

JANUARY/FEBRUARY 2019

VOLUME 25 NUMBER 1

DEVOTED TO  
INTELLECTUAL  
PROPERTY  
LITIGATION &  
ENFORCEMENT

*Edited by Gregory J. Battersby  
and Charles W. Grimes*

# IP *Litigator*®

---

# The Real World Impact of Patent Damages

Victoria Smith, Stephanie Nelson, and Joseph Reid

---

*Victoria Smith is a patent litigator in Perkins Coie's Palo Alto office. She focuses on the telecommunications, biotech, electronics, and software industries, and has in-depth experience in all aspects of patent cases from inception through trial and appeal, and including inter partes reviews before the Patent and Trademark Appeals Board.*

*Stephanie Nelson is a Chicago-based patent litigator for Perkins Coie. Her practice focuses on litigation, inter partes review, and post-grant review proceedings before the U.S. Patent Trial and Appeal Board. Specifically, she has experience with Markman hearings, fact and expert discovery, summary judgments, and patent portfolio valuations. Stephanie's industry concentrations include life science technologies, biotechnology, pharmaceutical, and food and beverage.*

*Joseph Reid is a patent litigation partner in Perkins Coie's San Diego office. Focused on patent litigation, patent trial matters and high-end prosecution work, including inter partes reviews and portfolio strategy, Joseph has practiced in district courts nationwide, the U.S. International Trade Commission, the U.S. Court of Appeals for the Federal Circuit and the U.S. Patent & Trademark Office.*

Calculating damages for patent infringement can be a complicated process for courts to determine, as the determination of damages often reflects many factors, including the value of the patented and infringed technology, as well as the contributions of unpatented or conventional technologies. Damages for patent infringement can present challenges for litigants, counsel, and experts alike. To complicate matters, courts often apply different doctrines to tailor the amount of damages to the value of the patented technology. The following article highlights some recent decisions in both the Supreme Court and the Federal Circuit involving damages for patented technologies, and the real-world impact of how these decisions can affect the calculation of patent damages for the foreseeable future.

## I. Supreme Court

### Design Patent Damages Post-Samsung: Determining the Article of Manufacture

Section 289 of the Patent Act includes a special damages provision for design patent infringement. It requires that “Whoever during the term of a patent for a design ... sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit.”<sup>1</sup>

The Supreme Court in *Samsung v. Apple* held that the relevant “article of manufacture” used to determine a damages baseline does not need to be the end product sold to a consumer (as previously held in the Federal Circuit), but could be merely a component of that end product.<sup>2</sup> This holding broadens the meaning of “article of manufacture” and could lead to increased damages in future design patent infringement cases.

The Supreme Court in *Samsung*, however, did not establish a specific test to define the meaning of “article of manufacture” in all future cases.<sup>3</sup> The Supreme Court acknowledged a test articulated by the Government in its *amicus curiae* brief, but because *Samsung* and *Apple* did not brief the issue the Supreme Court declined to lay out a test. Holding that “article of manufacture” has a broad meaning but failing to provide any structure to define such term leaves the door wide open for the lower courts to try to establish a system or test to determine the article of manufacture in each case.

#### Government's Proposed Test

In its briefing, the United States argued for a four-factor test to answer the “article of manufacture” inquiry.<sup>4</sup> The United States assigns the finder of fact the task of identifying the relevant article of manufacture considering four factors.

1. The scope of the design claimed.
2. The relative prominence of the design within the product as a whole.
3. Whether the design is conceptually distinct from the product as a whole.
4. The physical relationship between the patented design and the rest of the product.<sup>5</sup>

While the Supreme Court abstained from opining on what test, if any, should be used to determine the article of manufacture, the test provided by the United States may provide some guidance or direction to the lower courts.

