Patent Damages Theories

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FISH.

FISH & RICHARDSON

Meet the Speakers

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Topics

- Patent marking in the wake of *Arctic Cat*
- Apportionment (reasonable royalty and lost profits)

Patent Marking in the Wake of *Arctic Cat*

- Why talk about marking?

- General rule:
  - If a patentee (or licensee) makes, offers for sale, sells, or imports unmarked patented articles in or into the U.S. prior to filing a lawsuit...
  - And the failure to mark is not cured prior to the lawsuit…
  - And actual notice of infringement is not given prior to the lawsuit…
  - Then no pre-suit damages

Patent Marking in the Wake of *Arctic Cat*

- Why has marking come to the forefront?
  - Not just game changer in potentially cutting off past damages
  - *Arctic Cat* has crystallized the way marking is litigated

Patent Marking in the Wake of *Arctic Cat*

- *Arctic Cat Inc. v. Bombardier Rec. Prods. Inc.*, 876 F.3d 1350 (Fed. Cir. 2017)
  - "*Arctic Cat I*"
  - Burden shifting

- *Arctic Cat Inc. v. Bombardier Rec. Prods. Inc.*, 950 F.3d 860 (Fed. Cir. 2020)
  - "*Arctic Cat II*"
  - Failure to mark not cured

Patent Marking in the Wake of *Arctic Cat*

- 35 U.S.C. Section 287(a)
  - **Patentees, and persons making, offering for sale, or selling within the United States** any patented article **for or under them**, **or importing** any patented article into the United States, **may give notice to the public that the same is patented**, either by fixing thereon the word "patent" or the abbreviation "pat.," together with the number of the patent, or by fixing thereon the word "patent" or the abbreviation "pat." together with an address of a posting on the Internet, accessible to the public without charge for accessing the address, that associates the patented article with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of **failure so to mark, no damages shall be recovered** by the patentee in any action for infringement, **except on proof that the infringer was notified of the infringement** and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

Patent Marking in the Wake of *Arctic Cat*

- Marking statute serves three related purposes:
  - #1: helping to avoid innocent infringement
  - #2: encouraging patentees to give public notice that the article is patented
  - #3: aiding the public to identify whether an article is patented
    - *Arctic Cat I*, 876 F.3d at 1366

Patent Marking in the Wake of *Arctic Cat*

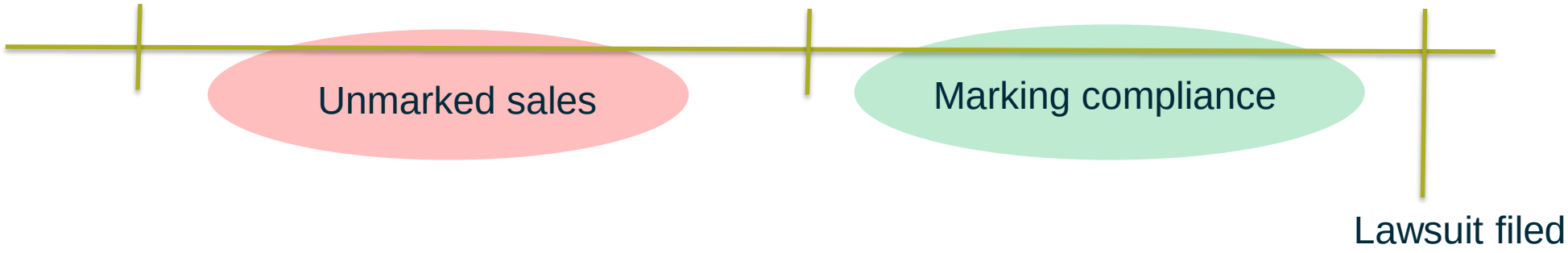
- What kind of marking issues arise?
  - False marking
  - Patentee's failure to mark
  - Licensee's failure to mark
  - Insufficient marking
    - Substantially all
    - Continuous
  - Marking incorrectly
  - Inability to cure failed marking…

Patent Marking in the Wake of *Arctic Cat*

- *Arctic Cat II*, 950 F.3d at 864.
  - "[T]he issue presented is whether the cessation of sales of unmarked products excuses noncompliance with the notice requirement of § 287 such that a patentee may recover damages for the period after sales of unmarked products ceased but before the filing of a suit for infringement. We hold that it does not."

