the life sciences kick-started the genomics revolution in the 1990s. This interdisciplinary approach has also given rise more recently to substantial innovation in bioinformatics, nanobiology and tissue engineering.

The merger of the life sciences with other science disciplines continues to open new doors for improving health care. Today, the miniaturization of sensors, antennae and other electronics together with innovations in telecom and Internet-based applications is paving the way for a convergence of the high tech and life sciences fields.

High tech giants and Silicon Valley startups have ventured — on their own — into apps, Internet-connected medical devices, and wearable devices featuring a wide array of health-related functionalities. There are smart glasses, vital sign monitors, sleep monitors and wristband fitness trackers, to name just a few. These wearable technologies are being developed to track everything from heart rate and body temperature, to analyte concentrations. They are designed to engage the unengaged, and are being widely heralded as a transformative step for health care.

The industry’s hope is that these wearable devices will open the door to dramatically improving the field of health care by empowering people to have more information about their health, and to more directly control their health in everyday life. In the fitness field alone, the integration of wireless devices, applications and 24/7 connectivity have already captured the attention of

consumers, with that market segment has already reached hundreds of millions of dollars in sales.

At the same time, big pharmaceuticals have successfully applied big data to implement highly targeted marketing strategies. These data-driven marketing strategies generate higher value from commercialization investments and help to match patients to the most appropriate drugs. With this success on the marketing front, big pharmaceuticals are now accelerating their investments in big data and advanced technology at the R&D level as a means for mapping the body for disease and for opening new frontiers for diagnosing, monitoring and treating diseases. Already, big pharmaceuticals and academic research hospitals are partnering to develop and launch data-sharing platforms for clinical trial data sets. By applying advanced analytics to big data, the industry hopes to streamline the R&D process and reduce the cost of innovation.

The high tech and life sciences industries have each found success on their own on the other's traditional turf. Collaborations between the two present the opportunity to integrate high tech companies' big data and pharmaceutical companies' products in dramatically new ways by capitalizing on their relative strengths. Silicon Valley alone has proved it can do remarkable things with miniaturized sensors, software, electronics, and data collection and analysis. Big pharmaceuticals have substantial expertise in the R&D and regulatory aspects needed to bring a health product to the market.

While collaboration creates opportunity, the differing cultures of the high tech and pharmaceutical industries present unique issues and challenges on both the legal and business fronts. For example, the two industries, and the lobbying groups supporting them, often have different (and sometimes clashing) views on patent protection. With the speed of technological development and advancement, the implicit reliance on software and complex algorithms, and the current backlash regarding patent troll litigation, high tech companies often rely heavily on first market advantage and trade secret protection rather than patents. In contrast, big pharmaceuticals spends millions of dollars putting together complex patent strategies to protect their products for as long as possible, in as many countries where it makes sense.

The two industries often approach potential downstream patent hurdles differently as well. Big pharmaceuticals constantly scour the patent landscape and literature, in an effort to ensure their products can come to market with little to no risk of patent infringement litigation.

Some high tech companies take the opposite approach to pre-product clearance searches — choosing not to do them altogether, and instead relying upon litigation and marketplace factors to reach business conclusions.

Further, the collection and sharing of personal data from wearable and/or Internet-connected devices have led many to ask who owns the data, and what can be done with it? As many have noticed, there is a need to maintain patient information and address data ownership, sharing, and security in ways not previously considered.

Convergent technologies have now hit the scene as the first wave in a movement toward integrating historically separate industries and disciplines. The integration of these technologies promises to make health care more accessible to consumers, to reduce health care errors, to make medicine more personalized, and improve health outcomes and health care efficiency. With this new wave comes new and interesting legal and business issues that need to be considered, from patents to privacy. Now, it's time for the legal field to evolve, and catch up with the underlying technology it seeks to protect.

