

# ASSOCIATION OF BUSINESS TRIAL LAWYERS

# abtl

# REPORT

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## NAVIGATING BETWEEN THE “HYPOTHETICAL NEGOTIATION” AND REAL WORLD FACTS IN PROVING PATENT DAMAGES



Jeanne E. Irving

While there are many differences between patent cases and other complex commercial litigation, one notable distinction is the use of a “hypothetical” transaction to prove patent damages.

As a remedy for infringement of its patent, 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 is generally calculated by multiplying two separate and distinct amounts: (1) the royalty base, or the revenue pool implicated

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## ATTORNEY COMPETENCE AND SOCIAL MEDIA IN AID OF JUROR INVESTIGATION AND MONITORING



Justice (Ret.)  
J. Gary Hastings

In order to practice competently these days, a trial attorney may be required to use social media sources to investigate prospective jurors and monitor empanelled jurors’ Internet activities during trial. Such investigation and monitoring, however, may alert a prospective juror or a seated juror that the attorney is

reviewing his or her Internet presence. This article explores whether such contact traces constitute prohibited communications with prospective or actual jurors and whether judges should advise all jurors at the outset that such contacts may take place.

Because technology and social media have become essential parts of daily life, investigation into potential jurors’ online presence during jury selection is becoming an increasingly important part of an attorney’s ethical duty of competence. Professional rules of conduct provide that, in order to practice competently, a trial attorney must keep abreast of technological changes. For example, Comment No. 8 of Rule 1.1 of the American Bar Association Model Rules of Professional Conduct (ABA Model Rules) states: “To maintain the requisite knowledge and skill, a lawyer should keep abreast of changes in the law and its practice, including the benefits and risks associated with relevant technology.”

In California, the Digest from Formal Opinion Interim No. 11-0004 from the Standing Committee on Professional Responsibility and Conduct of the State Bar of California states: “An attorney’s obligations under the ethical duty of

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# PRESIDENT'S REPORT



A hallmark of the ABTL is its commitment to the surrounding community.

*"We make a living by what we get. We make a life by what we give."* – **Winston Churchill**

The lawyers, law firms and judicial officers of the ABTL give back every day of every year, contributing thousands of hours of pro bono legal work for the public good -- helping families adopt and tenants and homeowners avoid being displaced from their residences, aiding immigrants with their legal rights, and assisting children in obtaining the support and love they deserve. ABTL members do so because they want to, not because they must. It is a mark of leadership and an appreciation of the greater world in which we live.

*"It's not how much we give but how much love we put into giving."*  
– **Mother Teresa**

The ABTL's annual toy drive over the holidays smashed all records this year as a result of the generosity of our members and the coordination of our Public Service Committee, led by Gretchen Nelson of Kreindler & Kriendler and Jeanne Irving of McCool Smith Hennigan. As a result, the ABTL was able to make a generous donation to the Edelman's Children's Court for the benefit of needy children and families.

With the assistance of Justice Jeffrey Johnson of the California Court of Appeal, toys and gift cards also were distributed to children at the 93rd Street and MLK elementary schools – with some receiving their only holiday gift through this ABTL program. With the assistance of Jennifer Keller of Keller Rackaukas, MGA Entertainment donated 19 boxes of toys to further the cause. Everyone is to be applauded for their heartwarming efforts.

*"We rise by lifting others."* – **Robert Ingersoll**

At the dinner program on March 10, the ABTL will be presenting scholarships to deserving students at each of the five accredited law schools in Los Angeles County who demonstrated both academic success and a manifest commitment to public service: Cameron Bell of Loyola Law School, Joseph Spano of Pepperdine Law School, Andres Hogue-Flores of Southwestern Law School, Joseph Stavely of UCLA School of Law, and Sierra Gronewold of USC Gould Law School.

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ASSOCIATION OF BUSINESS TRIAL LAWYERS

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## THE INSIGHT INTERVIEW



**Seth Jaffe**

*The Insight Interview features interviews with leading jurists, lawyers and business executives. The series focuses specifically on practical, real-world advice for lawyers in their first 10 years of practice.*

*This installment features Seth Jaffe, Senior Vice President and General Counsel of Levi Strauss & Co. Mr. Jaffe was interviewed by Steven Feldman, a senior associate with Hueston Hennigan LLP in Los Angeles, CA.*



**Steven Feldman**

***Tell me why you wanted to become a lawyer.***

Well, as a starry-eyed kid, I wanted to make the world a better place. I searched for an area of the law that would let me “do well,” but also “do good,” and I’ve tried to do that both while at a law firm and while in-house.

