

Cross License Agreements Had Only Tenuous Relevance to Determining Reasonably Royalty Damages and Were Not Required to Be Produced in Patent Litigation

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In patent infringement litigation, the patent owner is often awarded damages in the form of a "reasonable royalty" on products sold by infringers. When deciding the royalty amount, courts attempt to discern the hypothetical royalty rate that the patent owner and the infringer would have agreed upon at the time the infringement began if they had reasonably and voluntarily tried to reach an agreement. The parties' prior license agreements may provide evidence of the likely results of such a hypothetical negotiation, particularly when the licenses grant the use of patents comparable to the patents in suit.

License agreements are less relevant to determining a reasonable royalty when the technology in a previous license agreement differs from the patents in suit or where the previous license agreement involves a different arrangement, such as one more complex than exchanging patent rights for a royalty payment. Further, where a company has a substantial licensing practice, producing large volumes of licensing documents for a litigation may be overly burdensome and costly, particularly if significant differences exist between the previous license agreements and the situation in lawsuit. This tension—between an overly burdensome production and the obtaining reasonable royalty evidence—raises questions about what license documents a court is likely to require a litigant to turn over to the other side. The United States District Court for the Middle District of Alabama recently addressed these issues in *Auburn University v. IBM, Corp.*, No. 3:09-cv-694 (M.D. Ala. May 18, 2011).

The *IBM* Decision

Auburn University ("Auburn") sued IBM for infringing two patents related to the testing of semiconductors. As part of marshalling evidence of the appropriate royalty rate, Auburn sought all of IBM's license agreements pertaining to semiconductor testing dating back to 2003. IBM refused to produce out-bound licenses (where IBM was solely a licensor) and cross-licenses (where both IBM and another party licensed patents to each other in the same agreement). IBM also refused to produce any licenses prior to 2007, when Auburn's patents issued. Auburn asked the Court to compel IBM to produce the agreements, arguing they were relevant to

determining a reasonable royalty and that other courts had permitted the discovery of such agreements for that purpose.

IBM responded that it was producing all related in-bound license agreements (licenses where it was solely a licensee) since 2007 and that it was willing to produce out-bound and cross-licenses limited to specific patents. IBM—which had led the world in issued US patents for 18 consecutive years—argued that Auburn's request would require the production of hundreds of broad and irrelevant portfolio-based licenses, and that such agreements would not be similar in structure to the hypothetical reasonable royalty agreement. IBM also argued that reviewing and producing such agreements would place an extreme burden on IBM. Although Auburn only requested licenses pertaining semiconductor testing, IBM noted that a careful review of each license by an attorney would be required to determine the technology covered. Further, IBM argued that cross licenses, particularly where large patent portfolios were shared, were not comparable to the hypothetical license.

The Court found that licensing agreements dated before the patents in suit issued were relevant, and required IBM to produce all in-bound licenses related to semiconductor testing since 1993. The Court also required IBM to honor its offer to produce out-bound licenses to the extent that Auburn specifically identified the patent agreements. Finally, the Court found Auburn's request for cross-license agreements to be overbroad, overly burdensome, and of "tenuous relevance" to the reasonable royalty determination. Thus, even though the cross-licensing agreements may have encompassed the same technology as the patents-in-suit, IBM was permitted to withhold production of those agreements.

Strategy and Conclusion

This case illustrates how a court may deal with the interplay between the relevance of license agreements to determine a reasonable royalty and the associated burdens of producing those agreements to the other side. Although different courts may balance the competing issues differently, in this case, where an accused infringer was able to provide in-bound and out-bound licenses, the relevance of cross licenses to the determination of a reasonable royalty was significantly diminished and the court did not require the cross license agreements to be produced.

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