

2015

Patent Damages  
**Year In Review**

HUNTON &  
WILLIAMS



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## **TABLE OF CONTENTS**

Introduction	2
Apportionment and EMVR	3
Lost Profits	11
Extraterritoriality	15
Design Patent Damages	17
Conclusion	19



## INTRODUCTION

In last year's issue of our Patent Damages Year in Review, we highlighted three important decisions from the Federal Circuit: *VirnetX v. Cisco Systems, Inc.*,<sup>1</sup> *Ericsson, Inc. v. D-Link Systems, Inc.*<sup>2</sup> and *Apple, Inc. v. Motorola, Inc.*<sup>3</sup> In particular, we focused on how these decisions might impact the courts' rapidly changing application of apportionment and the entire market value rule with respect to the determination of a reasonable royalty. While we noted that these decisions provided clarity in some respects, we raised concerns that the Federal Circuit failed to address key issues regarding the proper methodology for an apportionment analysis and primarily left this issue to the district courts to sort out. Not surprisingly, district courts in 2015 were inconsistent in determining whether or not the entire market value rule applied, and if not, how a patent owner could satisfy the apportionment requirement.

In several decisions this year, the Federal Circuit attempted to provide additional guidance on the entire market value rule and apportionment, and in this issue we analyze four decisions from the Federal Circuit that we believe may impact how district courts analyze patent damages for years to come: 1) *AstraZeneca LP v. Apotex, Inc.*<sup>4</sup>; 2) *Info-Hold, Inc. v. Muzak LLC*<sup>5</sup>; 3) *Summit 6, LLC v. Samsung Electronics Co., Ltd.*<sup>6</sup>; and 4) *Commonwealth Scientific and Industrial Research Organisation ("CSIRO") v. Cisco Systems, Inc.*<sup>7</sup>

The Federal Circuit in its *AstraZeneca* decision addressed the entire market value rule and apportionment with respect to AstraZeneca's formulation patents for the drug

Prilosec. The court rejected the argument that the entire market value rule ("EMVR") could never apply in the pharmaceutical context, but held that the EMVR was not applicable in this particular case because the patents at issue covered the infringing product as a whole, rather than a single component of a multicomponent product. Nevertheless, the Federal Circuit held, citing *Ericsson*, that when a patent covers the infringing product as a whole, and the claims recite both conventional elements and unconventional elements, the court must determine how to account for the relative value of the patentee's invention in comparison to the value of the conventional elements recited in the claim, standing alone. Stated another way, the court indicated that "the question is how much new value is created by the novel combination, beyond the value conferred by the conventional elements alone."<sup>8</sup>

In *Info-Hold*, the patent owner's expert conceded that the EMVR applied, but he failed to address whether the patented features drove customer demand, relied on a litigation-induced license and applied the now-discredited 25 percent rule of thumb. The district court struck his report based on these shortcomings, and granted summary judgment of no damages. The Federal Circuit affirmed the decision to strike the damages expert report but, relying upon last year's *Apple v. Motorola* decision, reiterated that even without testimony from a damages expert, an award of zero damages is appropriate only if the evidence demonstrates that zero is the only appropriate royalty. Thus, the Federal Circuit reversed and remanded the case to the district court, with instructions that the district court consider the *Georgia-Pacific* factors and award whatever reasonable royalties were supported by the record.

<sup>1</sup> 767 F.3d 1308 (Fed. Cir. 2014).

<sup>2</sup> 773 F.3d 1201 (Fed. Cir. 2014).

<sup>3</sup> 757 F.3d 1286 (Fed. Cir. 2014).

<sup>4</sup> 782 F. 3d 1324 (Fed. Cir. 2015).

<sup>5</sup> 783 F. 3d 1365 (Fed. Cir. 2015).

<sup>6</sup> 802 F. 3d 1283 (Fed. Cir. 2015).

<sup>7</sup> \_\_ F. 3d \_\_, 2015 WL 7783669 (Fed. Cir. Dec. 3, 2015).

<sup>8</sup> *AstraZeneca*, 782 F. 3d at 1339.

In *Summit 6*, the Federal Circuit's decision provided more of a roadmap for future apportionment analyses. After a finding that Samsung infringed Summit's patent related to digital data processing, Summit's damages expert calculated damages through an apportionment methodology that was based on surveys of customers' usage of various smartphone functions. The court awarded Summit \$15 million in damages and Samsung appealed. The Federal Circuit held that the district court had not abused its discretion in allowing testimony based on Summit's apportionment methodology, and that the expert need not be a survey expert to rely upon surveys compiled by third parties, so long as the information is of a type reasonably relied upon by experts in the field to form opinions upon the subject. Moreover, the Federal Circuit found that the fact that the expert's methodology was novel did not mean that it must be excluded, because "[w]here an expert otherwise reliably utilizes scientific methods to reach a conclusion, lack of textual support may go to the weight, not the admissibility of the expert's testimony."<sup>9</sup>