***When you graduated from law school, before going in-house, you worked as an associate at McCutchen, Doyle, Brown & Enersen. What type of work did you focus on while there?***

Primarily antitrust and intellectual property law. The clients I worked for included GM, Coca-Cola, and Levi Strauss & Co. One of my matters involved representing Levi Strauss & Co. in a trademark case against Jordache jeans. I must have impressed someone at Levi Strauss & Co., because after the case ended, they asked me to apply for a job, and I went in-house.

***You are someone who left law firm life relatively early and has had great success in-house, do you have any advice for young lawyers about the “right time” to go in-house, if they want to do so?***

First, it is important to get all the legal training you’re going to need while you’re at a law firm, because most companies – except for some with huge legal departments – don’t have the time or capacity to do high-level, structured, on-going legal training. Companies will often have good training in other areas, such as leadership, but legal training is less common.

Second, before going in-house, you need to know what it’s like to have responsibility for a client, so that when you go in-house and you deal with outside counsel, you can understand the relationship and be most effective.

Finally, you want to have developed enough expertise in your practice area that you bring something meaningful in-

house. Ultimately, you don’t want to be a “jack-of-all-trades and master of none”; rather, you want to be a “jack-of-all-trades and master of one” (at least) so that when you come in-house, you’re able to answer any issues at a high-level, but also have a really deep knowledge in one area.

***Is there anything you miss about working in a law firm?***

One of the great things about being in a law firm is that you are around really well-educated people, which challenges you and allows you to build your own abilities as a lawyer, writer, speaker and thinker. Before leaving to go in-house, I worried about whether I was leaving too early, and whether it would narrow my field of knowledge since I would be working for only one company at a time. But, it turns out that it actually broadened me and challenged me. And I really like being around smart business people.

If you go in-house at the right place, the range of issues can be enormously broad, from environmental to immigration to antitrust to trade secrets and IP to securities to privacy. And that’s just a partial list. In reality, it’s broader than what you do at a law firm.

***After spending 15 years in the legal department at Levi Strauss & Co., you left and – after working at a startup for a couple of years – became the SVP and General Counsel of Williams-Sonoma, Inc. Tell me about the work you did while at Williams-Sonoma.***

The general counsel at Williams-Sonoma had come out of retirement to take that job, and was looking for someone who could quickly get acclimated and succeed him, which is what happened.

While there, I worked on all kinds of issues. We built new businesses, we started our international business, we signed up franchisees. There was a fair bit of change at the

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*THE INSIGHT INTERVIEW...continued from Page 3*

top: I worked with four CEOs in 10 years. During the recession, William-Sonoma's stock had dropped from \$37/share down to \$4/share, so we had lots of securities law and corporate governance issues to deal with. On top of that, we had intellectual property issues, and since Williams-Sonoma had somewhere between 30,000 and 40,000 employees, we also dealt with a lot of employment challenges, including class actions.

***After 10 years, what led you to leave Williams-Sonoma and return to Levi Strauss & Co. in your current role as SVP and General Counsel?***

There were a few reasons: First, I saw the opportunity to get back into a brand that I really loved: Levi's®. I had also been on the team that founded the Dockers® brand. Brands are important to me, because they are about a consumer's emotional connection to a product and company. Second, I'd spent 10 years at a retailer (Williams-Sonoma) and I thought I could bring my deep experience in that area to a company (Levi Strauss & Co.) that was, at the time, trying to become a retailer. Levi Strauss & Co. has been in business since 1853, but has only become a retailer in the past 10 or 15 years. Third, I really believed in the vision that Chip Bergh (Levi Strauss & Co.'s CEO) had for making it into one of the greatest companies in the world.

Finally, I felt very strongly about using the opportunity in the law to do good for society and Levi Strauss & Co. has always had a deep commitment to giving back, including improving the lives of apparel workers around the world, and being involved in our local communities.

***Tell me about your typical workday.***

I work on everything from company strategy, to Board and shareholder issues, brand protection, employment and corporate governance. Levi Strauss & Co. does business in 110 countries; in fact, more than half our lawyers are overseas. Our job is to find solutions that will allow growth around the world, while at the same time protecting the company.

***How large is Levi Strauss & Co.'s legal department?***

In total, we have 50 people, which includes lawyers, paralegals, administrators, security professionals, at Levi Strauss & Co. and the Levi Strauss Foundation.

***What advice do you have for associates on how to stand out to a client?***

Really take the time—not billable time—to understand the client's business beyond the superficial. Very few lawyers do this. Understand the nuances and how the company works. It may mean spending time chatting with people other than just the in-house counsel about how the business functions, and the problems the company encounters.