Patent Marking in the Wake of *Arctic Cat*

- American Medical Sys., Inc. v. Medical Engineering Corp., 6 F.3d 1523, 1537 (Fed. Cir. 1993).
  - "[D]elay between issuance of the patent and compliance with the marking provisions of section 287(a) will not prevent recovery of damages after the date that marking has begun. We caution, however, that once marking has begun, it must be substantially consistent and continuous in order for the party to avail itself of the constructive notice provisions of the statute."



Patent Marking in the Wake of *Arctic Cat*

- *Arctic Cat I*
  - Issue: which party must initially identify the products it believes the patentee failed to mark? 876 F.3d at 1367
- Split in the district courts
  - Set #1: defendant must initially identify articles it believes practice the patents, and the burden then shifts to the plaintiff to prove compliance with the marking statute
    - **Rationale: without guidance from the defendant identifying products it believes fall within the patent, the patentee is "left to guess" what it must do to prove compliance with the marking statute**
  - Set #2: plaintiff must prove that none of its unmarked articles practice the patents.
    - **Rationale: patentee is in a better position to know whether its goods practice the patents**

Patent Marking in the Wake of *Arctic Cat*

- *Arctic Cat I*, 876 F.3d at 1368 (emphasis added):
  - "We hold an ***alleged infringer*** who challenges the patentee's compliance with § 287 ***bears an initial burden of production*** to articulate the products it believes are unmarked 'patented articles' subject to § 287. …
  - To be clear, ***this is a low bar***. The alleged infringer need only put the patentee on notice that he or his authorized licensees sold specific unmarked products which the alleged infringer ***believes practice the patent***. …
  - The alleged infringer's burden is a ***burden of production***, not one of persuasion or proof."

Patent Marking in the Wake of *Arctic Cat*

- *Arctic Cat I*, 876 F.3d at 1368 (citation omitted):
  - "Without some notice of what marked products [the alleged infringer] believes required marking, [the patentee's] universe of products for which it would have to establish compliance would be ***unbounded***. …
  - Permitting infringers to allege failure to mark without identifying any products could lead to a ***large scale fishing expedition and gamesmanship***."
  - BUT: "We do not here determine the minimum showing needed to meet the initial burden of production …."

Patent Marking in the Wake of *Arctic Cat*

- Two key questions that arise under *Arctic Cat I*:
  - Did the alleged infringer carry its initial burden of production — the "low bar" — to identify specific unmarked products that it believes practice the patent?
  - Once the burden shifts, did the patentee carry its burden of persuasion to show compliance with the marking statute?

Patent Marking in the Wake of *Arctic Cat*

- Issue 1: Did the alleged infringer carry its initial burden of production — the "low bar" — to identify specific unmarked products that it believes practice the patent?
  - Contents of the identification
  - Mechanisms for making the identification
  - Timing of the identification
  - Limits on discovery absent identification

Patent Marking in the Wake of *Arctic Cat*

- Contents of the identification:
  - *Arctic Cat I*, 876 F.3d at 1368 (emphasis added): defendant has "an initial burden … to articulate the products it ***believes*** are unmarked 'patent articles'".
  - *Contour IP Holding, LLC v. GoPro, Inc.*, 2020 U.S. Dist. LEXIS 158184, at *23-24 (N.D. Cal. Aug. 31, 2020) (emphasis added)
    - "All that is required of GoPro is that it identify unmarked products that allegedly fall under the requirements of Section 287(a); ***it need not concede that these products practice the patents*** because the purpose of its initial burden is to prevent 'a large scale fishing expedition and gamesmanship.'"