Finally, the Federal Circuit in *CSIRO* addressed apportionment in the context of a standard essential patent, in this case a patent related to wireless networking that was incorporated into the 802.11 standard. The district court held a bench trial on damages, after which the judge rejected both parties' damages analyses and instead adopted a model using the parties' prior negotiations as a starting point and then adjusting the rate based on his analysis of the *Georgia-Pacific* factors. On appeal, the Federal Circuit rejected Cisco's argument that all damages analyses must start with the smallest saleable patent practicing unit, and approved of the district court's use of the prior negotiations as the starting point. However, citing last year's *Ericsson* decision, the Federal Circuit found that the district court erred by overvaluing the fact that the patented technology was incorporated into the standard, and reiterated that the royalty analysis "must be premised on methodologies that attempt to capture the asserted patent's value resulting not from the value added by the standard's widespread adoption, but only from the technology's superiority."<sup>10</sup>

Perhaps because of the recent uncertainty regarding apportionment and the reasonable royalty method of

computing damages, this past year saw many decisions in cases in which patent owners instead sought lost profits and other means of expanding the potential revenue base to obtain more significant damages. Thus, in addition to apportionment and the entire market value rule, we also address notable Federal Circuit and district court decisions related to three patent damages topics that garnered significant attention this year: 1) lost profits; 2) design patent damages; and 3) damages for activities that take place, in whole or in part, outside the United States.

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## APPORTIONMENT AND EMVR

A patent owner may recover only "damages adequate to compensate for the infringement." 35 U.S.C. § 284. As noted in prior issues, when calculating a reasonable royalty as the damages measure for patent infringement, the Federal Circuit has held that "it is generally required that royalties be based ... on the 'smallest salable patent-practicing unit.'" *LaserDynamics Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (quoting *Cornell University v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88 (N.D.N.Y. 2009)). Under the doctrine of apportionment, once the smallest salable unit is identified, damages must be further limited such that they reflect only the actual value of the patented technology. *Uniloc USA Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1318 (Fed. Cir. 2011) (holding that a 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").

The first inquiry, determining what constitutes the smallest saleable unit, has proven to be relatively straightforward. The second inquiry, however, determining the value of the patented technology apart from any unpatented technology, appears to be a much more challenging analysis, leading to inconsistent and unpredictable results. While district courts in general have placed a heavy and exacting burden on patent owners in recent years, the Federal Circuit in 2015 appears to have relaxed the standard somewhat in 2015, providing patent owners with more flexibility in establishing the value of the patented technology in future cases.

The EMVR "is a narrow exception to this general rule" and allows damages to be based on the entire revenue

<sup>9</sup> *Summit 6*, 802 F. 3d at 1298.

<sup>10</sup> *CSIRO*, 2015 WL 7783669, at \*8.

for a multicomponent product where it can be shown that the patented feature creates the basis for consumer demand. *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d at 68. Where it is established that the entire market value rule applies, a reasonable royalty may be calculated based on the value of the complete product, even if the patented technology does not cover the complete product. *Id.*

As with apportionment, district courts struggled to determine when it was appropriate to find that the EMVR applied, and the Federal Circuit again provided additional guidance in the cases discussed below.

#### **ASTRAZENECA AB V. APOTEX CORP., 782 F. 3D 1324 (FED. CIR. 2015)**

This matter involved two patents relating to pharmaceutical formulations containing omeprazole, the active ingredient in AstraZeneca's ("AZ") highly successful prescription drug Prilosec. After a finding of liability and an award of damages, the Federal Circuit affirmed an award of 50 percent of Apotex's gross margin.

The patents in suit did not actually cover the active ingredient in Prilosec (other patents covering the active ingredient had expired), but related to the enteric coating used to protect the drug from gastric acid in the stomach. *Id.* at 1328-29. AZ sought a reasonable royalty, which the district court set at 50 percent of Apotex's \$150 million gross margin on infringing sales. *Id.* at 1330. Apotex argued that these damages were improperly based on the EMVR, and should have been apportioned in relation to the patents in suit, which addressed only the drug's coating. *Id.* at 1337.

Notably, the Federal Circuit disagreed with the district court's opinion that the EMVR did not apply in the pharmaceutical context, finding that it could apply if the patent at issue called for it. *Id.* at 1337-38. Nonetheless,

the court held that the EMVR did not apply in the case at hand because AZ's

formulation patents claim three key elements—the drug core, the enteric coating, and the subcoating. The combination of those elements constitutes the complete omeprazole product that is the subject of the claims. Thus, Astra's patents cover the infringing product as a whole, not a single component of a multi-component product. There is no unpatented or non-infringing feature in the product.

*Id.* at 1338.