Also, always think about solutions that will help ease the client's problems and make the in-house lawyer successful. The greatest thing outside counsel can do is to help the business succeed and help the in-house lawyer be successful in driving the business. That will create a loyalty that you can't get just from the nuts-and-bolts of the work.

***Do you have any pet peeves about associates or junior partners?***

There aren't a lot of things that get on my nerves, but one thing is billing for every single minute of time spent, even when the result does not justify it. This is rarely going to serve you well in working with general counsels. We are looking for value. So, think about the big picture and not the specific task.

You should also know how to work with all levels of people – it may turn out that your best contact at a client for getting things done is a paralegal, and not the general counsel.

***What advice do you have for associates and even junior partners who are thinking about how they can generate business?***

Start thinking about areas where a company is developing needs that haven't yet been met. Here is an example: many companies now have increasing needs in the privacy area – and they may not even realize it. Send people you know at the company helpful articles that are practical and will help companies assess that risk. Second, find mentors, whether in-house or outside, who will share insight into how companies work and how you can add value.

*Steven Feldman is a senior associate with Hueston Hennigan LLP in Los Angeles.*

“ATTORNEY COMPETENCE”...continued from Page 1

competence evolve as new technologies develop and then become integrated with the practice of law. Attorney competence related to litigation generally requires, at a minimum, a basic understanding of, and facility with, issues relating to e-discovery, i.e., the discovery of electronically stored information. . . .” While this interim opinion deals only with e-discovery, I have no doubt the concept will ultimately be applied to all areas where technology may aid in litigation. And that may include use of technology in aid of jury selection and in monitoring whether jurors are using social media during trial, which may result in juror misconduct.

How likely is it that your case may be impacted by failure to do online jury research or by juror misconduct during trial? A recent report from the Federal Judicial Center discusses the use of social media by jurors and attorneys during voir dire, trials, and deliberations. The Executive Summary states:

“The results, based on the responses of 494 responding judges, indicate that detected social media use by jurors is infrequent and that most judges have taken steps to ensure jurors do not use social media in the courtroom. The most common strategies are using plain language to explain the reason behind the ban and incorporating social media use into jury instructions—either the model jury instructions provided by CACM [Court Administration and Case Management] or judges’ own personal jury instructions. Judges admit that it is difficult to police jurors. Only 33 judges reported instances of detected social media use by jurors during trial or deliberations. Attorneys’ use of social media to research prospective jurors during voir dire is difficult to detect and quantify; most judges do not know whether attorneys are accessing potential jurors’ social media profiles during voir dire, and most judges do not address the issue with attorneys.” (Dunn, *Jurors’ and Attorneys’ Use of Social Media During Voir Dire, Trials, and Deliberations: A Report to the Judicial Conference Committee on Court Administration and Case Management*, at p. 3 (May 1, 2014) Federal Judicial Center <<http://goo.gl/WUEbEw>> [as of Feb. 23, 2015] (hereafter Dunn).)

While the report concludes that juror use of social media during trial is low, it also states that 89 percent of

responding judges reported “they had no way of knowing if jurors have violated the social media prohibition but assumed full compliance.” (Dunn, *supra*, at p. 11.) A number of recent cases suggest that juror misconduct via social media during trial is becoming increasingly common and in some cases even leading to mistrials. For example, in *United States v. Juror Number One* (E.D.Pa. 2011) 866 F.Supp.2d 442, the court held a juror in criminal contempt for emailing fellow jurors before deliberations began to discuss her opinion of the case.

In a California case, a juror made numerous postings on his Facebook account about the trial while it was in progress. (*Juror Number One v. Superior Court* (2012) 206 Cal.App.4th 854, 858.) After a fellow juror reported the misconduct, the trial judge ordered that the juror consent to Facebook’s release to the court of all the juror’s Facebook activity during the trial. (*Id.* at p. 859; see also Eder, *Jurors’ Tweets Upend Trials* (Mar. 5, 2012) Wall Street Journal <<http://goo.gl/e0n69u>> [as of Feb. 23, 2015].)

These examples send a cautionary message: if your case is worth the effort and cost, you should consider monitoring jurors’ use of the Internet during the trial. Yet, lawyers must also be sure to balance the benefits of utilizing Internet searches to investigate and monitor jurors with the cost, potential ethical issues, and privacy concerns.

