



Federal Circuit Vacates Damages Award, Clarifies “Smallest Salable Unit,” and Asks for More When Invoking the Nash Bargaining Solution

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By: Rachel J. Elsby

The Federal Circuit clarified the application of the “smallest salable unit” to determine the royalty base. The smallest salable unit approach is a way to apportion damages tied to the claimed invention, rather than using the entire market value. But it is not applicable to multi-component products (in this case, iOS devices) with several noninfringing features (e.g., web browser, email, iMessage) with no relation to the allegedly infringing features (i.e., FaceTime and VPN On Demand). Because the iOS devices are multicomponent products, damages must be apportioned, even though the iOS device is the smallest salable unit. That is why the court held that the jury instruction, which allowed the jury to rely on the entire market value without apportioning for the allegedly infringing features, was erroneous.

In determining a royalty base, you should not use the value of the entire apparatus or product unless either: (1) the patented feature creates the basis for the customers’ demand for the product, or the patented feature substantially creates the value of the other component parts of the product; or (2) the product in question constitutes the smallest saleable unit containing the patented feature.

Relatedly, the Federal Circuit ruled that the district court should have excluded VirnetX’s expert testimony on damages as inadmissible because it was based on the entire market value without apportioning damages to the allegedly infringing features.

The Federal Circuit also took issue with using the Nash Bargaining Solution to determine the profit split between VirnetX and Apple. Much like the “25 percent rule of thumb,” the Nash Bargaining Solution is based on several premises. But the premises are not necessarily met by

the facts in every case. That is why the court rejected the “25 percent rule of thumb” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1315 (Fed. Cir. 2011) (“Evidence relying on the 25 percent rule of thumb is thus inadmissible ... because it fails to tie a reasonable royalty base to

the facts of the case at issue”). And, for similar reasons, the court ruled that VirnetX’s use of the Nash Bargaining Solution was inappropriate because its expert failed to “sufficiently establish that the premises of the theorem actually apply to the facts of the case at hand.”

VirnetX, Inc. v. Cisco Systems, Inc., No. 20131489 (Fed. Cir. September 16, 2014).

Categories

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