Even so, the court required an apportionment-like analysis because "[w]hen a patent covers the infringing product as a whole, and the claims recite both conventional elements and unconventional elements, the court must determine how to account for the relative value of the patentee's invention in comparison to the value of the conventional elements recited in the claim, standing alone." *Id.* (citing *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F. 3d 1201, 1233 (Fed. Cir. 2014)). The court noted that the "standard Georgia-Pacific reasonable royalty analysis takes account of the importance of the inventive contribution in determining the royalty rate that would have emerged from the hypothetical negotiation." *Id.* Yet, it is not the case that the value of "all conventional elements must be subtracted from the value of the patented invention as a whole[.]" *Id.* at 1339. Rather, "[f]or a patent that combines 'old elements,' removing the value of all of those elements would mean that nothing would remain. In such cases, the question is how much new value is created by the novel combination, beyond the value conferred by the conventional elements alone." *Id.* The district court did not err in holding that the subcoating "is so important to the viability of the commercial omeprazole product that it was substantially responsible for the value of the product." *Id.*



**INFO-HOLD, INC. V. MUZAK LLC, 783 F.3D 1365 (FED. CIR. 2015)**

Info-Hold asserted against Muzak a patent relating to systems, apparatuses and methods for playing music and messages through telephones and public speaker systems. Muzak purportedly infringed through its manufacture and sale of the Encompass LE2 and Encompass MV products.

With respect to damages, Info-Hold's expert opined that the EMVR applied, but he failed to address whether the patented features drove customer demand, relied on a litigation-induced license, and applied the now-discredited 25 percent rule of thumb. *Id.* at 1369. Muzak's damages expert, on the other hand, considered other sources of information and determined that a royalty between 1 and 2 percent would be reasonable. *Id.*

In response to Muzak's summary judgment motions, the district court struck the report and testimony of Info-Hold's damages expert. *Id.* at 1369-70. It then determined that Info-Hold's other witnesses were not qualified to testify on the issue of damages, leaving Info-Hold without any evidence with which to make a *prima facie* case of damages. *Id.* at 1370. As a result, the district court granted summary judgment to Muzak on the issue of damages and entered final judgment against Info-Hold because it could not prove it would be entitled to "any measurable remedy" even if Muzak was found to infringe Info-Hold's patent. *Id.*

On appeal, the Federal Circuit affirmed the district court's decision to strike the report of Info-Hold's damages expert, considering its reliance on the EMVR absent evidence that the patented features drove customer demand, and its reliance on the discredited 25 percent rule. *Id.* at 1371.

Nonetheless, the Federal Circuit held that the district court erred in granting summary judgment on the issue of damages for a purported lack of evidence. *Id.* at

1372. The court reiterated its 2014 ruling in *Apple Inc. v. Motorola, Inc.*, 757 F. 3d 1286, 1328 (Fed. Cir. 2014), that "a judge may only award a zero royalty" at summary judgment "if there is no genuine issue of material fact that zero is the only reasonable royalty." *Id.* at 1371-72. Thus, "if there exists a factual issue regarding whether the patentee is due any non-zero royalty," the district court must deny summary judgment. *Id.* (citing *Apple*, 757 F. 3d at 1328). Even if the patent holder's proof is weak, the court could award nominal damages. *Id.* at 1372. Importantly, "a patentee's failure to show that its royalty estimate is correct is insufficient grounds for awarding a royalty of zero," and, "[b]y extension, the exclusion of the patentee's damages evidence is not sufficient to justify granting summary judgment." *Id.* (citing *Apple*, 757 F.3d at 1328). The district court is required to consider the *Georgia-Pacific* factors in light of the record and award whatever reasonable royalties the record supports. *Id.*

The Federal Circuit further found that, even with the exclusion of Info-Hold's damages expert and other testimony, record evidence existed on which the district court could make a reasonable royalty determination, including the testimony of Muzak's expert. *Id.* at 1372-74. Thus, the Federal Circuit reversed the district court's grant of summary judgment and remanded the case for further proceedings.

**SUMMIT 6, LLC V. SAMSUNG ELECS. CO., LTD., 802 F.3D 1283 (FED. CIR. 2015)**

Summit 6 sued Samsung for infringement of a patent relating to the processing of digital content, including digital photos. Following a six-day jury trial, the jury found Samsung liable for infringement and awarded damages of \$15 million as a lump-sum award. *Id.* at 1287-89.

Among other things, Samsung argued on appeal that Summit 6's damages expert should have been excluded because his methodology was unpublished, created for the case and never before used by any expert. *Id.* at





1294. To estimate a reasonable royalty, the expert started by estimating the amount that carriers pay Samsung to include a camera component in Samsung's phone. *Id.* at 1296-97. The expert used Samsung's annual reports, internal cost and revenue spreadsheets, and interrogatory responses to determine that the camera component of Samsung's smartphone accounted for 6.2 percent of the phone's overall production cost. *Id.* at 1297. Thus, he attributed 6.2 percent of Samsung's revenue on each phone (\$14.15) to the camera functionality. *Id.*

To further apportion the camera-related revenue, the expert estimated the percentage of camera users who use it to perform the infringing methods. *Id.* In so doing, the expert relied on surveys that Samsung commissioned in the ordinary course of business, as well as another that he found. *Id.* Using the surveys, the expert estimated that at least 65.3 percent of camera users used the camera regularly; that at least 77.3 percent of those users shared photos; that 41.2 percent of those users shared photos using MMS; and that all photos shared by MMS were re-sized. *Id.* Using these percentages, the expert opined that at least 20.8 percent of smartphone camera users utilized the camera for the infringing features and, thus, determined that 20.8 percent (\$2.93) of Samsung's smartphone revenue was due to the infringing features. *Id.* After accounting for profit margins and capital asset contributions, the expert opined that \$0.56 of the \$2.93 revenue was profit attributable to the infringing features. *Id.* Finally, the expert concluded that neither party would have a better negotiating position during a hypothetical negotiation and, thus, Summit 6 and Samsung would have evenly split the \$0.56 profit for a \$0.28 royalty rate per device. *Id.*