Patent Marking in the Wake of *Arctic Cat*

- Contents of the identification:
  - *Fortinet, Inc. v. Sophos, Inc.*, 2015 WL 5971585, at *4-5 (N.D. Cal. Oct. 28, 2015)
    - Cited with approval by *Arctic Cat I.*
    - Rejecting patentee's argument that without a concession from defendant that the products practiced the claimed inventions, there remained an issue of fact for the jury.
  - *Beiderman Techs. GmbH & Co. v. K2M, Inc.*, 2021 U.S. Dist. LESXIS 57762, at *29-30 (E.D. Va. March 25, 2021)
    - Expert opinion not required.
    - BUT "[defendant's] opening summary judgment brief, which addressed a myriad of products and patents over the course of a limited number of paragraphs of factual allegations, was not sufficiently clear as to Synapse [one product at issue] and the '399 patent to trigger [patentee's] obligation to produce admissible counter evidence …."

Patent Marking in the Wake of *Arctic Cat*

- Contents of the identification:
  - *Realtime Data, LLC v. Echostar Corp.*, No. 6:17cv84 ECF No. 247, at 8-10 (E.D. Tex. Oct. 16, 2018) (slip op.)
    - Denying defendants' motion for partial summary judgment seeking to limit damages as to two groups of licensed products because defendants had a burden to "actually produce some notice of what products [d]efendants believe require marking."
    - And while defendants "identified other specific products in response to [patentee's] Interrogatory," they did not identify two of the groups of products for which partial summary judgment was sought.

Patent Marking in the Wake of *Arctic Cat*

- Mechanisms for making the identification:
  - Initial disclosures
  - Response to patentee's interrogatory
  - Interrogatories served on patentee
  - Correspondence sent to patentee's counsel
  - Motion practice
  - Fact deposition (e.g., Rule 30(b)(6) witness)
  - *Expert report*
  - *Summary judgment motion*
  - *Pretrial submissions*
  - *Trial*

Patent Marking in the Wake of *Arctic Cat*

- Timing of the identification:
  - *Beiderman Techs. GmbH & Co. v. K2M, Inc.*, 2021 U.S. Dist. LESXIS 57762, at *31-32 (E.D. Va. March 25, 2021)
    - Raising at summary judgment stage.
    - “Based on K2M's failure to carry its burden under *Arctic Cat* at the summary judgment stage, its summary judgment motion as to the Synapse marking claim is DENIED. Whether K2M can raise this marking claim at trial, or whether it is waived because it was not timely raised, is a matter that must be independently briefed after the parties have had the opportunity to conduct/resume settlement negotiations.”

Patent Marking in the Wake of *Arctic Cat*

- Timing of the identification:
  - *Realtime Data, LLC v. Echostar Corp*., No. 6:17cv84, ECF No. 247, at 8-10 (E.D. Tex. Oct. 16, 2018) (slip op.)
    - *See Supra.*
    - Denying motion for partial summary judgment as two groups of licensed products because defendants identified them for the first time in the summary judgment motion.
    - By contrast, defendants identified other specific products in response to patentee's interrogatory.

Patent Marking in the Wake of *Arctic Cat*

- Limits on discovery absent identification:
  - *Infernal Tech. LLC v. Epic Games, Inc.*, 335 F.R.D. 94, 97 (E.D.N.C. 2020)
    - "*Arctic Cat* focused on the burden parties bear at trial for a § 287 defense. There is nothing in the opinion supporting the position that an alleged infringer must satisfy its burden of production before it may conduct discovery into a § 287 defense."
    - "[The burden of production's] purpose is deciding which party must present evidence to avoid an adverse dispositive ruling against it, not managing discovery. Thus, *Arctic Cat* has no applicability in the context of discovery."

Patent Marking in the Wake of *Arctic Cat*

- Issue 2: Once the burden shifts, did the patentee carry its burden of persuasion to show compliance with the marking statute?
  - Method claims
  - Articles not made, sold, offered for sale, or imported in or into the U.S.
  - Articles do not practice the patent
  - Articles were sufficiently marked:
    - Substantially all articles were marked
    - Articles were marked continuously
    - Marking was properly done…