### **Lower Court Decisions Post-Samsung**

In the first design patent damages decision to come out since *Samsung*, the district court utilized the jury instructions to provide the jury with two steps to define the article of manufacture and then calculate damages.<sup>6</sup> The two steps included:

(1) identifying whether the accused product is multi-component, and if so, (2) considering the four factors provided by the United States in its *Samsung* brief to determine if the “article of manufacture” is the whole product or some sub-component. The jury was not asked to define the article of manufacture, but the damages award indicates that the article of manufacture used to calculate damages was the whole product.

In another recent decision, *Nordock, Inc. v. Systems, Inc.*, the district court held that the four-factor test presented by the United States as *amicus curiae* was the proper test for determining the article of manufacture.<sup>7</sup> Noting an “evidentiary gap,” the district court denied cross-motions for summary judgment and stated that the article of manufacture should be determined by the jury and not the court.<sup>8</sup>

### **Looking Ahead**

Although there have not been very many decisions since *Samsung*, it appears that the district courts are turning to the four-factor test from the Government’s brief. The four factors are all related and may overlap with other elements of design patent infringement. In particular, factor one, which asks to determine the scope of the design claimed, is an almost identical inquiry to that of claim construction. Claim construction, however, is a question of law and the four-factor article of manufacture inquiry is arguably a question for the fact finder. These inconsistencies will likely be worked out as more cases are decided and if the Federal Circuit has a chance to weigh in on appeal.

## **Lexmark Not Proving as Dispositive as Expected**

When the Supreme Court issued its opinion in *Impression Products, Inc. v. Lexmark International, Inc.* in May 2017,<sup>9</sup> reversing decades-old Federal Circuit precedent and applying the patent exhaustion doctrine to both domestic and international sales,<sup>10</sup> most practitioners believed the ruling represented a powerful, case-dispositive arrow in the defense bar’s quiver. Indeed, many predicted *Lexmark* would provide defendants with an easy exit from patent infringement cases by way of summary judgment. Now that nearly a year has passed, however, it is worth checking in to see whether those forecasts have come true.

To briefly recap, Lexmark manufactured printer toner cartridges and sold them both domestically and internationally.<sup>11</sup> Lexmark’s customers had the option of purchasing new cartridges at full price, or refilled cartridges at a significant discount.<sup>12</sup> In an effort to thwart competitors from refurbishing and reselling the cartridges, Lexmark contractually required its refill customers to use the cartridges only once and not to resell them.<sup>13</sup> Lexmark also installed microchips in its cartridges meant to prevent their reuse.<sup>14</sup> When Lexmark discovered third-party companies, including Impression Products, disabling the microchips, and trading in the refurbished cartridges, it sued for patent infringement.<sup>15</sup>

Although an *en banc* Federal Circuit found for Lexmark, the Supreme Court reversed in a nearly unanimous decision. Finding that the Federal Circuit “got off on the wrong foot,”<sup>16</sup> the Court held that exhaustion is not an aspect of the patentee’s power to grant or withhold authority to practice a patent.<sup>17</sup> Instead, exhaustion is “a limit on ‘the scope of the patentee’s rights.’”<sup>18</sup>

Thus, once a sale occurs, “the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce,” whether that sale happens inside or outside the United States.<sup>19</sup> Moreover, while a patentee can impose restrictions on its licensees, “[s]o long as a licensee complies with the license when selling an item, the patentee has, in effect, authorized the sale,” so that a licensee’s customers may also claim exhaustion if sued by the patentee.<sup>20</sup> While patentees can bargain for, and seek to enforce, contractual limitations on downstream customers, such actions lie in breach of contract rather than patent infringement.<sup>21</sup> Patent infringement is only implicated where a licensee exceeded the scope of its license, and its downstream customer therefore participated in the licensee’s unauthorized sale.

So, has *Lexmark* actually provided defendants with an easy exit from patent infringement lawsuits? While the sample size is still very small—only five trial court

---

opinions have analyzed *Lexmark* to date—the initial answer appears to be “no”: district courts have refused to grant summary judgment in all but one case.