The Federal Circuit rejected Samsung's arguments against the expert's methodology, explaining that the

"damages methodology was based on reliable principles and was sufficiently tied to the facts of the case." *Id.* at 1298. That the methodology was novel did not require its exclusion, as "[w]here an expert otherwise reliably utilizes scientific methods to reach a conclusion, lack of textual support may go to the weight, not the admissibility of the expert's testimony." *Id.* (quoting *Knight v. Kirby Inland Marine Inc.*, 482 F.3d 347, 354 (5th Cir. 2007)).

**COMMONWEALTH SCIENTIFIC & INDUSTRIAL RESEARCH ORGANISATION V. CISCO SYSTEMS, INC., NO. 2015-1066, 2015 WL 7783669 (FED. CIR. DEC. 3, 2015)**

The Commonwealth Scientific and Industrial Research Organisation ("CSIRO") is the principal research arm of the Australian federal government, conducting research in numerous fields, including wireless communications. In so doing, CSIRO developed the patent in suit, which sought to solve issues relating to wireless signals reflecting off objects and interfering with each other (commonly referred to as the "multipath problem"). *Id.* at \*1.

Notably, CSIRO's patent was included in the 802.11 wireless standard issued by the Institute of Electrical and Electronics Engineers ("IEEE"). *Id.* CSIRO, though, did not confirm to the IEEE that it would seek only reasonable and nondiscriminatory ("RAND") rates for use of the patent. *Id.*

When CSIRO sued Cisco for infringement, Cisco stipulated to infringement and validity, leaving only damages for the court's determination. *Id.* at \*2. Following a bench trial, the district court awarded CSIRO \$16,243,067 for Cisco's infringement. *Id.* at \*4.

On appeal, Cisco argued (among other things) that the district court overvalued the patent in suit because it



was part of the 802.11 standard. *Id.* at \*7. The Federal Circuit agreed, explaining that damages awards for standard essential patents (“SEPs”) “must be premised on methodologies that attempt to capture the asserted patent’s value resulting not from the value added by the standard’s widespread adoption, but only from the technology’s superiority.” *Id.* at \*8 (quoting *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1233 (Fed. Cir. 2014)). This is because technology that becomes standard-essential “is not always used because it is the best or the only option; it is used because its use is necessary to comply with the standard.” *Id.* Thus, reasonable royalties for SEPs — whether subject to a RAND commitment or not — cannot be inflated by the fact that they are part of a standard. *Id.*

The Federal Circuit rejected CSIRO’s argument that the prohibition against inflating the value of SEPs applied only to patents encumbered with a RAND obligation, and that its patent was not so encumbered. *Id.* The court explained that the *Georgia-Pacific* factors could be adjusted to account for the RAND obligation. *Id.* at \*8-9. Moreover, the Federal Circuit emphasized that the reasonable royalty calculation is intended to “measure the value of the patented invention,” not the “value that artificially accrues to the patent due to the standard’s adoption.” *Id.* at \*8. Otherwise, patent holders “would receive all of the benefit created by standardization—a benefit that would otherwise flow to consumers and businesses practicing the standard.” *Id.*

Accordingly, the court vacated the damages award and remanded to the district court for further proceedings.

\* \* \*

The district court cases below highlight many of the challenges faced when attempting to determine if the

entire market value rule applies and, if not, how the value of the patented technology in multicomponent products must be determined.

**[SPRINT COMM’NS CO. L.P. V. COMCAST IP HOLDINGS, LLC, NO. 12-1013-RGA, 2015 WL 410342 \(D. DEL. JAN. 29, 2015\)](#)**

In this matter, Sprint sued Comcast, asserting that Comcast’s XFINITY services infringed Sprint patents relating to synchronous optical networking, call handling and processing, software updating, quality management and records management technologies. The Delaware federal court excluded Sprint’s expert for several reasons, including that his apportionment methodology was unreliable because he failed to measure the value attributable to the patent in suit. Relying on *VirnetX Inc. v. Cisco Sys., Inc.*, the court noted that “a 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.” *Id.* at \*2 (citing *VirnetX Inc. v. Cisco Sys., Inc.*, 767 F. 3d 1308, 1326 (Fed. Cir. 2014)). Moreover, the “patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance.” *Id.* (citation omitted).

The court explained that Sprint’s expert’s analysis “measured the portion of” a network “that is made up by the entire billing functionality, rather than the incremental improvement added by” the patent in suit. *Id.* The court noted that the patent in suit did not cover billing functionality generally but claims to “increase ‘flexibility’ in billing by eliminating the ‘cumbersome arrangement’ between the interexchange carrier (IXC) and the vendor, and to create ‘substantial efficiencies’ by eliminating the need to transmit billing information back to the originating switch.” *Id.* The expert’s report, though, failed to address



those improvements and, thus, was not tied to the improvements attributable to the patented invention. Accordingly, his opinion was excluded.

