In recent years, several patent-damages decisions have given guidance on the increased rigor with which courts scrutinize expert testimony regarding the proper royalty base in reasonable royalty cases. A trend detected from these recent decisions is the struggle both courts and parties have with the concept of "apportionment"; i.e., what is the contribution of this particular invention or creation to the demand for the product at issue? There is also a body of copyright case law that continues to develop in the area of apportionment. One major key to unlocking the correct revenue base is the demonstration, through sufficient admissible evidence, of a "causal nexus" between the plaintiff’s contribution (whether patented or copyrighted) and the demand for the infringing product.

In copyright cases, this causal nexus is established by presenting clear proof that the defendant’s revenues are "reasonably related" to the infringement. Once this causal link is proven, the burden shifts to the infringer to segregate out the profits that are not a result of the infringement and to prove its deductible expenses. Courts have required that plaintiffs formulate the initial proposal on how gross revenue should be duly apportioned so that it does, in fact, "relate to the infringement." For example, in a 1940 copyright decision, Sheldon v. Metro-Goldwyn Pictures, parts of a film had been lifted from a copyrighted play. Still, most of the infringer’s profits were due to the non-infringing aspects of the film found in the remainder of the script, the cinematography, the direction, and the actors. Relying on both patent and copyright decisions, the Sheldon court set forth a burden-shifting rule: where it could be found that the defendant's additional creative efforts contributed to the profits of the whole, the initial burden of apportionment would rest on the plaintiff; but if the manner in which the defendant kept its business records made apportionment difficult or impossible, then the burden of proof on apportionment would shift.

In 2009, in Lucent v. Gateway, the Federal Circuit confirmed that even where the measure of damages is a reasonable royalty it may be proper to look at the entire market value of a product that incorporates the feature that is at issue. Specifically, the court stated that "there is nothing inherently wrong with using the market value of the entire product" as the revenue base in a royalties analysis, "especially when there is no established market value for the infringing component or feature." But the court made clear that this can only be so where the rate multiplier "accounts for the proportion of the base represented by the infringing component or feature."

Sometimes courts state whether and why they are shifting the burden of proof. Other times they do not frame the problem as one of burden shifting. Nevertheless, whether it is expressly stated as a burden shifting issue or just implied, it is helpful to understand the types of evidence courts look to when examining apportionment issues because courts are now requiring greater levels of proof before allowing the issue to go to the jury. Here, we use the generic term "feature" to describe either an artistic or technical contribution.

Quantitative Evidence of Demand for the Feature: The best evidence that demand for a product is driven by the relevant feature is a demand curve showing product sales with and without the feature, along with any price differentials. Often, it is the very lack of a separate market for the patented component that makes this task difficult, so parties may have to look to other benchmark products that incorporate only the patented technology or the same functionality and utility of the patented feature. In that sense, not only does the damages expert need to be consulted,
but the technical expert may be needed as well. Also, consumer surveys may already exist in the defendant’s records. If not, it should be simple enough in most cases to design a survey that explores adequately the economic circumstances under which consumers would purchase the product without the infringing element.

**Quantitative Evidence of Actual Use of the Feature:** The extent to which the feature is actually used by consumers has been discussed by courts examining both the admissibility and weight of testimony concerning the proper revenue base. For example, a recent patent decision criticized the patentee’s expert for not taking into account the lack of evidence of any use at all. One older copyright decision, for example, used the extent of use to arrive at an apportioned royalty of 9% for a live musical revue by first apportioning 12% of the infringing revue’s running time to account for the portion of the revue that the infringing segment appeared in, and then multiplying the 12% by 75% to account for some material the defendant added to the infringing segment.

**Qualitative Evidence of the Importance of the Feature:** Courts are careful, however, to consider not just the extent of use but the importance of the use to the demand for the product. For example, often in music cases a "hit" may be worth more than a non-hit. (In one instance, a court approved a jury’s finding that one song contributed 28% of an album’s profits.) The Sheldon decision itself approved a 20% royalty even though the infringing part of the film was small as a measure of the film’s total time. Other factors courts have considered include any increase in profitability as a result of incorporating the feature, or cost savings as a result of implementing it. The cost of design around solutions that arrive at the same result function or utility can also be helpful. Another factor is the extent to which the feature is utilized by the defendant in its advertising of the infringing products—by trumpeting the benefits of the feature or component at issue or differentiating its offering based on it in advertising or at trade shows. In copyright cases, the prominence of the infringing item within an advertising campaign and whether it was considered an important part of the campaign by consumers or the infringer may tend to prove the importance of the feature in creating demand for the products being advertised—and such evidence may be sufficient to shift the burden to the defendant to explain why the products being advertised should not be included in the revenue base. Internal email and memoranda trumpeting a feature, including as enhancing good will or market recognition can also be powerful proof that may help the plaintiff shift the burden. Product reviews can also help determine the importance of the feature at issue to the overall product.

**Evidence of Other Reasons For Consumer Purchasing Decisions:** The extent to which the defendant can show that it added other intrinsic value to the product is paramount to a successful showing that the burden of proof should not shift. A defendant’s market reputation for quality and good service, reliability, and a strong brand are also factors that have been used to negate evidence that a feature is driving demand for the product. Such evidence, however, is more likely to go to weight than to the initial question of burden shifting, unless the example is an egregious one.

**What Is the Practice In Industry Licenses?** Discussion of what courts look for in deciding whether licenses are adequate benchmarks is another topic, but on the burden shifting question, one thing courts look to when selecting a revenue base is whether licenses in the industry are based on the entire product or just the component. If based on the entire product, then it must be asked whether the license payments are lump sums, hybrid licenses with an up-front payment and a running royalty, or running royalties based on revenue or a number of defined units. If the licenses are of one type, or a mix of types, efforts should be made in discovery to correlate them to the proponent’s proposed revenue base, which may require third-party discovery.

In sum, the recent copyright and patent damages cases reflect the courts’ desire to keep damages awards accurate and fair. However, courts are demanding greater evidentiary support and rigor in this endeavor than before. Most importantly, parties need to provide clear, economic market evidence to show whether or not the patented invention or copyrighted contribution is a substantial basis for consumer demand of the product.

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