One ethical problem which may arise is improper contact with a potential or actual juror. Rule 5-320(A) of the California Rules of Professional Conduct states: “A member connected with a case shall not *communicate* directly or indirectly with anyone the member knows to be a member of the venire from which the jury will be selected for trial of that case.” (Emphasis added.) Further, Rule 5-320(E) provides: “A member shall not directly or indirectly conduct an out of court investigation of a person who is either a member of the venire or a juror in a manner likely to influence the state of mind of such person in connection with present or future jury service.” Additionally, ABA Model Rule 3.5(b) prohibits attorney contact with jurors or potential jurors except as authorized by law or court order. (See *Matter of Holman* (1982) 277 S.C. 293 [286 S.E.2d 148] [lawyer was disbarred after communicating with a juror during trial].) These rules do not prohibit an investigation of jurors or potential jurors,

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*“ATTORNEY COMPETENCE”...continued from Page 5*

only the “manner” in which it is done.

The basic issue is therefore whether there is a “communication” with a juror or potential juror. Most ethical opinions have concluded that access to information about a juror which is open to the public is not a problem. Thus, if a juror or potential juror has a public website, blog, or a public presence on Facebook it would be appropriate to view the information. But if there are privacy restrictions, it is inappropriate for a lawyer or anyone on behalf of the lawyer to seek to gain access beyond, for example, a juror’s public page. Thus, it would be wrong for an attorney to seek to “friend” a juror on Facebook to obtain further access to his or her private information. (See ABA Standing Com. on Ethics and Prof. Responsibility, formal opn. No. 466 (Apr. 24, 2014) p. 4, fn. 6 (hereafter ABA Formal Opinion 466).)

Ethical opinions provide less guidance on the issue of whether an attorney improperly “communicates” with a juror by viewing the juror’s profile on a website that leaves traces leading back to the computer which accessed the website. For example, if an attorney views a juror’s profile on the public website LinkedIn, the juror will be alerted that the attorney has viewed his or her profile. Resolution of this issue is complicated by contradictory state ethics rules and model ethics advisory opinions and the absence of relevant case law. The New York City Bar Association Committee on Professional Ethics, in Formal Opinion 2012-2 states that this type of contact may be an inappropriate communication: “ ‘Communication,’ in this context, should be understood broadly, and includes not only sending a specific message, but also any notification to the person being researched that they have been the subject of an attorney’s research efforts.” The opinion concludes that if a juror receives notice that an attorney has viewed his or her profile, it would “constitute a prohibited communication [in violation of ABA Model Rule 3.5] if the attorney was aware that her actions would cause the juror to receive such message or notification... [¶] . . . [¶] . . . [E]ven such minimal contact raises the specter of the improper influence and/or intimidation that the Rules are intended to prevent.” (*Id.*)

But, the ABA in its Formal Opinion 466 concludes otherwise: “The fact that a juror or a potential juror may become aware that a lawyer is reviewing his Internet

presence when a network setting notifies the juror of such does not constitute a communication from the lawyer in violation of Rule 3.5(b).”

California bar associations have not yet offered ethics opinions on this issue. Because of this uncertainty, trial attorneys must be aware that they walk a thin line between competently representing their clients and making improper contact with jurors. Indeed, in Formal Opinion 466, the ABA cautions that “Lawyers need to know where the line should be drawn between properly investigating jurors and improperly communicating with them. In today’s Internet-saturated world, the line is increasingly blurred.”

Another ethical problem may arise if an attorney uses deception or misrepresentation to access the private portions of jurors’ social networking profiles. ABA Model Rule 4.1(a) states: “In the course of representing a client a lawyer shall not knowingly make a false statement of material fact or law to a third person. . . .” ABA Model Rule 8.4(c) prohibits “conduct involving dishonesty, fraud, deceit or misrepresentation.” An attorney would violate these rules by creating a social networking profile under a false name or enlisting the help of a nonattorney to add a juror as a friend on Facebook, Twitter, etc., to access otherwise private information.

It is not surprising that most judges responding to the Federal Judicial Center report do not know if lawyers are doing Internet research of potential jurors. The subject most likely does not come up. Should it? A recent proposal was presented to the CACI [California Civil Jury Instructions] Committee to amend the introductory jury instruction to inform the jury that lawyers may be searching social media content for information about them during voir dire and there is nothing wrong with that. Apparently there was no consensus on the proposal and no change was made.

This proposal raises the issue of whether jurors will perceive the monitoring of their social media as an invasion of privacy. If jurors know that attorneys are investigating their online presence it may negatively affect their perception of jury service, the attorneys performing the investigations, and even the client on trial. If the public is aware that serving on a jury involves an investigation into

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their social media presence, will this decrease their willingness to serve on a jury? The New York City Bar Association believes it may: “It is conceivable that even jurors who understand that many of their social networking posts and pages are public may be discouraged from jury service by the knowledge that attorneys and judges can and will conduct active research on them or learn of their online—albeit public—social lives.” (N.Y. City Bar Assn., formal opn. 2012-2.)