The case proceeded to trial, where the jury returned a verdict of liability and awarded Sprint \$27,600,000 in damages. Nonetheless, Sprint filed a notice of appeal relating to several of the court's prior opinions, including that excluding its damages expert. As of this writing, the appeal remained pending.

**[INTELLIGENT VERIFICATION SYS., LLC V. MICROSOFT CORP.](#), 2:12-CV-00525, 2015 WL 1518099 (E.D. VA. MAR. 31, 2015)**

Intelligent Verification Systems (“IVS”) sued Microsoft and Majesco Entertainment for infringement of patents relating to biometric recognition and expression recognition in relation to the Xbox gaming system. IVS's damages expert determined what hardware components of the accused products were necessary to practice the patent and then determined the cost of those necessary components as compared to the total cost of the accused product to determine what percentage of the total cost was attributable to the patent. *Id.* at \*5. The expert then applied that percentage to the average sales price of the accused product to create an apportioned royalty base. *Id.*

The defendants argued that the expert should have apportioned out the value attributable to the patented features, beyond just identifying the hardware components. *Id.* at \*7 The court agreed, explaining that, while the expert apportioned out those hardware components not required to practice the patented feature, “he did not properly apportion any value to the necessary hardware components.” *Id.* As an example, the court noted that a processor has “several non-infringing features with no relation to the patented feature,” but the expert attributed 100 percent of the processor to the apportioned royalty base. *Id.* The court also faulted the expert's comparison

of costs of the necessary hardware components to practice the patented technology with the total cost of the accused product, because the comparison “still ties the alleged ‘value’ to the necessary hardware components, not the value of the patented feature.” *Id.*

Following the court's order, the parties stipulated that IVS was not entitled to reasonable royalty damages and to the dismissal of IVS's claims with prejudice. IVS then appealed to the Federal Circuit. As of this writing, the appeal remains pending.

**[CAL. INST. OF TECH. V. HUGHES COMM'NS, INC.](#), 2:13-CV-07245, SLIP OP. (C.D. CA. MAY 5, 2015)**

CalTech sued Hughes Communications for infringement, asserting that Hughes provided broadband Internet access to consumers and broadband network services to the enterprise markets through the implementation of an industry standard that utilized CalTech's patents. The court granted Hughes's motion for summary judgment that CalTech's royalty apportionment theory was invalid under the entire market value rule and rejected CalTech's argument that it did not need to apportion the revenue base because it made a downward adjustment to the royalty rate. Slip op. at 9. The court explained that a royalty-rate-only approach applies only when the EMVR applies. *Id.* at 9-10. Relying on *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F. 3d 1201 (Fed. Cir. 2014), the court explained that “reliance on the entire market value might mislead the jury, who may be less equipped to understand the extent to which the royalty rate would need to do the work in such instances.” *Id.* at 10.

**[GOOD TECHNOLOGY CORPORATION V. MOBILEIRON, INC.](#), NO. 5:12-CV-05826-PSG, 2015 WL 3882608 (N.D. CA. JUNE 23, 2015)**

The patents at issue concerned managing data on a mobile device, and Good Technology Corp. sought lost profits. The court affirmed the EMVR's application to

lost profit cases, *Id.* at \*4 (citing *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2014)), holding that Good's damages expert improperly relied on the entire value of MobileIron's accused products. *Id.* The court explained that the *Panduit*<sup>11</sup> test for "but for" causation requires that a patent holder show "demand for the patented product," and Good's failure to provide sufficient evidence that the patented features drove demand doomed its damages case. *Id.* at \*5. Good's damages expert "fail[ed] to apportion or show that the basis of demand for those SKUs is any individual patented feature. If anything, the evidence is undisputed that multiple features, including features that have nothing to do with the patents, drive demand for the accused products." *Id.* at \*4.

**SMARTFLASH LLC V. APPLE INC., 6:13-CV-447-JRG, 2015 U.S. DIST. LEXIS 92097 (E.D. TEX. JULY 7, 2015)**

Smartflash sued Apple for infringement of patents generally covering a portable data carrier for storing data and managing access to the data via payment information and/or use status rules. The patents also generally covered a computer network (i.e., a server network) that served data and managed access to data by, for example, validating payment information.

At Apple's request, the district court instructed the jury on the EMVR, even though Smartflash argued that its expert did not employ it. *Id.* at \*8. Following a verdict in Smartflash's favor, and in considering Apple's motion for judgment as a matter of law and for a new trial, the court ordered a new trial for reasons not argued by the parties. *Id.* at \*7-8. Specifically, the court decided that Smartflash did not, in fact, employ the EMVR, but instead sought to apportion the royalty base by using the results of two consumer surveys, including one that asked consumers whether they were motivated to purchase the accused products because of the infringing features. *Id.* at \*13. Concluding that its EMVR instruction "may have created a skewed damages horizon for the jury[.]" *id.* at \*15-16, the court explained its duty to "correct (and when necessary retry) matters not properly tried in the first place." *Id.* at \*16.

