IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

In re INNOVATIO IP VENTURES, LLC PATENT LITIGATION	)	MDL Docket No. 2303 Case No. 11 C 9308
THIS ORDER APPLIES TO ALL CASES	)	

ORDER IDENTIFYING A KEY ISSUE IN DISPUTE AND REQUESTING INPUT FROM PARTIES

JAMES F. HOLDERMAN, District Judge:

The court has begun its review of the pre-trial briefs that the parties have submitted in preparation for the bench trial for setting a RAND licensing rate for Innovatio's patents that is to begin on September 9, 2013. (Dkt. Nos. 893, 895.) One of the issues that the parties dispute is whether the base of the RAND royalty should be the wireless chips that are incorporated into many products with wireless capability (and sell for $2-$3 a piece), or the end-user products with wireless capability, such as a laptop or tablet (and which sell for much more). The parties agree that the legal standard that the court should apply in resolving that dispute is established by the Federal Circuit in *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51 (Fed. Cir. 2012). The court there noted that

> Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product. Thus, it is generally required that royalties be based not on the entire product, but instead on the "*smallest salable patent-practicing unit*."

Id. at 67 (emphasis added) (quoting *Cornell Univ. v. Hewlett–Packard Co.*, 609 F. Supp. 2d 279, 283, 287–88 (N.D.N.Y. 2009) (Rader, J., sitting by designation)).

Because the legal rule that a royalty for a multi-component product must be based on the "smallest salable patent-practicing unit" has only been applied by courts for a few years, there are relatively few cases addressing its application.[1] In particular, the court is not aware of any case applying the standard in which the patents covered methods or systems involving multiple products, as opposed to a single product or product component. Here the implementation of at least some of Innovatio's 802.11 standard-essential patent claims requires multiple apparatuses,

[1] The court is aware of only one other Federal Circuit case applying the standard, at least in the form articulated by Chief Judge Rader. *See Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255 (Fed. Cir. 2013).

including at least an access point and a station of a functioning nature. In that context, the application of the requirement that the court look for the "smallest salable patent-practicing unit" may be incoherent, as many apparatuses may be necessary to implement the patent's methods or systems, even though those apparatuses are not themselves part of the invention.

To put a finer point on the court's concern, imagine a patent for a manufacturing method repurposing various typical factory equipment in a new way to make a manufacturing process more efficient. To practice the patent, one would need each of the pieces of typical factory equipment, and yet it would not make any sense to calculate a royalty based on the value of all of that machinery—literally, the "smallest salable patent-practicing unit." The value of the new manufacturing method which makes use of the preexisting typical machinery would seem to be something else altogether.

The court is concerned that the situation here is analogous to the manufacturing method hypothetical example above. Accordingly, the parties are requested to be prepared at the trial beginning on 9/9/13 to provide input that addresses the applicability of the standard requiring the "smallest salable patent-practicing unit" in the situation here. If the parties believe that the standard is inappropriate to apply to claims covering systems and methods, they should be prepared to articulate an alternative standard that the court can apply in these circumstances.

ENTER:

James F. Holderman

JAMES F. HOLDERMAN
District Judge, United States District Court

Date: September 5, 2013