On the other hand, Rule 5-320(E) of the California Rules of Professional Conduct prohibits an investigation “in a manner likely to influence the state of mind of such person in connection with present or future jury service.” If a juror has published information in a public forum he or she must expect it will be accessed by anyone, including attorneys involved in litigation. Access to that public information should not influence the potential juror regarding present or future jury service. Why then shouldn’t jurors be told that this information may be accessed by counsel in connection with jury selection or monitored during trial? Such an admonition may even reinforce jury instructions by the court regarding the importance of refraining from using social media during trial.

*Justice (Ret.) J. Gary Hastings is a retired Associate Justice of the California Court of Appeal and is a member of ARC’s Appellate Evaluation and Consultation Program.*

*Jessica Di Palma is an appellate fellow at Horvitz & Levy LLP in Encino.*

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***“Be not simply good; be good for something.”***

***– Henry David Thoreau***

The Public Service Committee also has coordinated presentations to students at local law schools in conjunction with their deans to help educate students about ethics, the practice of law, and opportunities for future endeavors. Jurists who have participated in this effort include Judges Kevin Brazille, Rita Miller, and Richard Stone of the Los Angeles Superior Court, Judges Beverly Reid O’Connell and Suzanne Segal of the U.S. District Court for the Central District, and Justices Lee Smalley Edmon and Jeffrey Johnson of the California Court of Appeal. They were joined by Aaron Bloom (Gibson Dunn), Bruce Broillet (Greene Broillet & Wheeler), Tom Girardi (Girardi Keese), Robbie Mockler (McCool Smith Hennigan), Kelsey Morris (Akin Gump), Christian Nickerson (Greene Broillet & Wheeler), and David Ross (McCool Smith Hennigan). All of these programs were well attended and much appreciated.

***“How wonderful that no one need wait a single moment to improve the world.”*** – Anne Frank

On May 15, the ABTL will have an inaugural golf event for the benefit of Hathaway-Sycamores Child and Family Services, a non-profit which provides needed mental health and foster family services to 9,000 children annually in the Los Angeles area. The ABTL is proud to support this worthy cause.

Many thanks for everyone’s contributions this year and continuing the tradition of the ABTL. You truly are changing lives.

***Dave Battaglia***

***ABTL President 2014-2015***

***Gibson, Dunn & Crutcher LLP***

*“HYPOTHETICAL NEGOTIATION”...continued from Page 1*

by the infringement; and (2) the royalty rate, or the percentage of that pool adequate to compensate the plaintiff for the infringement. *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 286 (N.D.N.Y. 2009).

Although not the exclusive method for doing so, the commonly used construct for proving a reasonable royalty for the infringer’s use of the invention – a construct that has been endorsed by case law for decades – is a “hypothetical negotiation” in which the parties would have agreed to license the asserted patent just before infringement began.

Case law provides certain rules applicable to the hypothetical negotiation. For example, in the hypothetical negotiation, the asserted patent claims are deemed to be valid, enforceable, and infringed by the product or service that is the subject of the litigation (the “accused product”), and the parties are assumed to be a willing licensor and willing licensee acting reasonably in reaching an agreement. *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1324-1325 (Fed. Cir. 2009); *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970).

Complicating the use of a fictitious transaction as the basis for damages is the need to imbue the hypothetical negotiation with real world data grounded in the facts of the case because, in a number of aspects, real world business practices do not match up with the rules applicable to the hypothetical negotiation.

This dichotomy can arise when parties use “comparable licenses” from the real world as evidence of the “hypothetical license” that would have resulted from the hypothetical negotiation. Courts have long recognized that real world licenses of comparable technology – and particularly actual licenses of the patents-in-suit – may provide highly probative evidence of the value of the patented invention. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 79 (Fed. Cir. 2012); *Georgia-Pacific*, 318 F. Supp. at 1120. In negotiating real world patent licenses, however, parties generally do not act under the same constraints applicable to the hypothetical negotiation. Accordingly, “[p]rior licenses . . . are almost never perfectly analogous to the infringement action.” *Ericsson, Inc. v. D-Link Sys.*, 773 F.3d 1201, 1227 (Fed. Cir. 2014).