The lone dismissal came in *MiiCs & Partners America, Inc. v. Toshiba Corporation*, a Delaware case involving patents directed to liquid crystal display panels.<sup>22</sup> There, a licensee intervened in a suit brought by the patentee against the licensee’s customers and moved for summary judgment. Finding nothing in the agreement between the patentee and licensee that restricted to whom the products could be sold or for what purposes, Judge Andrews granted the licensee’s motion.

A second case, *Chrimar Systems, Inc. v. Alcatel-Lucent Enterprise USA Inc.*, is not particularly instructive given its unique procedural posture: after *Lexmark* was decided post-verdict, the defendant challenged the jury’s damages award, claiming exhaustion should reduce the award to account for units purchased from a licensed supplier.<sup>23</sup> The plaintiff countered that the supplier was not authorized to sell the accused devices to the defendant pursuant to the express terms of the license. When the court found in the plaintiff’s favor, it upheld the judgment in full.

In their own ways, each of the three remaining cases illustrates how factual issues can frustrate a defendant’s attempts to obtain a dismissal under *Lexmark*. First, in *Audio MPEG, Inc. v. Dell Inc.*, the patentee entered into a license with Microsoft for its audio codecs to be incorporated into the Windows operating system.<sup>24</sup> Because some versions of Windows were loaded onto Dell personal computers that also contained non-Microsoft audio software, the patentee sued Dell for infringement. Dell sought summary judgment, claiming that the non-Microsoft software still made use of the exhausted codecs inside Windows. The patentee presented contrary expert testimony, suggesting there were additional codecs on the machines. Unwilling to resolve the underlying dispute of material technical fact, the Eastern District of Virginia denied Dell’s motion.

In *Sunoco Partners Marketing & Terminals L.P. v. U.S. Venture, Inc.*, the Northern District of Illinois went even further than *Audio MPEG*, ruling against the defendant on the merits of exhaustion.<sup>25</sup> Specifically, the court rejected the idea that the defendant’s supplier’s subsequent settlement with the plaintiff retroactively exhausted the accused system that the defendant had purchased. Instead, the court found that the supplier could only convey the property rights it had at the time of its sale to the defendant, and therefore exhaustion was not triggered.

Finally, in *Huawei Technologies Co. Ltd v. T-Mobile US, Inc.*, the Eastern District of Texas did not even reach the merits, but instead ruled against the defendant on procedural grounds.<sup>26</sup> When the defendants moved for summary judgment under *Lexmark*, the plaintiff complained

about the timeliness and content of the defendant’s document production and discovery responses regarding the exhaustion defense. Under these circumstances, the court refused to grant summary judgment.

Although one might be tempted to dismiss these three denials as cases with uniquely pigeonholed facts, they certainly reinforce the idea that summary judgment may not be granted lightly, even after *Lexmark*. It may be that, over time, more cases like *MiiCs* will solidify the availability of early summary judgment on exhaustion grounds as a tool for defendants. But for now at least, it appears that district courts are remaining cautious and conservative when it comes to the outright dismissal of all or a portion of a plaintiff’s infringement claim.

## II. Federal Circuit

Below is a brief summary of recent damages decisions by the Federal Circuit.

### *Reasonable Royalty Cases*

*Asetek Danmark A/S v. CMI USA Inc.*, 852 F.3d 1352 (Fed. Cir. 2017).

Technology: cooling liquid for CPUs

Jury Award: \$404,941 (affirmed)

In the process of affirming the jury award, the Federal Circuit rejected defendant’s argument that plaintiff’s per-unit profit margin impermissibly “predominated” plaintiff’s damages case because plaintiff’s damages expert “[took] reasonable account of all the evidence relevant to the hypothetical negotiation.” The Federal Circuit also ruled that a royalty rate of 14.5% was reasonable given evidence of a 16% effective rate under an existing license and defendant’s status as a competitor.