Patent Marking in the Wake of *Arctic Cat*

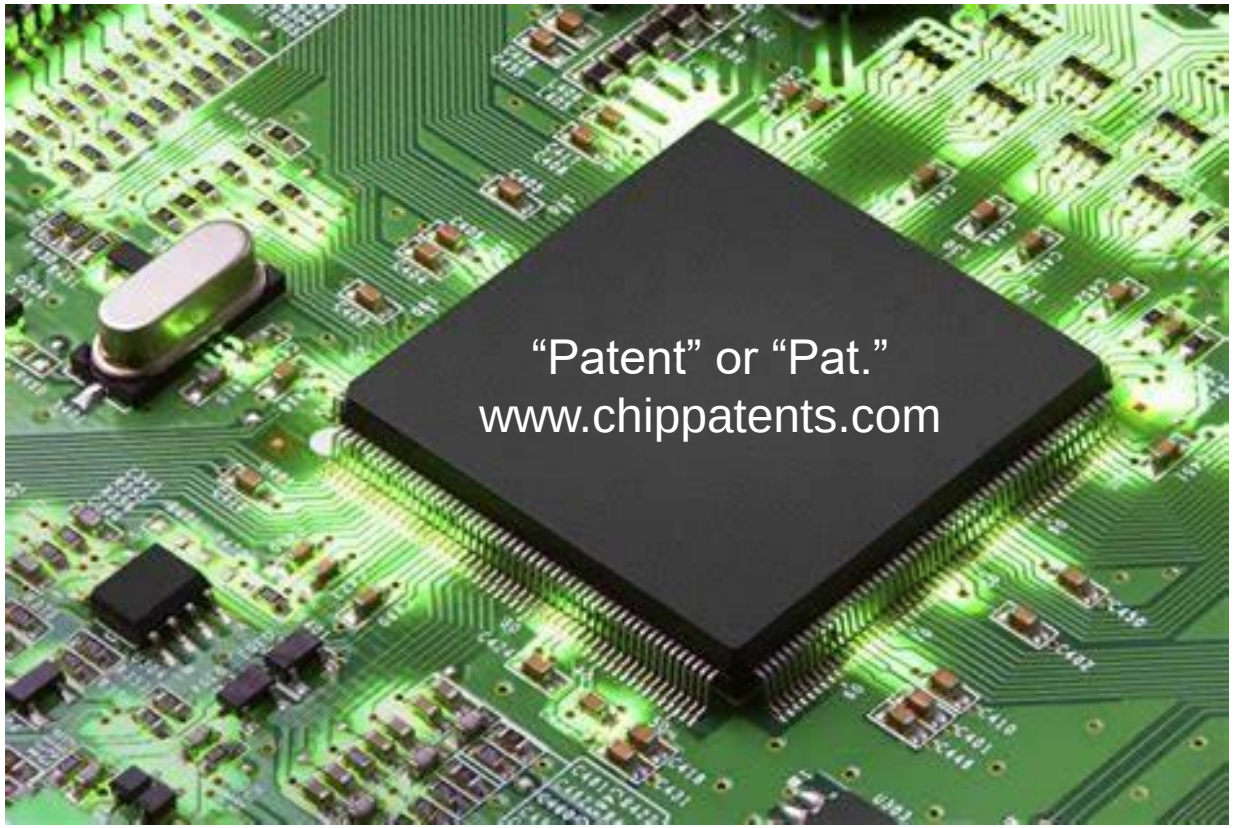
- Two approved forms of marking under Section 287(a):
  - "either…
  - [1]
    - [a] by fixing thereon the word 'patent' or the abbreviation 'pat.', together with the number of the patent, or
    - [b] by fixing thereon the word 'patent' or the abbreviation 'pat.' together with an address of a posting on the Internet . . . that associates the patented article with the number of the patent, or…
  - [2] when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice."