The objective of real world and hypothetical licenses is the same: that the patentee be paid for the value contributed by the features covered by the patent, but not any value attributable to other aspects of the product. However, an

example of a common distinction between real world and hypothetical licenses is the treatment of the royalty base to which the royalty rate is applied. Real world licenses often apply a royalty rate to the entire sales price of (or profit from) the licensee’s product. Rather than undertaking the daunting task of determining the amount of revenue directly attributable to the technology covered by the patent to be licensed, for the purposes of applying a royalty rate solely to that portion of the product’s revenue, real world licensing parties usually choose a royalty rate small enough so that the resulting royalty paid reflects only the value perceived to be provided by the patent. *Ericsson*, 773 F.3d at 1228 (“licenses are generally negotiated without consideration of the [entire market value rule]”). Using the sales price of an entire product as the royalty base for a running royalty to be paid over time also has the obvious business advantages of being readily ascertainable and, if necessary, auditable by the licensor.

In the hypothetical negotiation, however, it is generally not permissible to use as the royalty base the whole sales price – or “entire market value” – of the accused product unless the patented feature drives market demand for the product or substantially creates the value of the component parts. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011). Instead, the patentee is expected to present real world evidence that apportions the value that the patented technology contributes to the accused product, separate and apart from the value of features not covered by the patent-in-suit. See *Garretson v. Clark*, 111 U.S. 120, 121 (1884).

The Federal Circuit hears all appeals in patent infringement cases. Historically, that Court’s position on the challenges presented by the apportionment requirement could be summarized as sympathetic, if not particularly forgiving. The Court has readily acknowledged the difficulty of accomplishing the apportionment task, and the reality that it will typically involve approximation and uncertainty. *Ericsson*, 773 F.3d at 1232, n.9; *VirnetX, Inc. v. Cisco Sys.*, 767 F.3d 1308, 1328 (Fed. Cir. 2014); *LaserDynamics*, 694 F.3d at 66. “Determining a fair and reasonable royalty is often . . . a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge.” *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988). Nevertheless, as to the fine line between the hypothetical negotiation and the real world, the Court has stated that, “a reasonable royalty

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analysis requires a court to hypothesize, not to speculate.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 869 (Fed. Cir. 2010). While founded on a hypothetical negotiation, “[a] damages theory must be based on sound economic and factual predicates.” *LaserDynamics*, 694 F.3d at 67 (internal quotations omitted).

In addition to recognizing the difficulty of apportionment, the Federal Circuit acknowledges that apportioning the royalty base to include only the value of the patented features is not the only way to ensure that a patent damages award provides a reasonable royalty only for the patented technology. The Court concedes that, as a mathematical matter, a reasonable royalty can be accurately calculated using the entire sales price of a product if (like in the real world) it is balanced out by using a small enough royalty rate. *Ericsson*, 2014 U.S. App. LEXIS 22778, at \*54.

However, mathematical accuracy is not the sole objective of the entire market value rule. That rule also serves “an important evidentiary principle,” *id.*, i.e., to avoid improperly influencing a jury to wrongly compensate the patentee for non-infringing components of the product by exposing the jury to large revenue figures representing the entire market value of accused products. The Federal Circuit has expressed the concern that using a product’s entire market value as a royalty base “cannot help but skew the damages horizon for the jury,” *Uniloc*, 632 F.3d at 1320, and “make a patentee’s proffered damages amount appear modest by comparison.” *LaserDynamics*, 694 F.3d at 68.

Relying on this rule, some accused infringers have sought to exclude damage testimony that incorporated references to real world licenses that were based on end products rather than the patented features of those products. These defendants have argued that the inclusion of those licenses in the damage analysis violates the entire market value rule.

In December 2014, the Federal Circuit rejected that argument. Instead, the Court found that exclusion of such real world licenses did not strike the appropriate balance between the benefit of real world evidence of the invention’s worth in the marketplace and the evidentiary principle behind the entire market value rule. In so doing, the Court affirmed that real world licenses “in which royalties were set by reference to the value of an end product” are not disqualified from being used as comparable licenses in the

hypothetical negotiation when proper adjustments are explained to the jury. *Ericsson*, 773 F.3d at 1227-1228.

In *Ericsson*, the patentee advanced a per unit royalty rate consistent with comparable licenses that the patentee had entered into with third parties for a group of patents that included the patents-in-suit. The patentee argued that its damages expert’s analysis included steps to isolate the value of the patents-in-suit from any other patents covered by the real world licenses he referenced, and therefore properly apportioned any damages calculations based on those licenses to account for the value of the patents at issue. *Id.* at 1225.

In seeking to exclude the damages testimony, the accused infringers argued that the testimony violated the entire market value rule because the damages calculations were, in part, based on licenses which were themselves tied to the entire value of the licensed products, even though the patents-in-suit related to only portions of those products. *Id.* at 1225.

