

CAFC decision makes Caltech's \$1.1 billion loss a potential gain for other patent holders

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The California Institute of Technology may not find much consolation, but there is a potentially significant win for other patent holders in a recent Federal Circuit ruling that struck out a \$1.1 billion damages win secured by the university in its dispute with Apple and Broadcom. The decision has strengthened rules to prevent duplication of invalidity arguments in *inter partes* reviews and district court litigation.

Although the court upheld a Los Angeles jury finding that the defendants had infringed two of the university's Wi-Fi-related patents, it described the original award as "legally unsupportable" and ordered a new damages trial, as well as another look at whether a third patent had been infringed in the first place.

In doing this, the CAFC used the precedential case to overturn prior case law and expand how estoppel applies in district court litigation where the PTAB has instituted an IPR involving the same patents. The ruling also includes an interesting discussion of damages theories.

"We take this opportunity to overrule *Shaw* and clarify that estoppel applies not just to claims and grounds asserted in the petition and instituted for consideration by the Board, but to all claims and grounds not in the IPR but which reasonably could have been included in the petition," the court stated in its 4 February judgment in *California Institute of Technology v Broadcom*.

Apple and Broadcom had attacked the patents-in-suit in district court using prior art that they already knew about back when they filed IPRs. Because they reasonably could have asserted the grounds in the IPRs, the Federal Circuit ruled that the trial judge was correct in finding that estoppel barred those challenges in court.

The ruling's expansion of estoppel is good for patent owners, says John Campbell, principal in McKool Smith in Austin.

"The people looking to invalidate the patent should be limited to one bite at the apple," he says.

Campbell explains that the estoppel provisions in the America Invents Act were supposed to protect patent owners from having to defend court challenges that should have already come up in an IPR. But *Shaw* allowed patent challengers to choose to assert certain invalidity arguments at the PTAB and hold back other prior art for attacks in district court suits.

“You could strategically game the system,” Campbell says. “It took away efficiencies.”

From now on, he continues, IPR petitioners should raise every invalidity ground that they know about in an IPR.

“Particularly for big, sophisticated companies – everything is readily available to them. It should mean their IPR petitions deal with most prior art you would seek to invalidate a patent with,” says Campbell.

While he believes there is probably scope for litigation around what parties knew or could reasonably be expected to have known, Campbell hopes that the deployment of prior art for invalidation purposes should become a one stop process. “You will make sure you have found your best references and put them in front of the PTAB, because this should be it. There should not be strategic considerations about do I assert this one and hold back this one,” he states.

As well as securing confirmation that two of the litigated patents had been infringed, Caltech also won other key elements of the appeal. The Federal Circuit upheld the lower court’s claim construction findings and affirmed the validity of the patents.

“This is recognition of Caltech’s inventions in the field of data communications, which are now widely used in Wi-Fi products because they significantly improve the quality, bandwidth, and range of wireless data transmission. We are confident that the value of the patents will be fully recognized at the damages retrial,” Caltech spokeswoman Shayna Chabner said in a statement.

Damages recalculation

Following the original trial and infringement findings, the jury awarded \$270.2 million against Broadcom and \$837.8 million against Apple. Caltech’s damages expert used a two-tier damages theory that sought different royalty rates from the defendants “based on simultaneous hypothetical negotiations with Broadcom and Apple in December 2009”, the CAFC ruling said.

“Both of Caltech’s experts testified that separate chip-level and device-level negotiations would have been proper, rather than a single hypothetical negotiation for all of the accused chips, because both defendants were separate infringers and there would be no ‘cross-talk’ between them as they each engaged in their own hypothetical negotiation,” the court stated.

The trial judge observed that patent owners do seek damages at different levels of a supply chain and they are free to do so, as long as they’re not seeking a double recovery or violating principles, such as patent exhaustion. The district court found there was no double recovery in the case because Broadcom’s royalty amount excluded chips in Apple devices.

The Federal Circuit disagreed.

It determined that there was no evidence that companies like Broadcom and Apple would engage in separate negotiations. There were not enough facts that justified separate and different treatment of the same chips at different levels of the supply chain, the court found.

It ruled that Caltech needed more evidence to make a compelling argument justifying the higher royalty rates for the same device at different points in the supply chain.

“There is nothing in the record to suggest that Broadcom and Apple would have been willing to negotiate in this artificial way rather than to more conventionally negotiate a single license at a single rate for the same chips,” the judges wrote.

Steve Schwartz is managing director of Intensity in Dallas and acts as an expert witness on damages in patent suits. He says that he has not seen other cases in which a “two-tiered” approach to calculating damages has been used. Though it’s very common for rights holders to negotiate different royalty rates for different licensees as a business practice, litigation is different, he states: court precedent dictates that damages theories centre around a single hypothetical negotiation.

“If the two-tiered theory had been upheld, I think that would have sparked some changes in the way damages are assessed when you are looking at infringers at different levels of the supply chain,” Schwartz says. “If there had been a carve out and this was a case in which they distinguished between the chip level and device level ... that could have spun more dramatic change than this decision upholding the status quo.”

The ruling’s big takeaway, Schwartz believes, was the Federal Circuit’s guidance that if Caltech wanted to use a two-tiered damages approach, it should have provided more explanation about why it needed a second hypothetical negotiation.

“What is there, separate and distinct from what is captured in a single negotiation, that would provide greater value to Apple from its technology covered by the patent, for which Caltech would have a basis for a claim and damages,” says Schwartz. “If you are going to make this argument, you have to explain the value chain and value proposition in a much more explicit way.”

Documents

Federal Circuit ruling



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