Patent Marking in the Wake of *Arctic Cat*

- Section 287(a)[1][a] → "Patent" or "Pat." and patent number

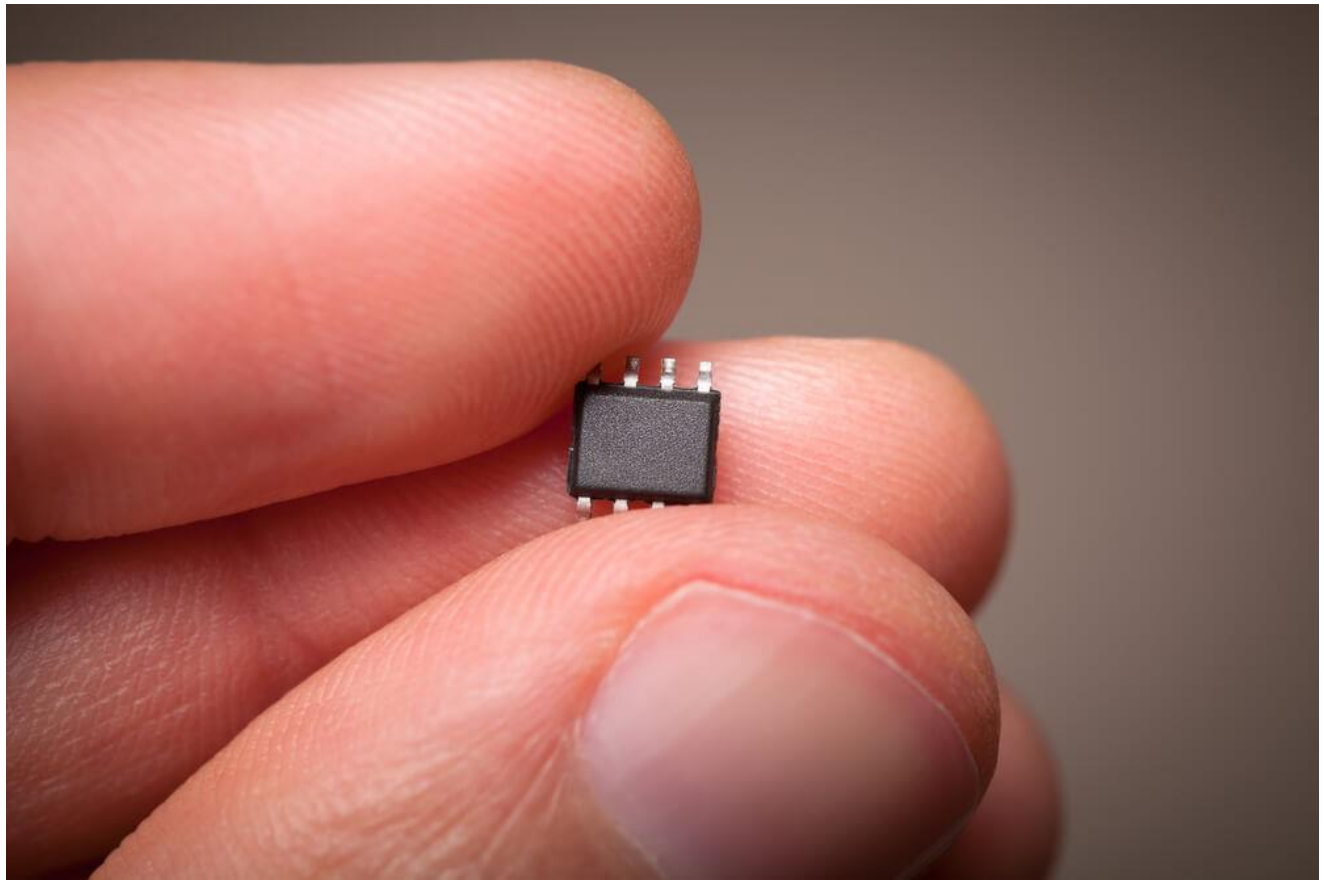
Patent Marking in the Wake of *Arctic Cat*

- Section 287(a)[1][b] → "Patent" or "Pat." and URL associating article with patent number(s)