The Federal Circuit disagreed, concluding that, in light of the steps that the patentee’s expert had taken to isolate the value of the patents-in-suit from the other patents in the comparable licenses, the patentee’s damages testimony violated neither the rule requiring apportionment, nor the evidentiary principle demanding an “appropriate balance between the probative value of admittedly relevant damages evidence and the prejudicial impact of such evidence caused by the potential to mislead the jury into awarding an unduly high royalty.” *Id.* at 1227.

The *Ericsson* decision demonstrates the practical reality that, in navigating between the real world and the hypothetical negotiation, it’s preferable not to let the perfect be the enemy of the good. Where real world licenses predicated on the value of a multi-component product are used to inform the hypothetical negotiation, with appropriate evidence apportioning the revenue from those licenses to the patents-in-suit, they need not be excluded under the entire market value rule because, as the Federal Circuit acknowledged, a contrary rule would often make it impossible for a patentee to utilize real world license-based evidence. *Id.* at 1228.

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## ***You Are Invited to Participate In the ABTL Inaugural Golf Tournament to Benefit a Local Charity***

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**Cost:** *\$250 a person minimum, with all tax deductible  
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## TO DEMUR OR NOT TO DEMUR: THAT IS THE QUESTION

### DEFENSE BAR RESPONSE



Keith D. Chidlaw, Esq.

The demurrer is a time tested and valuable tool to challenge meritless cases or causes of action at the outset of the case and serves to streamline cases and conserve judicial and party resources. While the process surrounding the demurrer could be modified to achieve more efficiency (as explained), the demurrer should not be eliminated in its entirety.<sup>1</sup>



Peter Glaessner, Esq.

Without the benefit of a demurrer, a defendant has no way to eliminate meritless or frivolous claims without first filing an answer and then waiting until plaintiff's time to demur to the answer has expired to bring a motion for judgment on the pleadings. (CCP § 438(f).) A challenge to the sufficiency of the complaint at the outset of litigation is of much greater benefit to all parties and to the court. Eliminating frivolous or meritless claims or theories at the earliest possible opportunity helps to reduce the enormous costs of discovery by focusing the parties on legitimate claims and avoiding fishing expeditions and wild goose chases.

The time to have a demurrer heard currently varies greatly by county due to court congestion and local practice. In Los Angeles Superior Court and several other counties, there is currently a significant backlog for a hearing date, but our research indicates this is not the case in most California counties, although many courts do limit the number of demurrers heard on any single day. Moreover, a plaintiff cannot claim prejudice due to any delay in scheduling of a

demurrer hearing because the filing of a demurrer does not stay the case or prohibit discovery pending resolution of the demurrer.

While adopting a meet and confer process should be considered, mandating a meet and confer process is not a panacea, because as experienced judges and lawyers know, the quality of the lawyers will determine the value of the process. No legislation can mandate good lawyering. In truth, a meet and confer process surrounding the filing of demurrers already exists. Defense counsel who believes a complaint is deficient ordinarily calls plaintiff's counsel and explains the perceived inadequacies of the complaint. Depending upon the quality of counsel, these discussions usually result in plaintiff filing an amended complaint, defense counsel agreeing the complaint is sufficient, or the parties agreeing to an extension of time to respond while meet and confer efforts continue.

From the defense perspective, demurrers are often filed as the result of inaction by plaintiff's counsel. Defense counsel receives the complaint and seeks to meet and confer. Plaintiff's counsel does not respond or refuses to grant an extension to file a responsive pleading. The defense then has little choice but to file a demurrer. All too often, plaintiff's counsel does not even oppose the demurrer. Sometimes plaintiff's counsel will simply file an amended complaint in response to the demurrer. But the more likely scenario is that the court spends its limited judicial resources in reviewing the papers and issuing a tentative ruling, only to have plaintiff's counsel file an amended complaint prior to the hearing, rendering any court ruling on the demurrer moot.

Some plaintiff's attorneys may believe defense counsel view demurrers as a means of generating hourly billing. The truth is, however, that demurrers do not get filed by defense counsel without client authorization, and clients expect a cost/benefit analysis before any demurrer is filed.

*Continued on Page 12...*

<sup>1</sup>There are many California Supreme Court decisions dismissing actions arising from demurrers when the pleadings were insufficient as a matter of law. *See, Committee for Green Foothills v. Santa Clara County Board of Supervisors* (2010) 48 Cal.4th 32 [untimely CEQA action, statute of limitations]; *Davidson v. City of Westminster* (1982) 32 Cal. 3d 197 [duty of care involving police liability]; *Boeken v. Philip Morris USA, Inc.* (2010) 48 Cal.4th 788 [wrongful death action barred by res judicata]; *State of California v. Superior Court (Bodde)* (2004) 32 Cal.4th 1234 [failure to comply with government claims act].