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## CONSIDERATIONS IN OBTAINING ADVICE OF COUNSEL TO REBUT A CLAIM OF WILLFULNESS

By [Bita Rahebi](#) and [Carlos Espinoza](#)

In 2007, the willfulness inquiry changed significantly with the Federal Circuit's seminal decision, *In re Seagate*. In addition to establishing a new two-prong test for willful infringement, the Federal Circuit in *Seagate* abolished the *Underwater Devices*<sup>1</sup> duty of care standard and "reemphasize[d] that there is no affirmative obligation to obtain opinion of counsel."<sup>2</sup> Additionally, the America Invents Act in 2011 provided that the failure to obtain advice of counsel may not be used to prove that the accused infringer willfully infringed the patent in suit.<sup>3</sup>

Despite these developments, accused infringers continue to consider and obtain opinions of counsel to rebut a claim of willful infringement.<sup>4</sup> Reliance on advice of counsel remains relevant to the second prong of the *Seagate* inquiry—namely the subjective prong.<sup>5</sup>

If an accused infringer intends to rely on opinions of counsel, it is important that the opinions be thorough,

competent, and timely. For instance, recently, the patent owner in *Health Grades* disputed the competency of the opinion of counsel received by the accused infringer in a motion for summary judgment on a willfulness claim. Although the district court refused to decide the competency of the opinion of counsel at the summary judgment stage, the court stated that the determination would take into account “the precise circumstances in which counsel issued the advice, what information counsel was privy to when issuing the advice, and whether information was withheld from counsel.”<sup>6</sup>

In addition to the thoroughness of an opinion of counsel, accused infringers are advised to act promptly. In *Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1313 (Fed. Cir. 2010), the Federal Circuit explained, “the timing as well as the content of an opinion of counsel may be relevant to the issue of willful infringement, for timely consultation with counsel may be evidence that an infringer did not engage in objectively reckless behavior.”

Because a finding that an opinion of counsel is incompetent will render the opinion ineffective, great care should be taken when obtaining opinion letters. While it is difficult to generalize because each case is different, if an accused infringer decides to rely on advice of counsel as a defense to willful infringement, these general guidelines are useful to keep in mind:

- The accused infringer should consult counsel in a “timely” manner. To the extent an accused infringer is approached prior to the commencement of a lawsuit, consideration should be given to retaining advice of counsel in advance of the lawsuit.
- In an ideal situation, the opinion of counsel defenses will be consistent with the defenses raised at trial. Of course, there may be changed circumstances that would justify a departure from this guideline.
- To the extent that there is a change in circumstances (e.g., a change in the law or a ruling on claim construction), a defendant will need to reexamine whether further analysis is required by opinion counsel. It is important to consider any claim construction orders promptly to determine whether any further analysis is warranted.

The accused infringer will need to ensure that the opinion of counsel is thorough and based on accurate and complete information.<sup>7</sup> This is particularly important in infringement/noninfringement opinions in which opinion counsel is relying on information provided by the accused infringer. If an accused infringer withholds critical evidence from counsel, this undermines the credibility of the opinion.

- The opinion of counsel should be drafted by an independent attorney who is credible and competent. Ideally, the same opinion counsel should not later be hired as trial counsel because this may lead to disputes regarding waiver.
- Once an accused infringer has requested an opinion of counsel, it should identify the company representative who will review and rely on this opinion. Also, given the practical reality that individuals leave companies, it would be wise to identify more than one individual within a company who would be prepared to testify at trial that the company has relied upon the opinion of counsel. Alternatively, if the potential opinion witness leaves the company, counsel should promptly identify another executive to fill that role, making sure that the person can establish continuity for the willfulness defense. The ideal executive would be a credible decision-maker, who has read, understood, and actually relied upon the final opinion.
- Prior to disclosing an opinion, an accused infringer should examine the scope and exact nature of discoverable materials to determine whether there are any issues that may undermine its defense.
- If the scope of the subject-matter waiver is critical, an accused infringer may ask the court to issue an advisory opinion, identifying the proper scope of the subject-matter waiver prior to deciding to rely on such an opinion.

