

## Using Consumer Surveys to Prove Patent Infringement Damages at Trial

By Christopher K. Larus and  
Bryan J. Mechell

Proving damages in patent infringement cases just keeps getting harder. The Federal Circuit's decision in *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011), illustrates the increased scrutiny damage awards in patent infringement cases have received in the past few years. In *Uniloc*, the court explained that damage awards in patent infringement cases must be supported by sound economic theory and tied to the patented invention's "footprint in the marketplace." And, where a patent covers only one feature of an accused product, Federal Circuit decisions also require that a patent holder wishing to present evidence regarding the overall profitability of the accused product demonstrate that the patented feature creates consumer demand for the product or its components.

As a result, proof of an invention's real value in the marketplace has become an essential component of a claim for infringement damages. A well-crafted consumer survey can provide powerful evidence of that value — or a strong refutation of the same. Though long used in trademark, false advertising, and antitrust cases, the use of consumer surveys in patent cases is a relatively recent phenomenon. Counsel responsible for managing patent litigation should understand the potential role that survey evidence can play at trial.

---

**Christopher K. Larus**, a partner with Robins, Kaplan, Miller & Ciresi L.L.P., is a trial lawyer focused on helping inventors, developers, authors, and brand holders maximize the value of their intellectual property. **Bryan J. Mechell** is an associate at the firm, where he focuses his practice on complex intellectual property litigation. The authors can be reached at cklarus@rkmc.com and bjmechell@rkmc.com respectively.

### ESTABLISHING A REASONABLE ROYALTY WITH CONSUMER SURVEYS

The patent statute provides that a prevailing patent holder in an infringement action is entitled to "in no event less than a reasonable royalty for the use made of the invention by the infringer." 35 U.S.C. § 284. Usually, a patent holder pursuing an infringement action offers proof of damages based upon a royalty that reasonably approximates what the parties would have agreed to during a hypothetical negotiation occurring at the time the infringement began. A "reasonable royalty" consists of two elements: the royalty base, which reflects the revenue pool implicated by an infringement, and a royalty rate — applied to the base — representing the percentage of the revenue pool to which the patent holder is entitled. The reasonable royalty analysis — both as to the royalty base and the royalty rate — must be targeted to compensation for the economic harm caused by infringement of the patented invention.

In *ResQNet.com v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010), the Federal Circuit said that "determining a fair and reasonable royalty is often ... a difficult chore, seeming often to involve more the talents of a conjurer than those of a judge." By providing evidence of real world use of the patent, consumer survey evidence can offer the link needed to tie proof of damages to the claimed invention's footprint in the marketplace or show that claimed damages overreach the patent's impact in the real world.

### USING CONSUMER SURVEYS TO DETERMINE THE ROYALTY BASE

Consumer survey evidence can play an important role in defining the appropriate reasonable royalty base. The decision in *i4i Limited Partnership v. Microsoft Corp.*, 598 F.3d 831 (Fed. Cir. 2010), illustrates the impact a consumer survey can have, especially when parties dispute the extent to which a patented feature is actually used by consumers. The patent holder in *i4i* claimed that Microsoft's

Word software program infringed its patent relating to XML custom formatting. Though little dispute existed that Microsoft's Word program had the capability to perform custom XML formatting, the parties clashed over the extent to which consumers actually used the XML feature. The patent holder conducted a survey and used the survey evidence at trial to show that approximately 2% of all businesses owning Microsoft Word used the patented feature. The patent holder's damages expert then applied this percentage of allegedly infringing use to Microsoft's overall sales of the Word program to determine the base to which a reasonable royalty rate would be applied. The jury's \$240 million damage award reflected this royalty base and the Federal Circuit affirmed on appeal. The Federal Circuit rejected Microsoft's challenge to admission of the survey evidence, finding that the survey and its results met *Daubert's* requirements of reliability.

### CONSUMER SURVEYS AND THE ENTIRE MARKET VALUE RULE

In cases where a patent covers only one feature of an accused product, consumer survey evidence can also demonstrate whether an appropriate reasonable royalty base includes revenue earned through the sale of the accused product as a whole. In *Uniloc USA, Inc. v. Microsoft Corp.*, the Federal Circuit explained that "the entire market value rule allows a patentee to assess damages based on the entire market value of the accused product only where the patented feature creates the 'basis for consumer demand' or 'substantially creates the value of the component parts.'" Under this rule, a patent holder seeking to apply the entire market value rule must show both the existence of consumer demand for an accused product as well as an evidentiary link between such demand and the patented feature. A properly conducted consumer survey can persuasively demonstrate or refute this evidentiary link.

For example, in *Cornell University v. Hewlett-Packard Co.*, 609 F.Supp.2d 279 (N.D.N.Y. Mar.

2009), the patent holder claimed that Hewlett-Packard had included an infringing component within a processor that was in turn incorporated into the building blocks of Hewlett-Packard's computer workstation. Sitting by designation in the district court, Federal Circuit Judge Randall R. Rader rejected the patent holder's reasonable royalty claim. Judge Rader slashed the jury's \$186 million damage award, noting that the patent holder had failed to present real-world evidence of consumer demand for the patented component. But Judge Rader also noted that a patent holder may collect royalties on some part of a system that encompasses more than the claimed invention "when defendant's real world earnings derive from real world systems sales generated by demand for the claimed invention." Surveys directed at assessing why consumers make their purchasing decisions, and whether the patented feature at issue creates demand for the product as a whole, can demonstrate — or refute — the causal link necessary to allow reference to the overall profitability of an accused product as part of a reasonable royalty base.

