



Business and Patent Litigation Advisory

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CONTACTS

For further information regarding the topic discussed in this advisory, please contact one of the professionals below, or the attorney or public policy advisor with whom you regularly work.

Gaspare J. Bono
gbono@mckennalong.com
202.496.7211

Stephen M. Chippendale
schippendale@mckennalong.com
202.496.7789

Reversal of Fortune: Patent Verdict Overturned Against Apple

Last October, a jury in the Eastern District of Texas required Apple to pay as much as \$625.5 million for infringing three patents in *Mirror Worlds, LLC v. Apple, Inc.*, Case No. 6:08-cv-00088-LED. On April 4, 2011, however, District Judge Leonard Davis ruled that the evidence did not prove infringement and, even if it did, did not justify the damages. As a result, Apple turned defeat into victory.

Originally, Mirror Worlds accused Apple's operating systems in its computers and mobile devices of direct and indirect infringement. But these claims were narrowed during trial when Judge Davis ruled that the evidence only supported jury consideration of whether Apple's computers directly infringed the method claims of two patents and system claims of a third patent. According to Mirror Worlds' expert, this removal of the "iPhone, iPad, and iTunes" cut the damages in half to about \$300 million.

During closing argument, Mirror Worlds' counsel told the jury that it should award approximately \$300 million if Apple infringed a single patent. In Apple's closing argument, its counsel told the jury that Mirror Worlds wanted \$300 million for each patent, which could add up to a "billion dollars." In rebuttal closing, however, Mirror Worlds made clear that it sought a total of \$300 million.

Following deliberation, the jury found the three patents valid and willfully infringed and listed \$208.5 million next to each patent. But the verdict form was unclear whether the total amount was \$208.5 million or an aggregated \$625.5 million. Apple thought the former and Mirror Worlds the latter. Indeed, Mirror Worlds asked Judge Davis to enter judgment of \$625.5 million, plus trebling for willfulness, attorneys' fees and costs, post-judgment interest, and an ongoing royalty. But Judge Davis entered judgment giving nothing.

In his 44-page opinion, Judge Davis vacated the jury's verdict because Mirror Worlds failed to prove actual infringement. This ruling made it unnecessary to evaluate the damages award, but Judge Davis did so anyway. "Separate and apart from the sufficiency of evidence regarding infringement, there is insufficient evidence to support the jury's \$208.5 million damages award," Judge Davis wrote. In so holding, Judge Davis identified three deficiencies that all litigants should keep in mind.

(1) Importance of Consistency

A party should make consistent arguments before, during, and after trial.

In this case, Mirror Worlds' position weakened when its damages request became a moving target. Judge Davis specifically observed: "Curiously, Mirror Worlds now requests judgment for aggregate damages of \$625.5 million, notwithstanding [it's expert's] testimony and counsel's representations to the jury and the Court that its total \$625.5 million damages model was reduced by 50 percent."

(2) Sufficiency of Evidence

When asserting multiple patent claims in a single case, the claims may raise different issues of proof. In addressing the method claims, for example, Judge Davis noted that sale of an apparatus is not the sale of the method. Therefore, because Apple's sales or offers for sale did not directly infringe the method patents, they could not be the basis for damages. Yet Mirror Worlds did not present evidence of Apple's own use of the methods. As a result, the jury lacked an adequate basis to award damages for Apple's direct infringement of these claims.

By contrast, Apple's sales and offers for sale *were* relevant to the system claims. But Mirror Worlds based its damages theory on the accused features of the patent portfolio and did not address damages on a per-patent basis. While this approach allowed an effective presentation to the jury, it left Mirror Worlds exposed after trial. When Judge Davis trimmed the case to a single patent, insufficient evidence existed to account for exclusion of sales corresponding to the method claims.

(3) Reasonable Royalty Analysis

Mirror Worlds used the entire market value of the accused Apple products in calculating its royalty base, and those products contain accused and non-accused features. Therefore, Judge Davis found Mirror Worlds had to show that the patented features create the "basis for customer demand" or "substantially create the value of the component parts" in the accused products. *Uniloc USA Inc. v. Microsoft Corp.*, 2011 WL 9738, at *22 (Fed. Cir. Jan. 4, 2011). Because Mirror Worlds did not do so, it could not use the entire market value of the accused products. Further, having so failed, Mirror Worlds had to apportion the royalty base to address the accused features—which it did not do.

Finally, turning to the royalty rate, Judge Davis faulted Mirror Worlds' expert for failing to account for the lack of similar royalties in Apple's license agreements and not explaining why Apple, in a hypothetical negotiation, would agree to a running royalty. Even though the expert testified that the rate was calculated to "leav[e] a lot of meat on the bone for Apple," the record did not justify the requested rate.

About the authors

Gaspare J. Bono is an experienced intellectual property litigator and Co-Chair of the firm's Global Patent Litigation Group.

Stephen M. Chippendale is a partner in the firm's litigation department and a member of the Global Patent Litigation Group.

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