

Keywords: printed publication, reasonable royalty, link license to claimed invention, Rule 11 sanctions

General: The Federal Circuit vacates an infringement damages award, finding that the awarded royalty rate was at least partially based on speculative evidence and previous licenses unconnected to the claimed technology at issue.

ResQNet.com Inc. v. Lansa Inc.
93 U.S.P.Q.2d 1553 (Fed. Cir. 2010)
Decided February 5, 2010

I. Facts

ResQNet owns patents relating to screen recognition and terminal-emulation processes that download a screen of information from a remote computer onto a local, personal computer. Lansa markets a terminal emulator program called “New Look” that creates a GUI on a personal computer. ResQNet charged Lansa with infringement of five patents (the ‘608, ‘075, ‘127, ‘659, and ‘961 patents). During settlement negotiations in September 2001, before any discovery had taken place, ResQNet’s attorneys stated that the ‘127 and ‘608 patents would be withdrawn from litigation if discovery confirmed lack of infringement. In December 2001, ResQNet filed an amended complaint to add the recently issued ‘075 patent. Discovery began in early 2002 directed to all five patents, and later in 2002 ResQNet advised Lansa of its withdrawal of the ‘127 and ‘659 patents. In August 2004, Lansa requested summary judgment of non-infringement of the ‘608 patent, which the district court denied. In September 2004, Lansa filed a motion for Rule 11 sanctions charging that ResQNet had continued to litigate the ‘127 and ‘608 patents not withstanding their earlier statement to withdraw the patents if it appeared that they were not infringed. The district court granted the motion for sanctions, holding that in light of ResQNet’s statements, they had no good faith basis to bring the claims of infringement when they filed their amended complaint in December 2001.

At trial, Lansa attempted to invalidate the ‘075 patent on the basis that two user manuals relating to a product called “Flashpoint,” which ResQNet submitted to the U.S. Patent Office during a re-examination proceeding for a different patent, qualified as printed publications. The district court ruled that these manuals were not printed publications and thus were not prior art.

Upon finding infringement of the ‘075 patent, the district court awarded damages in excess of \$500,000 based upon a 12.5% reasonable royalty rate. At trial, ResQNet’s expert testified that he had reviewed seven licenses, five of which were related to “re-bundling” of finished software products and source code, as well as services such as training, maintenance, marketing, and upgrades. The re-bundled licenses had royalty rates between 25% and 40%. The remaining two licenses arose over litigation involving the patents-in-suit, one of them being a lump-sum payment and the other having an on-going royalty rate averaging substantially lower than 12.5%. Lansa offered no expert testimony to counter ResQNet’s expert. The district court determined that an intermediate royalty rate of 12.5% was proper.

II. Issues

1. Did the district court properly find that the two Flashpoint manuals did not qualify as printed publications?
2. Did the district court properly rely on ResQNet’s expert in determining a reasonable royalty rate?

3. Did the district court abuse its discretion in granting Rule 11 sanctions?

III. Discussion

Issue No. 1:

Yes. Public accessibility is the touchstone in determining whether a reference constitutes a printed publication under 35 U.S.C. § 102(b). One of the Flashpoint manuals was marked “an unpublished work and is considered a trade secret belonging to the copyright holder.” The second manual was not marked with any indication of either publication or secrecy. Further, the district court found that no witness testified, nor was any evidence presented, that either of these documents were published or disseminated to the public. The only argument presented by Lansa was ResQNet’s subsequent inclusion of these manuals in an information disclosure statement that ResQNet submitted to the USPTO during a re-examination proceeding for a different patent. ResQNet amended the claims in re-examination in response to the examiner’s rejection based on one of the manuals, and Lansa alleges that ResQNet thereby admitted that the manuals were printed publications. ResQNet responded that it learned of these manuals only when Lansa produced them in the present litigation, and, thus, deemed it prudent to produce them in the re-examination proceeding rather than risk a charge of concealing them. ResQNet alleges that its submission of the manuals was not admission that they were publicly available.

The Federal Circuit relied on one of its previous decisions that “mere submission of an IDS to the USPTO does not constitute the patent applicant’s admission that any reference in the IDS is material prior art.” Therefore, the Federal Circuit held that ResQNet did not convert these manuals into printed publications merely by including them in the IDS submitted to the USPTO. Since no other evidence of publication or public availability was provided, the Federal Circuit affirmed the district court’s holding.