Patent Marking in the Wake of *Arctic Cat*

- Section 287(a)[2] → impracticable to mark the article

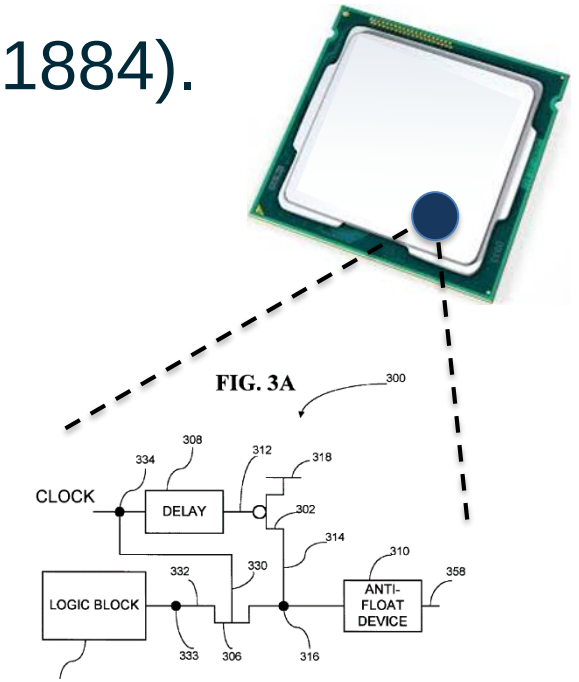


Apportionment: Themes

- Apportionment is important… but still unsettled
  - No silver bullets or guaranteed methods
  - Depth of apportionment in flux
- Few bright line rules
  - Apportionment required without proving EMVR
    - **EMVR is narrow**
  - SSPPU is often not the end point of apportionment
  - Rate decrease does not justify an expanded base
  - Base must be tied to the “footprint” of the invention

Apportionment: What is it?

- The patentee "must, in every case give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features. . . ."
  - *Garretson v. Clark*, 111 U.S. 120, 124 (1884).



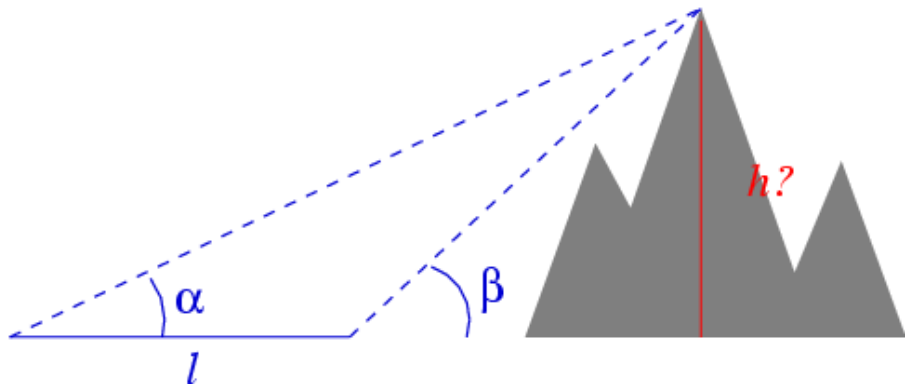
EMVR: Entire Product Apportion down to SSPPU Apportion *within* the SSPPU

Apportionment: What is it?

- Damages award "must be based on the ***incremental value*** that the patented invention adds to the end product."
  - Ericsson, Inc. v. D-Link Sys., Inc., 773 F.3d 1201, 1226 (Fed. Cir. 2014) (emphasis added)