But not all evidence of consumer attitudes is created equal. In *IP Innovation v. Red Hat*, 705 F.Supp.2d 687 (E.D. Tex. Mar. 2010), damages evidence based on statements collected from an online user forum for a third-party product were rejected because the statements lacked "a relationship to the actual claimed technology." Judge Rader, again sitting by designation, said the selected consumer statements did not reflect an accurate economic measurement of the contribution of the patented feature to the demand for the entire system. Leaving aside concerns regarding the reliability of such user forum statements, Judge Rader stressed that proper evidence of consumer demand must demonstrate "some plausible economic connection" between the patented feature and consumer demand.

Similarly, in *Schindler Elevator Corp. v. Otis Elevator Co.*, No. 1-06-cv-05377 (S.D.N.Y. June 23, 2011), the district court excluded the patent holder's claim for damages based on the entire market value rule. The court found that the patent holder had failed to provide a sound economic connection between demand for the accused system and the specific patented feature. The patent holder's damages expert sought to rely upon statements from customers who had purchased the accused elevator system which incorporated the patented "seamless entry" feature. In excluding the expert's testimony, the court explained that although the customer statements demonstrated that the patented feature was desirable to purchasers, they did not establish that the entire system's value substantially derived from that single feature. The court found particularly troubling the lack of quantifiable consumer evidence such as statistical or regression analysis.

## SURVEY EVIDENCE AND A REASONABLE ROYALTY RATE

Consumer surveys can also provide highly persuasive evidence supporting determination of a reasonable royalty rate. The so-called *Georgia-Pacific* factors govern calculation of a reasonable royalty rate and expressly allow for consideration of several factors impacted by consumer attitudes and behaviors. Consistent with the Federal Circuit's recent focus on economic support for damage awards, parties involved in patent litigation are increasingly using consumer survey evidence to support their analyses under the *Georgia-Pacific* factors.

Depending upon the circumstances of a particular case, consumer survey evidence may be used to demonstrate a number of *Georgia-Pacific* factors including:

- Effect of selling the patented specialty in promoting the sale of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales (*Georgia-Pacific* factor 6);
- Established profitability of the products made under the patent, its commercial success and its current popularity (*Georgia-Pacific* factor 8);
- The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefit of those who have used the invention (*Georgia-Pacific* factor 10);
- The extent to which the infringer has made use of the invention and the value of such use (*Georgia-Pacific* factor 11); and
- The portion of realizable profit attributable to the invention as distinguished from non-patented elements, significant features/improvements added by the infringer; the manufacturing process or business risks (*Georgia-Pacific* factor 13).

Unlike anecdotal assessments, survey evidence can provide an important quantitative input into the assessment of the "value" obtained through the use of a patented invention.

*Lucent Technologies v. Gateway*, 580 F.3d 1301, 1327-28 (Fed. Cir. 2009) illustrates the importance that evidence of usage — or its lack — can have. In *Lucent*, the Federal Circuit reversed a \$358 million damage award rejecting the royalty analysis of the patent holder's damages expert. According to the court, the expert had improperly relied on licenses that were too vague and "radically different from the hypothetical agreement under consideration." The Federal Circuit also found that use of the entire market value rule was inappropriate without evidence that the patented feature was a basis of consumer demand for the accused

products. The Federal Circuit observed that the record was devoid of any data showing evidence of usage that could have helped determine whether the invention was more valuable than a comparable invention used less frequently, and that there was no evidence showing how many customers had ever used the patented feature or how often they did so.

As in cases addressing survey evidence offered to establish an appropriate reasonable royalty base, survey evidence offered to support a royalty rate must be tied to the patented technology at issue. For example, in *Fractus S.A. v. Samsung Electronics*, No. 6:09-cv-203, slip op. at 1 (E.D. Tex. Apr. 29, 2011), the district court excluded evidence of a consumer survey intended to demonstrate the value to consumers of internal antennas in cell phones instead of external antennas. The patent holder's expert opined that the survey demonstrated that an internal cell phone antenna contributes "between \$16.02 and \$29.96 to the value of a cell phone" and that "over 90% of respondents prefer an internal cell phone antenna versus an external antenna." The district court excluded this survey evidence, noting that the survey was not tied to the alleged advantages of the patented technology — smaller antenna size and multiband functionality — and therefore did not measure how consumers value the purported advantages of the patent holder's technology.

## CONCLUSION

Consumer survey evidence has played a significant role in recent patent infringement cases — and that importance will certainly continue to increase. And while consumer surveys can provide highly persuasive evidence in patent cases, common pitfalls await those who are unfamiliar with survey methodology. Serious flaws in survey design and implementation can lead to exclusion of survey evidence. Moreover, surveys conducted for litigation purposes often differ substantially from those a company may conduct for non-litigation marketing purposes. A basic understanding of survey methodology can help counsel effectively limit the impact of such challenges and maximize the positive impact of consumer survey evidence at trial. Ensuring that counsel are familiar with basic concepts of survey methodology will help to minimize the risk that consumer survey results will be successfully challenged, and will help to ensure that survey results can be presented with maximum effect.