*Rembrandt Wireless Techs., LP v. Samsung Elecs. Co.*, 853 F.3d 1370 (Fed. Cir. 2017).

Technology: multiple modulation methods

Jury Award: \$15.7 million (remanded to exclude pre-notice damages because of failure to mark)

The jury verdict was supported by substantial evidence from plaintiff’s damages expert, who determined “the incremental value associated with implementing the infringing EDR functionality” by comparing the prices of two Bluetooth chips that defendant bought: one chip that included the accused EDR functionality, and the other that did not. The Federal Circuit rejected defendant’s argument that the comparison was inapt due to economies of scale (*i.e.*, plaintiff’s analysis focused on an early time period, when the volume of non-EDR chip purchases was much higher). As plaintiff’s expert testified, the chip manufacturer, however, identified data from those periods as most suitable. Additionally, plaintiff’s

---

focus on the earliest periods when the chips were made because technology's added value fades with time. The Federal Circuit also found no abuse of discretion in allowing plaintiff's expert to rely on plaintiff's settlement agreement in this case with another defendant, as well as a separate license with a third party to confirm the proposed royalty rate.

*Arctic Cat Inc. v. Bombardier Recreational Prods. Inc.*, 876 F.3d 1350 (Fed. Cir. 2017), 139 S. Ct. 143 (Oct. 1, 2018).

Technology: steering system for personal watercraft

Award: \$102.54 per unit royalty rate (jury) and \$205.08 ongoing royalty rate (both affirmed)

The Federal Circuit ruled that plaintiff's damages expert properly considered a later-developed product as a value benchmark for the infringing product by relying on plaintiff's technical expert, who opined that the two products are of comparable technological and safety value. The Federal Circuit also affirmed an ongoing royalty rate of twice the rate adopted by the jury even though such a rate may consume all of defendant's profits on the product.

*Prism Techs. LLC v. Sprint Spectrum L.P.*, 849 F.3d 1360 (Fed. Cir. 2017), *cert. denied*, 138 S. Ct. 429 (2017).

Technology: managing access to information provided over untrusted networks

Jury Award: \$30 million (affirmed)

The Federal Circuit's decision suggests that previous settlements involving the same patentee and patents may be admissible to determine a reasonable royalty rate. The Federal Circuit affirmed the district court's decision allowing introduction of plaintiff's in-trial settlement agreement of parallel litigation as a comparable license because a settlement may have a "strong connection" to the merits of a common issue in the current and previous cases: the value of the technology. The Federal Circuit also ruled that evidence of the costs defendant avoided by infringing was admissible because the avoided costs are sufficiently tied to the footprint of the invention when "the patentee adequately shows that the defendant's infringement allowed it to avoid taking a different, more costly course of action." The jury was reasonable in considering the costs of the only noninfringing alternative presented.

## Lost Profits Cases

*Georgetown Rail Equip. Co. v. Holland L.P.*, 867 F.3d 1229 (Fed. Cir. 2017).

Technology: system for automatic inspection of railroad tracks

Jury Award: \$1.5 million, with \$1 million enhanced damages (affirmed)

The first and fourth *Panduit* factors were the focus of this decision. As to factor one (demand for the patented product), defendant argued that there was no evidence that a potential customer would have bought plaintiff's technology. The Federal Circuit, however, pointed out that the proper inquiry for factor one was whether there was demand in the marketplace for the patented product, which was evidenced by plaintiff selling its system throughout the foregoing three years. As to factor four (whether plaintiff actually lost profits), defendant argued that it did not make any profit in its dealings with the relevant potential customer so plaintiff could not have missed out on any profits. The Federal Circuit, however, found that the jury could credit plaintiff's expert testimony that the potential customer's business would have gone to plaintiff and that plaintiff would have done a certain amount of work over a certain period and at a prevailing market rate. The Federal Circuit noted that the duration of the proposed deal was the same as defendant's, that the amount of work and work rates were within the ranges of plaintiff's contracts with other potential customers, and that plaintiff's expert had deducted costs. The Federal Circuit thus found that substantial evidence supported the award of lost profits. While defendant argued a lack of but-for causation because the potential customer did not buy any services from defendant, plaintiff showed that it was a two-supplier market and that the potential customer had made some purchases from defendant before a preliminary injunction went into effect.