Of course, the decision to obtain and rely on the advice of counsel is a difficult one as it often leads to waiver of attorney-client privilege and the work-product doctrine. Generally, the scope of the waiver of attorney-client privilege “applies to all other communications relating to the same subject matter.”<sup>8</sup> Further complicating matters is that the scope of the subject matter is not always clear—there is some uncertainty as to whether it waives as to all issues concerning the patent-in-suit (e.g., waiver as to invalidity where there is reliance on a non-infringement opinion). As such, if an accused infringer makes the difficult decision to waive the attorney-client privilege, it should be absolutely certain that its reliance on advice of counsel will hold weight.

As an alternate option, to avoid waiving the attorney-client privilege and/or the work-product doctrine, an accused infringer may instead rely on an internal investigation of an engineer, scientist, or other non-attorney to support its position on the second prong of the *Seagate* inquiry. Under such a scenario, the accused infringer must not only ensure that the person conducting the internal investigation is capable of comparing patent

claims with accused products but also ensure that the analysis is thorough and reasonable.<sup>9</sup> As with opinions of counsel, such an analysis must be timely, thorough, and competent to hold weight.

In sum, the advice of counsel defense remains a strong tool for an accused infringer against a claim for willful infringement. Yet its implications on attorney-client privilege require that advice of counsel be attained pragmatically. Following the guidelines set forth above will help ensure that an alleged infringer avoids potential pitfalls.

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- 1 *Underwater Devices Inc. v. Morrison-Knudsen Co., Inc.*, 717 F.2d 1380 (Fed. Cir. 1983), overruled by *In re Seagate Tech., LLC*, 497 F.3d 1360 (Fed. Cir. 2007).
- 2 *In re Seagate Tech., LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (“[T]o establish willful infringement, a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. . . . If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk (determined by the record developed in the infringement proceeding) was either known or so obvious that it should have been known to the accused infringer.” (citations omitted)).

- 3 35 U.S.C. § 298 (“The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.”).
- 4 *Finisar Corp. v. DirecTV Grp., Inc.*, 523 F.3d 1323, 1339 (Fed. Cir. 2008) (implying an opinion of counsel, by itself, may be sufficient to fend off a charge of willfulness).
- 5 *See Seagate*, 497 F.3d at 1369 (“Although an infringer’s reliance on favorable advice of counsel, or conversely his failure to proffer any favorable advice, is not dispositive of the willfulness inquiry, it is crucial to the analysis.”).
- 6 *Health Grades, Inc. v. MDx Med., Inc.*, No. 11-CV-00520-RM-BNB, 2014 WL 3509208, at \*2 (D. Colo. July 15, 2014) (citing *Chiron Corp. v. Genentech, Inc.*, 268 F. Supp. 2d 1117, 1121 (E.D. Cal. 2002)).
- 7 The Federal Circuit Bar Association’s Model Patent Jury Instructions for willful infringement state that the jury “must evaluate whether the opinion [of counsel] was of a quality that reliance on its conclusions was reasonable.” (F.C.B.A., Model Patent Jury Instructions at 3.10 (2014)).
- 8 *See In re EchoStar Commc’ns Corp.*, 448 F.3d 1294, 1299 (Fed. Cir. 2006) (“Once a party announces that it will rely on advice of counsel . . . in response to an assertion of willful infringement, the attorney-client privilege is waived.”); *Volterra Semiconductor Corp. v. Primarion, Inc.*, No. 08-CV-05129-JCS, 2013 WL 1366037, at \*2 (N.D. Cal. Apr. 3, 2013) (stating waiver of attorney-client privilege would occur if defendant introduced any evidence at trial that would leave the jury with the impression that defendant relied on the advice of counsel).
- 9 *See Mass Engineered Design, Inc. v. Ergotron, Inc.*, 633 F. Supp. 2d 361, 379 (E.D. Tex. 2009) (stating that a jury is free to consider “the occurrence, accuracy, and reasonableness of” an internal investigation).

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