**FINJAN, INC. V. BLUE COAT SYSTEMS, INC., 13-CV-03999-BLF, 2015 WL 4272870 (N.D. CA. JULY 14, 2015)**

Finjan sued Blue Coat for infringement relating to appliances and software offered by Blue Coat that would

be placed at an Internet gateway to provide security with respect to web-based communications and support security, acceleration and policy control features of the appliance. Finjan held a portfolio of patents directed to Internet security and accused Blue Coat's suite of web security appliances and software of infringing six patents directed toward protecting network computers from hostile files downloaded from the Internet. Each of the accused products had multiple different and overlapping features, only a subset of which were accused of infringement. *Id.* at \*1.

In its opinion, the court addressed various methods of apportionment that were employed by either Finjan's or Blue Coat's damages experts, rejecting some methods and accepting others:

- Apportionment using the percentage of each accused product's source code attributable to the feature(s) accused of infringement: Even though the Federal Circuit has indicated that the portion of an accused product's realizable profit attributable to the patentee's technology "cannot be reduced to a mere counting of lines of code," (quoting *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1332-33 (Fed. Cir. 2009)), the district court held that this apportionment method "is neither inherently unreliable nor absolutely barred by Federal Circuit precedent." *Finjan*, 2015 WL 4272870, at \*5.
- Apportionment based on certain categorizations: The district court refused to exclude Blue Coat's expert's opinion to the extent it sought to apportion based on the percentage of "suspicious or malicious" categorizations of web pages returned by the defendant's accused product. *Id.* at \*6. While Finjan argued that this apportionment methodology failed to account for the value of the patented technology, the court found it appropriate because "frequency of expected use and predicted value are related" in considering *Georgia-Pacific* Factor 11, which concerns "[t]he extent to which the infringer has made use of the invention; and any evidence probative of the value of that use." *Id.* (quoting *Lucent Techs.*, 580 F.3d at 1333). The court further rejected Finjan's argument that the analysis failed to account for all its patent claims and that some categorizations may be of more significance than others, with the court holding that those issues were more appropriately left for cross-examination.

<sup>11</sup> *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156 (6th Cir. 1978).



- Apportionment based on plaintiff's patent portfolio: Blue Coat's expert apportioned Finjan's proposed royalty rate by dividing it by 20 to account for the value of each asserted patent in the lawsuit as a portion of the 20 patents that Finjan had asserted in this and related litigation. *Id.* at \*7. The court rejected this apportionment theory, finding it "an improper use of the 'book of wisdom' comprised of post-infringement evidence." *Id.* The litigation involved only 6 patents, with the other 14 patents asserted in separate cases against other parties after the date of the hypothetical negotiation. The court held that Finjan's "future litigation activity" was "not probative of the value of the patents-in-suit at the time of the hypothetical negotiation." *Id.*
- Apportionment using forward citation analysis: Finjan's damages expert's first apportionment methodology was based on academic literature, suggesting that a patent's value is strongly correlated with the number of times the patent is cited as prior art by future patents. *Id.* While not rejecting the method outright, the court rejected it here because the expert failed to explain why it was an appropriate method to use here. *Id.* at \*8. "Without facts tying her analysis to the facts of this case, [the expert's] reliance on a methodology discussed in empirical economics literature has little more probative value than the '25 percent rule of thumb' and Nash Bargaining Solution analyses that the Federal Circuit rejected[.]" *Id.* The court further noted that two of the patents in suit were related and that many of plaintiff's patents referred to one another. "Surely a patent's objective quality cannot be based on the number of times an inventor cites himself in prosecuting related patents." *Id.* The expert's failure to consider these potential problems rendered the method unreliable. *Id.*
- Apportionment of using totality of features in Blue Coat's products: Finjan's damages expert relied on information provided by Blue Coat that identified

24 functions covering "all features in the full suite" of accused products. *Id.* at \*9. The patents in suit corresponded to 9 of those 24 functions. *Id.* The expert thus apportioned accused product revenue according to the number of functions out of 24 that each patent in suit drives. *Id.* While the court stated that this methodology "may not be perfect, [] it reasonably ties the value that Defendant places on product features to the accused products in this case" and that questions about it were properly reserved for cross-examination. *Id.*

At trial, the jury found in Finjan's favor, awarding it almost \$40 million in damages. As of this writing, the case remained pending in the district court.

**[WONDERLAND NURSERYGOODS CO., LTD. V. THORLEY INDUS., LLC, NO. 2:13-CV-00387, 2015 WL 5021416 \(W.D. PA. AUG. 21, 2015\)](#)**

In this patent infringement matter related to baby cribs, the defendant challenged the plaintiff's damages analysis for failing to apportion between patented and unpatented features. The plaintiff argued its expert was not required to apportion because he based his damages opinion on an analysis of cost impact rather than sales price. *Id.* at \*17 ("Wonderland I"). The cost impact method of calculating damages "assesses how much it would cost for the (assumed) infringing party to cease its unlawful action and reenter the market with a noninfringing alternative product." *Wonderland Nurserygoods Co., Ltd. v. Thorley Indus., LLC*, No. 2:13-cv-00387, 2015 WL 6669154 at \*1, n. 12 (W.D. Pa. Oct. 30, 2015) ("Wonderland II"). The methodology can be relevant to a reasonable royalty determination because "before infringement begins, there may not be an economically-based reason for a would-be infringer to pay more than the cost of redesigning its product and putting a noninfringing version on the market. A cost impact analysis can provide a relevant data-point for the jury to consider when determining the reasonable royalty

rate that would be reached in a hypothetical negotiation (namely, the approach provides an estimated maximum amount that the infringing party would agree to in a hypothetical negotiation, and thus an upper bound to the reasonable royalty rate).” *Id.* at \*1.

