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Automotive Giants to Battle in Landmark Patent Lawsuit

Who will dominate the electric car market?

BY CHRISTOPHER J. LEE AND MATTHEW WALCH

A patent appeal between two automotive giants is set be argued on April 11 in a packed courtroom in Chicago. The decision will determine who gets to dominate, at least for now, the burgeoning electric car market. The outcome hinges upon two important but often misapplied patent law issues - damages and willfulness.

Not surprisingly, the appellant, TooFun Motors, which suffered a rare courtroom loss, has turned to William Katt and Khurram Naik, arguably two of the most sought-after appellate specialists. FirstCar, which is looking to protect a $200 million verdict obtained by its subsidiary, FC IP Holding, is leaning on two equally-talented heavy-hitters: Danielle Cendrowski and Dawn David.

Below are the basic facts.

EDI Transmission for Electric Cars: In early 2004, FirstCar obtains an exclusive patent license on transmission technology from Detroit-based Edison Drive Inc. ("EDI") for $20 million, 5% of net profits and 5% of royalties from future licensing. TooFun Motors, once better-known for gas guzzling muscle cars, makes an unsuccessful bid.

Klint Delivers: Thanks to its advertising featuring a monologue with an empty chair by famous but aging Klint Ostenwood about Detroit Revival and FirstCar's cutting-edge technology, FirstCar has a 50% market share for electric car sales by the end of 2005.

TooFun Jumps in: Several years later, Emma Nem, TooFun's CEO from Detroit, decides *"there is a lot of money to be made in electric cars with EDI transmission."* Ms. Nem gives the EDI specifications to TooFun's CTO and asked him to *"just lose yourself in this project"* and *"make me a car that does all of these things in this spec."*

SY and Bangnam Style Deliver, Too, for TooFun: Aided by its "green technology" advertising and the Super Bowl ads featuring an international rapper, SY, singing *"Bangnam Style,"* TooFun soon has a 30% market-share for electric car sales, and FirstCar's plunges to 30%. FirstCar assigns its license to its subsidiary (FC IP).

Jury Speaks: The jury found all 15 patent claims infringed. In a minor set-back for FC IP, the jury found 1 claim invalid based on one of the two prior art documents. Nonetheless, the jury found TooFun's infringement willful and awarded $200 million as a reasonable royalty. If affirmed, many insiders believe that the verdict would forever damage TooFun's newly-acquired fun and green images, not to mention devastating its financial health.

What Got Lawyers Excited: What prompted the large army of lawyers, judges and executives to camp out near the federal court house in Chicago and forced the nearby Union League Club to order extra food and beverages in anticipation of the unprecedented post-mortem are two hot topics in patent law: (a) the application of the entire market value rule to reasonable royalty determination and the types of evidence to be considered and (b) the jury's role in determining willful patent infringement and the trial court's refusal to excuse TooFun's pre-lawsuit behavior based on what one experienced and "unbiased" attorney characterized as a *"last-minute, pure dumb-luck invalidity argument that almost saved the day for TooFun after deliberately copying the EDI technology."*

Does *Bard v. W.L. Gore* Change Anything? The commentator also indicated that the trial court's decision to allow the jury to decide the willfulness issues and its subsequent handling of TooFun's renewed motion for post-trial judgment (JMOL) on non-willfulness will be hotly debated this Thursday, especially after the Federal Circuit's *en banc* ruling on willfulness that was decided after the jury verdict but before the JMOL ruling.

This issue is believed to have important ramifications for TooFun which, according to unnamed industry insiders, will lose its patent infringement insurance coverage if the willfulness verdict is affirmed.

What Evidence for Entire Market Value Rule? The commentator also stated that this appeal provide*s a "seemingly routine, yet timely vehicle"* for the appeals court to provide further guidance on the type and sufficiency of evidence that litigants can present at trial on the issue of the entire market value rule.

"This is a rule that is easy to state, but often hard to apply in real-life patent lawsuits." This rule allows recovery of royalty-based damages based on the value of an entire product containing several non-patented features if the patent-related feature is the basis for customer demand. *"Even the appeals court has issued seemingly conflicting opinions, largely because the rule invokes so many factual issues,"* stated the attorney.

"How the trial judge applied those opinions to the facts of this case in allowing, excluding or limiting expert opinions on the determination of an appropriate royalty base may well be a hot topic this Thursday."

Stay tuned.

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