

INFO-HOLD, INC. v. MUZAK LLC, Appeal No. 2014-1167 (Fed. Cir. April 24, 2015). Before Reyna, Wallach, and Taranto. Appealed from S.D. Ohio (Judge Black).

Background:

Info-Hold sued Muzak for allegedly infringing the claims of its patent directed to systems, apparatuses, and methods for playing music and messages through telephones and public speaker systems. At trial, Info-Hold's damages expert employed the entire market value rule in connection with his lost profits analysis, despite not commenting in his report on whether the patented features drove demand for the accused products. He also relied on the 25-percent rule of thumb as part of his reasonable royalty analysis.

Both parties filed summary judgment motions. Of most relevance, Muzak moved for summary judgment that (1) Info-Hold is not entitled to lost profits and (2) Info-Hold is not entitled to reasonable royalty damages. The district court granted both motions. It held that Info-Hold was not entitled to lost profits because Info-Hold never introduced evidence of the profits it earned from solely the patented technology. The district court also struck the testimony of Info-Hold's damages expert because he was not qualified to aid the trier of fact on the issue of damages, and because he based the royalty rate in his report on the 25-percent rule of thumb, which has been thoroughly discredited by the Federal Circuit. The court then reasoned that Info-Hold was thus left without any evidence on which to make a *prima facie* case regarding reasonable royalty damages. Because Info-Hold was then supposedly left without any measurable remedy, the district court dismissed the case. Info-Hold appealed.

Issue/Holding:

Did the district court err in determining that there was no evidence of record on which to base a damages remedy, and thereby dismiss the case? Yes, reversed and remanded.

Discussion:

Applying Sixth Circuit precedent, under which the exclusion of expert testimony by a district court is reviewed for an abuse of discretion, the Federal Circuit first held that the district court did not abuse its discretion by striking the testimony of Info-Hold's damages expert. The Federal Circuit specifically focused on the expert's "improper" application of the entire market value rule and his use of the "fundamentally flawed" 25-percent rule of thumb.

Reviewing the district court's grant of summary judgment *de novo*, however, the Federal Circuit then stated that the exclusion of a patentee's damages evidence is not sufficient to justify granting summary judgment, as 35 U.S.C. §284 requires the district court to award damages in an amount no less than a reasonable royalty, even if the patentee has no damages evidence to offer. The Federal Circuit argued that there was record evidence other than the testimony of Info-Hold's expert, such as deposition testimony of Muzak's damages expert and a prior license of the patented technology, on which the district could base a reasonable royalty determination. The Federal Circuit thus reversed the district's court's grant of summary judgment because there was no evidence of record supporting a zero royalty and because the evidence of record that could be used to determine a non-zero royalty was ignored.