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Experts Working Together in a Patent Case

New York Intellectual Property Law Association

April 23, 2023

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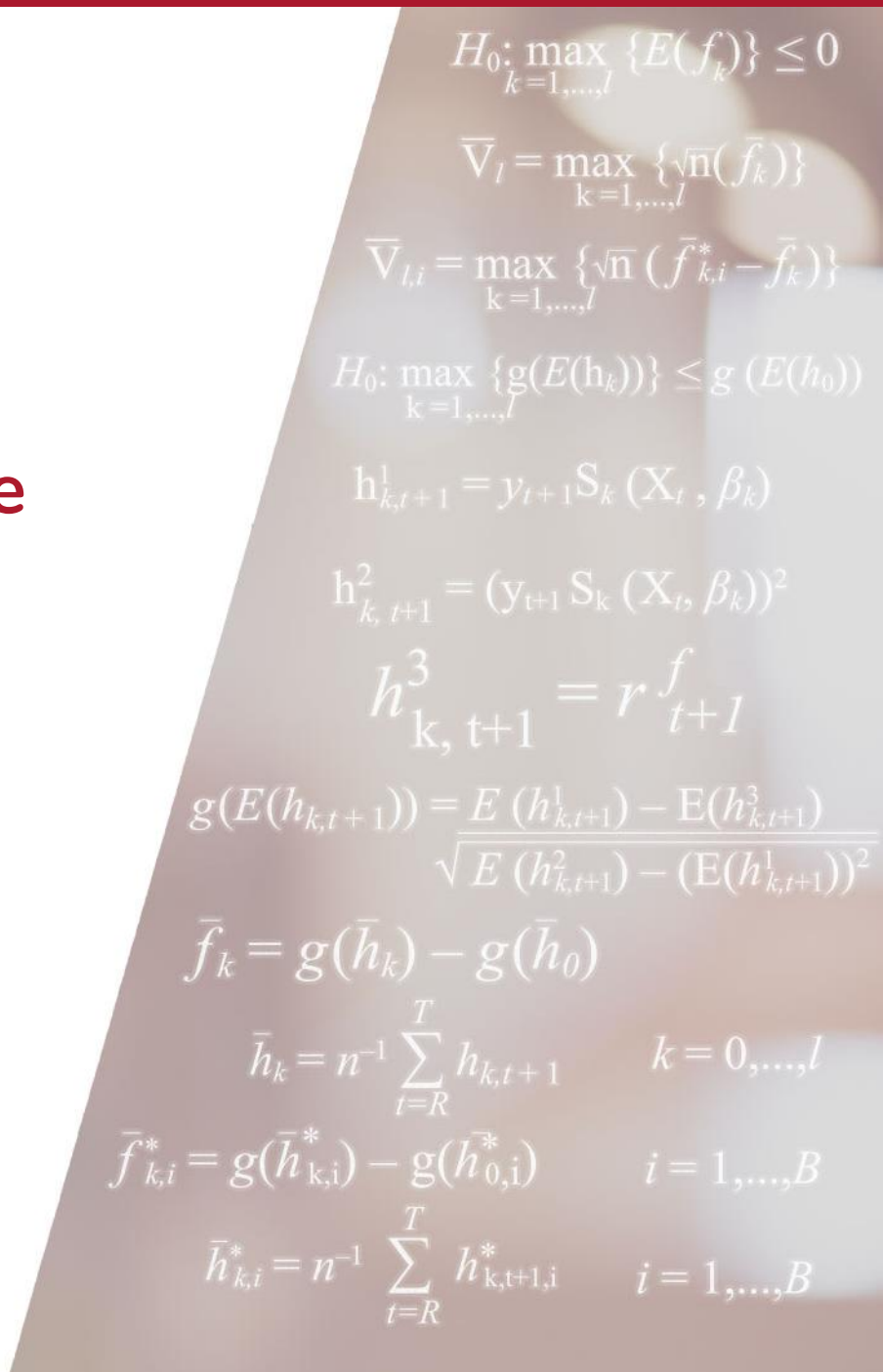

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B.A., Economics,
Stanford University

M.B.A., **University of Chicago**,
Booth School of Business

19+ years of experience calculating damages in complex litigation

Certified Management Accountant

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Why is it Important?