The court rejected the plaintiff’s argument that cost impact analyses did not require apportionment, explaining that “[i]n]o matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features.” *Wonderland I*, 2015 WI 5021416, at \*17 (citing *VirnetX, Inc. v. Cisco Sys., Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014)).

#### **OMEGA PATENTS, LLC V. CALAMP CORP., NO. 6:13-CV-1950, SLIP OP. (M.D. FLA. DEC. 23, 2015)**

In this matter, Omega sued CalAmp for infringing patents relating to control systems for vehicles with a “data communication bus.” CalAmp advertised the sale of several accused devices, describing them as “full featured tracking systems” with various functionalities, including the accused functionalities. Slip op. at 2.

Omega sought to exclude CalAmp’s damages expert because (among other things) the expert sought to apportion damages according to the number of words used in CalAmp’s marketing material that was devoted to the accused functionalities. *Id.* at 21. In other words, CalAmp’s damages expert based his damages model on the number of words used in CalAmp’s marketing material that “related to the asserted patents” and then “calculated the proportion of these words to all words to assign a value to solely the patented features in the Accused Devices.” *Id.* at 22.

The district court rejected this apportionment method for two reasons. First, it identified faults in the expert’s execution of the methodology: (1) CalAmp’s damages expert did not consult with anyone at CalAmp to determine whether his choice of words was appropriate,

considering his lack of engineering experience; and (2) CalAmp failed to establish that those purchasing the accused devices rely on the marketing material when deciding whether to purchase the products. *Id.* at 23.

Second, the district court rejected this apportionment method because of its novelty. It noted that CalAmp was not “able to point the Court to this type of methodology being accepted by or even utilized by other courts or experts in this field.” *Id.* Moreover, the methodology “cannot be tested, has not been subject to peer review, has no known error rate, and, as far as the Court is aware, has not been generally accepted in the relevant scientific community.” *Id.*

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## **LOST PROFITS**

The conventional wisdom is that the current trend of aggressive judicial gatekeeping regarding reasonable royalty damages evidence may be a response to the proliferation of patent infringement actions brought by nonpracticing entities in recent years. This shift may ultimately lead more patent owners to seek lost profits as the appropriate damages measure, especially where the parties are direct competitors.

To recover lost profits, a patent owner must establish that “but for” the infringement, the patent owner would have made additional profits. *King Instrument Corp. v. Perego*, 65 F.3d 941, 952, 36 U.S.P.Q.2d 1129, 1137 (Fed. Cir. 1995). In *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, the Sixth Circuit established what has become the accepted test for determining “but for” causation. 575 F.2d 1152, 197 U.S.P.Q. 726 (6th Cir. 1978) (adopted by the Federal Circuit in *State Industries, Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1573, 1577, 12 U.S.P.Q.2d 1026, 1028 (Fed. Cir. 1989). Under *Panduit*, lost profits may be awarded where the patentee establishes: (1)

there is demand for the patented product; (2) there are no noninfringing substitutes; (3) the patentee had the manufacturing and marketing capability to exploit the demand; and (4) the amount of profit the patentee would have made absent the infringing conduct. *Panduit*, 575 F.2d at 1156.

Apportionment is not a part of the lost profits analysis. *Versata Software, Inc. v. SAP Am., Inc.*, 717 F.3d 1255, 1265 (Fed. Cir. 2013), *cert. denied*, No. 13-716, 2014 WL 210681 (2014) (internal citations omitted) (“The *Panduit* factors do not require showing demand for a particular embodiment of the patented functionality .... Nor does it require any allocation of consumer demand among the various limitations recited in a patent claim.”) Instead, the patent owner must only establish that “demand existed for the ‘patented product,’ i.e., a product that is ‘covered by the patent in suit’ or that ‘directly competes with the infringing device.’” *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1330 (Fed. Cir. 2009).

In 2015 the Federal Circuit addressed two key issues related to lost profits: whether the patent owner itself must be the entity selling the product from which the lost profits derived, and how the demand and pricing of the competing products impact the lost profits analysis.

#### **WARSAW ORTHOPEDIC, INC. V. NUVASIVE, INC., 778 F. 3D 1365 (FED. CIR. 2015)**

Warsaw Orthopedic (“Warsaw”) sued NuVasive for infringement of two patents relating to oversize spinal implants and methods and devices for retracting tissue to create a working channel for minimally invasive spinal surgery. A jury found NuVasive liable for infringement and awarded damages. *Id.* at 1369. On appeal, though, the Federal Circuit remanded the matter for a new trial on damages.