*Presidio Components, Inc. v. Am. Tech. Ceramics Corp.*, 875 F.3d 1369 (Fed. Cir. 2017), *cert denied*, 139 S. Ct. 144 (Oct. 1, 2018)

Technology: multilayer capacitor Jury Award: \$2.2 million (reversed)

Reversing the jury's damages award, the Federal Circuit determined that plaintiff did not satisfy the second *Panduit* factor (absence of an acceptable noninfringing alternative). While the second *Panduit* factor inquired into whether a noninfringing alternative would be acceptable compared to the patent owner's product, the district court had compared the noninfringing alternative to the infringing product. Thus, substantial evidence did not exist to support a finding by the jury that a noninfringing alternative was not an acceptable alternative to plaintiff's capacitors, despite the noninfringing alternative being inferior to the infringing product. The Federal Circuit also rejected the argument that selling the noninfringing alternative to only one customer rendered the noninfringing alternative unavailable. The Federal Circuit found that the district court had not abused its discretion in denying enhanced damages.

- 
1. 35 U.S.C. § 289.
  2. *Samsung Elecs. Co. v. Apple Inc.*, 137 S. Ct. 429 (2016).
  3. *Id.* at 436.
  4. Brief for United States at 27–29, *Samsung* 137 S. Ct. 429 (No. 15-777).
  5. *Id.*
  6. Jury Instructions at 15-16, *Columbia Sportswear N. Am., Inc., v. Seirus Innovative Accessories, Inc.*, No. 3:17-cv-01781 (S.D. Cal. Sept. 29, 2017), ECF No. 378.
  7. No. 11-CV-118, 2017 WL 5633114, at \*4 (E.D. Wis. Nov. 21, 2017).
  8. *Id.* at \*8.
  9. 137 S. Ct. 1523 (2017).
  10. *Lexmark* abrogated *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992) with respect to the single-use, no-resale exception to patent exhaustion in domestic sales, and *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001) with respect to international sales.
  11. 137 S. Ct. at 1529.
  12. *Id.* at 1529–30.
  13. *Id.* at 1530.
  14. *Id.*
  15. *Id.*
  16. *Id.* at 1533.
  17. *Id.* at 1533–34.
  18. *Id.* at 1534 (quoting *United States v. Gen. Elec. Co.*, 272 U.S. 476, 489 (1926) (emphasis omitted)).
  19. *Id.*; see also *id.* at 1535–38.
  20. *Id.* at 1535.
  21. *Id.*
  22. 274 F. Supp. 3d 247 (D. Del. 2017), *appeal docketed*, No. 18-1217 (Fed. Cir. Nov. 22, 2017).
  23. No. 6:15-CV-00163-JDL, 2017 WL 3313731 (E.D. Tex. Aug. 3, 2017).
  24. 272 F. Supp. 3d 813 (E.D. Va. 2017).
  25. No. 15 C 8178, 2017 WL 4283946 (N.D. Ill. Sept. 27, 2017).
  26. No. 2:16-CV-00055-JRG-RSP, 2017 WL 5165606 (E.D. Tex. Oct. 15, 2017), *report and recommendation adopted*, 2017 WL 5157687 (Nov. 7, 2017).

Copyright © 2019 CCH Incorporated. All Rights Reserved.  
Reprinted from *IP Litigator*, January/February 2019, Volume 25, Number 1, pages 1–5,  
with permission from Wolters Kluwer, New York, NY,  
1-800-638-8437, [www.WoltersKluwerLR.com](http://www.WoltersKluwerLR.com)