*“TO DEMUR OR NOT TO DEMUR”...continued from Page 11*

Indeed, many defense counsel feel that it is better to file an early summary judgment motion, motion to strike or, in cases involving constitutional rights (i.e., free speech or the right to petition) an anti-SLAPP motion (CCP § 425.16), rather than a demurrer.

There are certainly ways to tweak the demurrer statutes to better serve parties, attorneys, and the courts. CCP § 430 et seq. could be amended to include a reasonable and good faith meet and confer clause similar to the provision in the Civil Discovery Act (CCP § 2016-2036). There would need to be a provision to extend the time for responsive pleadings while the parties meet and confer, and failure to meet and confer in good faith should have adverse consequences.

Moreover, the ability of a plaintiff to amend the complaint as a matter of right (CCP § 472) without court approval should be altered once meet and confer efforts prove fruitless and a demurrer is filed. If the plaintiff is not going to oppose a demurrer, the amended complaint should be filed at the time the opposition to the demurrer is due i.e. no later than 9 court days before the hearing. (CCP § 1005(b) Alternatively, in situations when the hearing date is set more than 60 days after filing due to the court's calendar, the time for filing of an amended complaint should be keyed to the filing of the demurrer, not the hearing date. Any later filed amended complaint would need court approval. Requiring prompt filing of an amended complaint when there is no opposition to a demurrer solves the problem of a hearing date set many months out due to calendar congestion. Last minute amended complaints, filed after the demurrer has been briefed and worked up by the trial court, waste the courts' and the parties' time and money.

Plaintiffs suggest demurrers may be unnecessary because legal issues can be raised in other types of motions. While it is true that legal defenses can be raised in many motions, such as judgment on the pleadings or summary judgment/adjudication, this is not a sound reason to eliminate demurrers, because it will only lead to more motions for judgment on the pleadings or summary judgment/adjudication motions based on legal grounds. Law and motion dockets will be no less burdened if demurrers are jettisoned.

There is common ground with respect to meet and confer efforts prior to filing a demurrer. However, the success of meet and confer efforts will depend on the quality, reasonableness and good faith efforts of all counsel. The defense bar is certainly willing to discuss with the plaintiff's bar how to make the process move efficiently.

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## YLD UPDATE



*Edward Andrews*

After a successful 2014, the Young Lawyers Division of the ABTL has organized a dynamic 2015 slate of panels, programs, and brown-bags. In fact, the New Year has already proven successful. The Hon. Marc R. Marmaro and Hon. Anthony J. Mohr hosted a well-

attended judicial brown-bag in December 2014 at Stanley Mosk Courthouse, with a focus on trial practice and voir dire. Another excellent brown-bag on appellate brief writing and oral argument was held in February, at the California Court of Appeal, Second Appellate District, Division Eight, hosted by Presiding Justice Tricia Bigelow, Hon. Laurence Rubin, Hon. Madeleine Flier and Hon. Elizabeth Grimes.

The YLD hosted its annual Judicial Mixer on February 19, 2015 at the Los Angeles Athletic Club. The event provided a great opportunity for the judiciary and the ABTL's younger members to come together for an evening of networking and fun, with numerous state and federal judges present and a strong turnout of young attorneys.

"The YLD's programs focus on opportunities for lawyers in the early years of practice to meet the judiciary and build

practical skills," said Ted Andrews, co-chair of the YLD. "The participation of the judiciary is essential. We are very grateful for the willingness of the Judges and Justices to join in and mentor young lawyers."

The YLD hosted an excellent panel on class actions on March 4, 2015, at Winston & Strawn's offices in downtown Los Angeles. The panel featured Presiding Justice Lee Smalley Edmon, Hon. Philip S. Gutierrez, Jeffrey S. Koncius, Esq., and David M. Walsh, Esq., and was moderated by Bobby Pouya, Esq.

"The panel is intended to educate attorneys regarding the legal and procedural requirements for negotiating, drafting and obtaining court approval of class action settlements," explained Aaron Bloom, co-chair of the YLD. "Because younger attorneys often do the research and initial drafting of these settlements, we hope this panel will provide guidance on this complex and interesting topic, as well as a good opportunity to network."

As the spring continues, the YLD will be working to offer a panel on opening and closing statements and additional brown-bag opportunities. "This has been an excellent year, full of top quality events" said YLD co-chair Rachel Feldman, "and there's more to come."

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