Issue No. 2:

No. A patentee is entitled to “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer.” 35 U.S.C. § 284. A reasonable royalty rate derives from a hypothetical negotiation by the patentee and the infringer when the infringement began. A reasonable royalty analysis requires the court to hypothesize, not to speculate. At all times, the damages inquiry must concentrate on compensation for the economic harm caused by the infringement, as only “damages” may be recovered. Any evidence unrelated to the claimed invention does not support compensation for infringement, but punishes beyond the reach of the statute.

The Federal Circuit found that the district court’s award relied on speculative and unreliable evidence divorced from economic harm linked to the claimed invention and is thus inconsistent with sound damages jurisprudence. The Federal Circuit found that the five re-bundling licenses had no relation to the claimed invention and that none of these licenses even mentioned the patents in suit or showed any other discernable link to the claimed technology. The Federal Circuit also found that the ResQNet expert offered little or no evidence of the link between the re-bundling licenses and the claimed invention, but merely relied on these licenses to inflate his royalty recommendation. Since the five re-bundling licenses were absolutely silent on any relation to the patents-in-suit, and since the ResQNet expert did not even attempt to show that these agreements embody or use the claimed technology, the re-bundling licenses “simply have no place in this case.” The fact that Lansa had no expert to counter was of no consequence, because it was ResQNet’s burden to persuade the court with legally sufficient evidence regarding an appropriate rate of royalty. Thus, the Federal Circuit vacated the district court’s reasonable royalty

determination and remanded the case with instructions that the “trial court should not rely on unrelated licenses to increase the reasonable royalty rate above rates more clearly linked to the economic demand for the claimed technology.”

Issue No. 3.:

Yes. With regard to the Rule 11 sanctions for the ‘127 patent, the Federal Circuit noted the application of time limits on Rule 11 motions. Motions have been disallowed as untimely when filed after a point in the litigation when the lawyer sought to be sanctioned lacked an opportunity to correct or withdraw the challenged submission. Advisory Committee notes to Rule 11 state that any motion alleging a violation “should be served promptly after the inappropriate paper is filed, and, if delayed too long, may be viewed as untimely.” Here, because ResQNet had withdrawn the ‘127 patent after some initial discovery in 2002, and since Lansa’s Rule 11 motion was not served until September 2004, the Federal Circuit found that Lansa’s motion was untimely and that the district court had abused its discretion.

With regard to the Rule 11 sanctions for the ‘608 patent, the Federal Circuit noted that it was significant that the district court declined to grant summary judgment of non-infringement and that the ‘608 patent proceeded to full trial. The Federal Circuit further noted that the district court’s denial of summary judgment reflects a belief that it was reasonable for ResQNet to retain the patent-in-suit, and it further noted an Advisory Committee note to Rule 11 which states “if a party has evidence with respect to a contention that would suffice to defeat a motion for summary judgment based thereon, it would have sufficient ‘evidentiary support’ for the purposes of Rule 11.” Hence, the Federal Circuit found that the district court had abused its discretion in granting sanctions regarding the ‘608 patent as well.

IV. Dissent

Judge Newman dissented with regard to the majority opinion relating to damages. Newman argued that this is not a case of constructing and applying a royalty rate from a totally unrelated content, rather it is simply a case of determining the evidentiary value of the infringed subject matter by looking at the various licenses involving the subject matter and allocating their proportional value with the assistance of undisputed expert testimony. Newman noted that ResQNet filed an extensive expert report, and that their expert was subject to examination and cross-examination and, further, that the district court provided a full and reasoned analysis of the evidence. Specifically, the district court stated that

Dr. David’s conclusion that the reasonable rate lies between these two categories’ averages (and closer to the lower one) is well-reasoned and supported in the record. In fact, by omitting the up front payments present in the majority of ResQNet licenses, Dr. David’s methodology is actually biased in favor of lowering the royalty rate.

Further, Newman noted that the expert tied the re-bundling licenses to the technology by explaining that ResQNet’s products are known as terminal emulation software and are based on the technology described in the patents-in-suit. Newman stated that no flaw in the reasoning of ResQNet’s expert had been assigned by his colleagues, who, instead, prefer to create a new rule whereby no licenses involving the patented technology can be considered in determining the value of infringement if the patents themselves are not directly licensed or if the licenses include subject matter in addition to that which was infringed by the defendant.