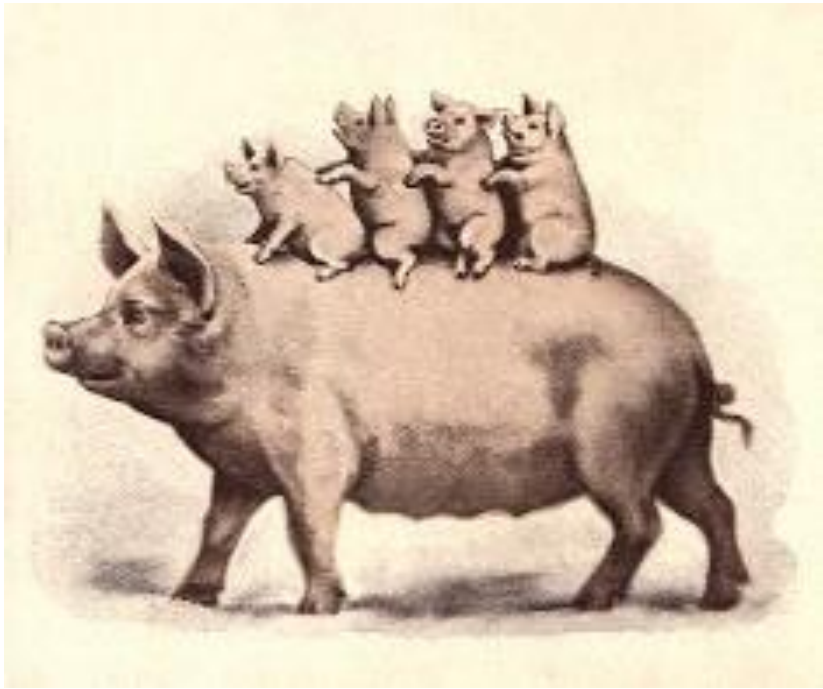
Apportionment: Practice Pointers

- Apportionment is inexact – and that's OK
  - *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1328 (Fed. Cir. 2014)
    - "[W]e have **never required absolute precision** in [assigning value to a feature that may not ever have been individually sold]; on the contrary, it is well-understood that this process may involve ***some degree of approximation and uncertainty***." (emphasis added)
- Triangulate:
  - Multiple apportionment methods
  - One may survive if others fall
  - "Checks" (e.g., licenses)



Apportionment: Practice Pointers

- Expert witness "piggybacking"
  - Damages experts often rely upon technical experts to inform their apportionment analyses.
  - "Experts routinely rely upon other experts hired by the party they represent for expertise outside of their field." *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1321 (Fed. Cir. 2014), *overruled on other grounds* by *Williamson v. Citrix Online LLC*, 729 F.3d 1339 (Fed. Cir. 2015)
- Fact witnesses
- Documents



Reasonable Royalty Apportionment

- Apportion Royalty Base and/or Apportion Royalty Rate
  - "[A]pportionment can be addressed in a variety of ways, including 'by careful selection of the royalty base to reflect the value added by the patented feature [or] . . . By adjustment of the royalty rate so as to discount the value of a product's non-patented features; or a combination thereof.'" *Exmark Mfg. Co. Inc. v. Briggs & Stratton Power Pro. Grp., LLC*, 879 F.3d 1332, 1348 (Fed. Cir. 2018) (alterations in original) (quoting *Ericsson*, 773 F.3d at 1226).

Reflect value added by patented feature

Discount value of non-patented features

Apportioned damages

A Note on EMVR

- Entire Market Value Rule: Whole product as the base for multi-component product
  - "[A]llows for the recovery of damages based on the value of an entire apparatus containing several features, when the feature patented ***constitutes the basis for consumer demand***." *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009)
- EMVR is an "exception" to apportionment

BUT…

A Note on EMVR

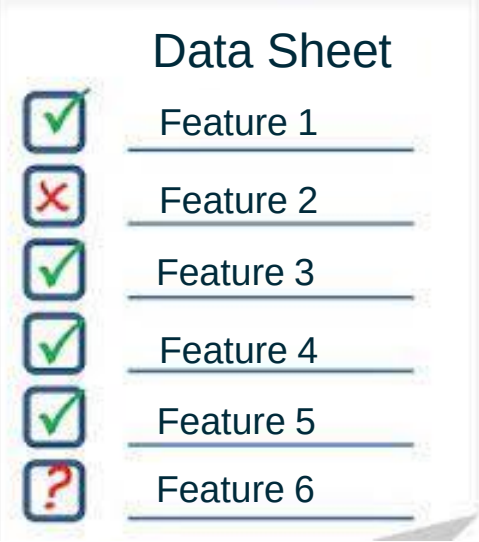
- Patented feature must be ***sole driver of demand?***
  - "[T]he entire market value role is appropriate *only* when the patented feature is the *sole driver of customer demand or substantially creates the value of the component parts." Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*, 904 F.3d 965, 979 (Fed. Cir. 2018).
- Beware presenting overall revenues where EMVR is not satisfied!
  - "Admission of such overall revenues . . . only serves to make a patentee's proffered damages amount appear modest by comparison, and to artificially inflate the jury's damages calculation." *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67-68 (Fed. Cir. 2012).

