**MEETING RECAP**
**THE PAULINE NEWMAN IP AMERICAN INN OF COURT**
**TUESDAY, MARCH 13, 2012**

Before the meeting, there was reception beginning at 6:00 p.m. in a front area of the Auditorium in the lower level of the Atrium of the Madison Building of the U.S. Patent & Trademark Office. The meeting convened at 6:50 p.m. in a rear area of the Auditorium. President Al Tramposch made some introductory remarks:

*The Panelists*

The title of the program was "The Economic Aspects of Intellectual Property." Walter D. Kelley, Jr., a former federal judge now practicing law at Jones Day, acted as the moderator:

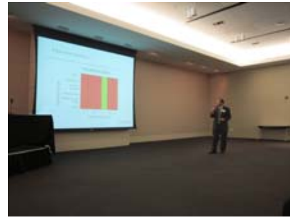
Robert T. Burns, a patent attorney at The Nath Law Group, was the first speaker. He discussed the *Uniloc v. Microsoft* case:

The *Uniloc* case rejected the "rule of thumb" that patentees should be awarded 25% of the profits from the sale of the accused products as damages. Microsoft was found to have willfully infringed a patent for software that prevented software piracy. Uniloc was awarded $388,000,000 based on testimony from its damages expert. Uniloc had argued that $565,000,000 would be reasonable, because it was only 2.9% of the entire market value for Microsoft's products. But on appeal, the Federal Circuit held that the 25% rule was fundamentally flawed, and that there must be a basis in fact to associate a proposed royalty rate to the particular hypothetical negotiation at issue, which there was not in this case. The *Georgia-Pacific* factors should be applied, especially royalties paid, royalties received and the portion of sales base in a given market for the claimed invention. The entire market value rule is only applicable where the patented feature "creates the basis for customer demand" or "substantially creates the value of the component parts". Evidence must be provided that apportions the accused infringer's sales base and the patentee's damages between the patented and unpatented features.

Edward A. Gold, Ph.D., the Managing Director of the Invotex Group and an Accredited Senior Appraiser, was the second speaker. He discussed post 25% rule thinking for IP damages and valuation:

Total industry profits are derived from components of profits, including labor, distribution, patents and other IP, manufacturing, entrepreneurial talent, and land, distributed across businesses in the industry. Approaches to valuation include cost, market, and income. An agreed royalty amount will fall somewhere between a patent holder's minimum acceptable payoff and a licensee's maximum acceptable payoff. The *Georgia-Pacific* factors include several approaches to valuation. The 25% "rule of thumb" calculated a royalty as 25% of the operating profit from the operations in which the licensed IP was used. It was initially born out of real-life observations. But in fact, minimum, maximum and median royalty rates vary widely

in different industries, as do average operating profits and royalties as a percentage of the profit rate. *Uniloc v. Microsoft* held that, "Evidence relying on the 25 percent rule of thumb is . . . inadmissable under *Daubert* and the Federal Rules of Evidence becasue it fails to tie a reasonable royalty base to the facts of the case." Curiously, an actual Microsoft license appeared to incorporate the 25% rule of thumb, but this was not brought out in *Uniloc*. Dr. Gold also discussed the Nash bargaining solution and game theory as applied to royalty rates. The entire market value rule has been rejected when the patented feature is not sufficiently connected to customer demand.



*Photographs were taken by William Stoffel, the Program Co-Chair of the Inn.*

The meeting was adjourned at 7:55 p.m.

Respectfully submitted,

Stephen Christopher Swift
Secretary-Treasurer