Robust and Defensible Reports	Expert reports need to withstand *Daubert* challenges and the damages expert needs to understand the Point of Novelty
Selection of Products to Include in a Royalty Base	The damages expert needs to understand what products to include in the royalty base
Design Arounds / Non – Infringing Alternatives	The presence of design arounds or non-infringing alternatives affects the complexion of the Hypothetical Negotiation
License Comparability	Licenses that contemplate technology that is comparable to the patented technology are probative to a damages analysis
Apportionment	A reasonable royalty must apportion to the economic value driven by the patented technology

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Cost Approach

A licensee will pay no more for a technology than the cost to obtain a technology of equal utility.

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Design Arounds / Non-Infringing Alternatives

- Do non-infringing alternatives exist?
- What would be the steps, processes, or methods to design around the patented technology?
- What would be the cost of the design around?

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Method of Design Around

- Point of Novelty
- Software code
- Manufacturing process
- Different components

Cost of Design Around

- Labor costs
- Input costs
- Testing costs
- Market exit costs

Feasibility

- Existing or new technology
- Commercial acceptance

Market Approach

An examination of the terms and conditions of actual licenses and transactions involving the patented technology and other comparable technology.

Experts Working Together – Market Approach

License Comparability

- Do any license agreements contemplate technology that is technologically comparable to the patented technology?
- Are license agreements economically comparable to the Hypothetical License?
- Can adjustments be made in the consideration of the agreements to make them economically comparable?

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Technological Comparability

- Point of Novelty
- Related patent families
- Identical or competing products
- Technology in the same realm as the patented technology

Economic Comparability

- Geographic Scope
- Exclusivity
- Single patent license or portfolio of patents
- Running royalty rate or lump-sum

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Income Approach

A framework for estimating the value associated with intellectual property based on the value of benefits derived from the incorporation of the subject technology.

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Apportionment

- If the accused products incorporate multiple technologies, what is the prominence or importance of the patented technology?
- Technical expert's opinion as to the technological apportionment.
- Damages expert's opinion as to the economic apportionment.

Experts Working Together – Income Approach

Technological Apportionment

- Point of Novelty
- Feature count
- Incremental benefit analysis
- Technological prominence analysis

Economic Apportionment

- Incremental operating profits
- Profit differentials
- Revenue or profit levers
- Hedonic regression
- Survey analysis

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Non-Infringing Alternatives: Recent Developments

Na Dawson, Ph.D., Analysis Group, Inc.

April 23, 2024

Prepared for:
New York Intellectual Property Law Association

ANALYSIS GROUP

Analysis Group, Inc.

About Analysis Group

Analysis Group is one of the largest international economics consulting firms, with more than 1,200 professionals across 14 offices in North America, Europe, and Asia. Since 1981, we have provided expertise in economics, finance, health care analytics, and strategy to top law firms, Fortune Global 500 companies, and government agencies worldwide. Our internal experts, together with our network of affiliated experts from academia, industry, and government, offer our clients exceptional breadth and depth of expertise.

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Analysis Group's Intellectual Property Practice

1. A wide range of intellectual property disputes, including patent, trademark, copyright, trade secret, and unfair competition
2. An extensive array of issues, including economic, financial, accounting, marketing, and survey research
3. Focus areas include:
    - Commercial success
    - FRAND royalty rates and terms
    - Injunctive relief
    - Damages
    - Surveys and market research
    - ITC Section 337 investigations
    - Technical / technology evaluation
4. Internal and affiliated experts

Smart Path Connections, LLC v. Nokia of America Corp.

1. It is Defendant's burden to show that "an alternative is non-infringing and should have been raised in an opening report."

2. "Non-infringing alternatives are only relevant to a reasonable royalty damages analysis [in this case]. Under such a damages analysis the Court finds that a non-infringing alternative analysis is more similar to an affirmative defense whose burden is upon the defense."

3. "Because none of Nokia's experts provide any financial analysis of the impact of a non-infringing alternative to a reasonable royalty – i.e., rather than infringe Nokia would implement a non-infringing alternative at a certain costs – presenting these alternatives will only operate to confuse the jury."

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Questions to Consider

1. If the damages expert's opinions rely, at least in part, on the cost of implementing the NIA, would the NIA analysis be permissible in Defendant's technical expert's rebuttal report?