Apportionment Methods - SSPPU

- Smallest salable patent-practicing unit (SSPPU)
  - Example: Outlook in *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301 (Fed. Cir. 2009)
  - Example 2: Disk Drive in *LaserDynamics, Inc. v. Quanta Computer, Inc.,* 694 F.3d 51, 67-68 (Fed. Cir. 2012)
  - BUT:
    - Multi-feature SSPPUs likely need further apportionment.
    - *Claim scope matters* – but no bright lines
      - Claim covers whole SSPPU (even though novel feature is only part): *Exmark* says SSPPU can be base
      - SSPPU includes unpatented features: *Finjan v. Blue Coat*, 879 F.3d 1299, 1311 (Fed. Cir. 2018) says need to apportion further (’844 Patent)
      - Still need to apportion out conventional features: *Astrazeneca v. Apotex*, 782 F.3d 1324, 1338-39 (Fed. Cir. 2015)

Apportionment Methods – Feature Counting

- Example
  - *Finjan v. Blue Coat*, 879 F.3d 1299 (Fed. Cir. 2018): Apportioned accused product based on architectural diagram
- Common themes
  - Equal weight to features can be problematic
  - Relative importance of features
    - **Technical expert(s)**
    - **Survey**
    - **Defendant's documents (e.g., data sheets)**
    - **Third party market research**
    - **Plaintiffs: be conservative re importance of patented features**
    - **Beware sub-features – need to address if present**
  - Consider other factors – brand, reputation, etc.



Apportionment Methods – Related Products

- Related Product Comparison
  - Find comparable product without patented feature
  - Determine delta to patented product
  - Isolate patented feature
  - Highlights:
    - **Not always possible to find a comparable product**
    - **Usually need a consumer product with available pricing, features, etc.**
    - **If multiple features are different, need to account for relative value of each such feature and of the patented feature**
    - **Straight division may be problematic**

Lost Profits and Apportionment

- *Panduit* factors
  1. Demand for the *patented product*
  2. Absence of acceptable and available noninfringing alternatives
  3. Marketing and manufacturing capacity to meet the demand
  4. Amount of lost profits
  - *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978)

- Do factors 1 and 2 make EMVR and apportionment inapplicable in lost profits cases?

Lost Profits and Apportionment: Does EMVR Apply?

- *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275 (Fed. Cir. 2017), *reh'g en banc denied*, 870 F.3d 1298 (Fed. Cir.), *cert. den.*, 139 S.Ct. 44 (2018).
  - Panduit factors 1 and 2 can take the place of an EMVR analysis
    - "Together, requiring patentees to prove demand for the product as a whole and the absence of non-infringing alternatives ***ties lost profit damages to specific claim limitations*** and ensures that damages are commensurate with the value of the patented features." *Id.* at 1285.
    - "We hold that the district court ***did not err in refusing to further apportion lost profits*** after the jury returned its verdict applying the *Panduit* factors. We conclude that, when the *Panduit* factors are met, ***they incorporate*** into their very analysis the ***value properly attributed to the patented feature***." *Id.* at 1290.

Mentor Graphics: Two Supplier Market

- "In short, Synopsys does not dispute on appeal that for each infringing sale it made to Intel, Mentor lost that exact sale." *Mentor Graphics*, 851 F.3d 1275, 1286.

- "This is important as it ***makes this case quite narrow*** and unlike the complicated fact patterns that impact so many damages models in patent cases." *Id.* at 1287.

Lost Profits and Apportionment: *Panduit* Isn't Everything

- *Panduit* analysis is **"[o]ne useful, but non-exclusive"** path to showing lost profits. *Mentor Graphics*, 851 F.3d at 1285.
- Apportionment is necessary where the "application of the *Panduit* factors does not result in the separation of profits attributable to the patented device and the profits attributable" to the other aspects of the product. *WesternGeco LLC v. ION Geophysical Corp.*, 913 F.3d 1067, 1073 (Fed. Cir. 2019).

Thank You!

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