2. What about in lost profits cases?

3. From a damages perspective,

- **Do Defendants want to put forth an NIA analysis in technical expert's opening report even if damages expert does not quantitatively rely on the NIA costs for royalty opinions?**
- **Do Defendants want to present costs of NIAs anyway even if damages expert does not quantitatively rely on the NIA costs for royalty opinions?**

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Availability and Acceptability of NIAs

1. Availability

- **Do NIAs need to be on the market at the time of the infringement?**
- **If not, how long after?**

2. Acceptability to customers

- **Do NIAs need to have the patented features in order to be acceptable?**

3. Acceptability to infringers

- **What are the full economic costs of NIAs?**

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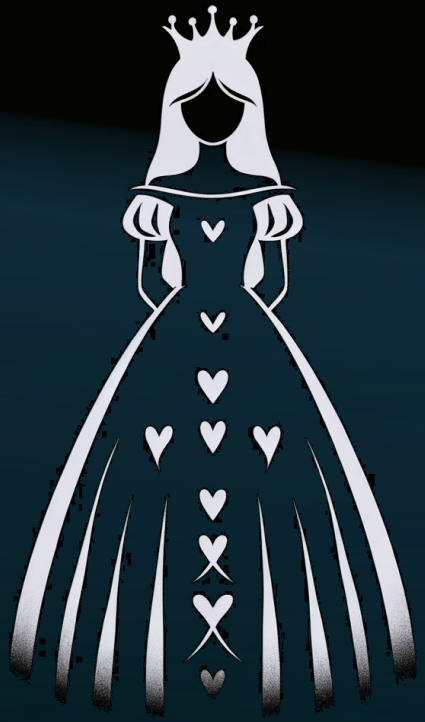
Discussion: SEPs and NIAs — and why we should care

John Blair

April 2024

BRG

NIAs and ex-ante analysis — through the looking glass



Alice laughed. ‘There’s no use trying,’ she said: ‘one can’t believe impossible things.’

‘I daresay you haven’t had much practice,’ said the Queen. ‘Why, sometimes I’ve believed as many as six impossible things before breakfast.’

“Ex-ante” analysis is routinely proposed by experts in cases around standards-related patents

“Before a standard is defined, alternative technologies may compete in the technology market for inclusion in the standard. In this competitive, pre-standard world, the value of a particular patent to a licensee is its incremental value over and above the value that other, competing patents provide.”

Seizing

This sounds reasonable …

Until you think about it

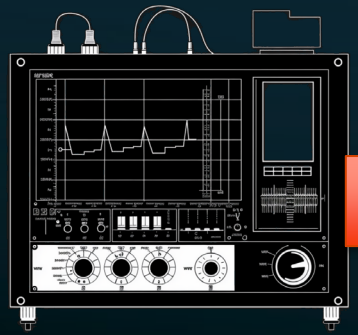
Value Created ($ / Unit)

$10.25

$10.00

R&D

Investment



Seizing

$$$
Company A

$$$
Company B

The result: we are eating our seed corn

Plaintiff's Opening Statement

Federal Trade Commission
v.
Qualcomm Inc.

January 4, 2019

Richard Donaldson: Skewed License Negotiations

Richard Donaldson

- 30+ years of experience as a patent licensing attorney in the semiconductor industry
- Negotiated hundreds of licenses, including those covering SEPs

- Qualcomm's "no license-no chips" policy gave Qualcomm **significant leverage** in licensing negotiations.
- Qualcomm **used its leverage** to obtain favorable license terms.
- OEMs **agreed to licensing terms that they otherwise would not have accepted**.

Hold-Out is equally important to Hold-Up

"Unlike buyers of goods and services— standards implementers are in the favourable position to be able to access protected technology needed for producing standard compliant products, even without an agreement with the patent holder."

See English-language summary of Sisvel v. Haier, Federal Court of Justice (Bundesgerichtshof), Case No. KZR 36/17, 5 May 2020, available at https://caselaw.4ipcouncil.com/german-court-decisions/federal-courtof- justice-bgh/sisvel-v-haier-federal-court-justice-bundesgerichtshof ("Sisvel v. Haier I").

Assessing market power of SEPs requires real analysis

""[T]he issue of whether a particular SEP holder has market power requires a case-by-case fact-specific inquiry into whether a single SEP (or portfolio of SEPs) constitutes a well-defined relevant market, whether there are potential substitutes, and the degree to which any market power is mitigated by complementarities among technologies used for the same product."

See, Koren W. Wong-Ervin, Evan Hicks, Ariel Slonim, Tying and Bundling Involving Standard-Essential Patents, 24 Geo. Mason L. Rev. 1091, 1098 (2017)

To consider only ex-ante incremental value in assessing compliance with FRAND commitments is incomplete and incompatible with the mission of SSOs to drive ongoing innovation

Thank You

John Blair

April 2024

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