Warsaw did not practice the patents it asserted. *Id.* at 1373-74. Instead, it licensed the patents to two related companies, which paid royalties to Warsaw for their manufacture and sale of patented products. Warsaw also manufactured and sold “fixations”, i.e., surgical rods and screws used with the patented products. *Id.* at 1374 & n. 4. Thus, Warsaw claimed three sources for lost profits damages: (1) revenues it received from the sale of fixations, which Warsaw asserted were conveyed sales; (2) royalty payments it received from the licenses to the patented technology that it granted its related companies; and (3) “true-up payments” it received from the related-entity licensees as a result of an intercompany transfer pricing agreement. *Id.* at 1374.

At trial, Warsaw sought lost profits on the three categories of revenue noted above, as well as a reasonable royalty. *Id.* Finding NuVasive liable for infringement, the jury awarded Warsaw \$101,196,000, with the verdict form indicating that the award was for “Lost Profit Damages (with royalty remainder).” *Id.* The jury also provided royalty rates for each patent. *Id.*

NuVasive appealed various elements of the jury verdict, including Warsaw’s entitlement to lost profits. *Id.* at 1375. The Federal Circuit agreed with NuVasive as to each of the three categories of lost profits that Warsaw sought:

#### **Conveyed Sales**

The Federal Circuit agreed that Warsaw’s sale of fixations were not conveyed sales for which lost profits could be recovered. *Id.* at 1375-76. “A conveyed sale is a sale of a product that is not patented, but is sufficiently related to the patented product such that the patentee may recover lost profits for lost sales.” *Id.* at 1375 (citing *Am. Seating Co. v. USSC Grp., Inc.*, 514 F. 3d 1262, 1268 (Fed. Cir. 2008)). To receive lost profits for conveyed sales, the



patent holder must show that the related products are “functionally related” to the patented product and that the lost profits are reasonably foreseeable. *Id.* (citing *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F. 3d 1538 at 1546-50 (Fed. Cir. 2014)). The related products cannot be sold with the patented product merely for convenience or a business advantage, and should not have a use independent of the patented device. *Id.* at 1375-76 (citations omitted).

Warsaw failed to prove a functional relationship between the related products and the patented products. *Id.* The mere fact that the products were sold together did not establish a functional relationship, but suggested only a convenience of business strategy. *Id.* Warsaw’s failure to present any evidence that the fixations had “no independent function — that is, that they would not work as well in other surgeries not involving the patented technologies” — meant that they were not conveyed sales. *Id.* at 1376.

#### **Royalty Payments from Related Entities**

The Federal Circuit unequivocally held that Warsaw could not recover lost profits for lost royalty payments that would have been made to it by the related entities that sold fewer patented products as a result of NuVasive’s infringement. As the court explained, lost profits “must come from the lost sales of a product or service the patentee itself was selling.” *Id.* Because NuVasive did not sell the patented product (rather, its related entities sold the product), it could not recover lost profits. *Id.*

#### **True-Up Payments**

Warsaw presented evidence at trial that it regularly engages in various transactions with related entities, but that the transactions did not always reflect fair market value. *Id.* at 1376-77. Thus, to comply with relevant tax

and accounting laws, Warsaw and its related entities used a transfer pricing agreement to transfer money back and forth to make up for the fair market value of the previously made transactions. *Id.* These “true-up” payments were “post hac transfers to ensure that Warsaw received fair-market-value.” *Id.*

The Federal Circuit held that Warsaw could not recover lost profits for the true-up payments because it failed to prove that the payments, in fact, related to royalty payments it received for the patented technology. *Id.* at 1377. Warsaw admitted that each true-up payment “contain[ed], in part,” relevant royalty payments, but made “no effort to distinguish what percentage of the true-ups was attributable to those payments as opposed to payments on unrelated transactions.” *Id.*

#### **Reasonable Royalty**

The court did not leave Warsaw without recourse. Rather, it held that Warsaw could recover a reasonable royalty, but remanded for a new trial on damages because of the lack of clarity in the verdict form. *Id.* at 1378. The Federal Circuit ruled it “impossible to determine” what portion of the damages verdict related to lost profits and what portion related to a reasonable royalty. “Although the jury verdict did state a reasonable royalty rate, it is not entirely clear the period for which that reasonable royalty was determined or whether the jury impermissibly relied on evidence not probative of the value of the patented technology.” *Id.* at 1377.

#### **[AKAMAI TECHNOLOGIES, INC. V. LIMELIGHT NETWORKS, INC., 805 F. 3D 1368 \(FED. CIR. 2015\)](#)**

In this long-running dispute between Akamai and Limelight, the Federal Circuit addressed “all residual issues” in this appeal, including damages-related issues. *Id.* at 1372.





Here, the jury had awarded Akamai \$40 million in lost profit damages from Limelight. Limelight argued that the damages award was faulty because it did not account for the price disparity between Limelight's and Akamai's products. Specifically, Limelight sold its product for half the price of Akamai's product. *Id.* at 1379.

A patentee seeking lost profits must show "a reasonable probability that 'but for' the infringing activity, the patentee would have made the infringer's sales." *Id.* (quoting *Ericsson, Inc. v. Harris Corp.*, 352 F.3d 1369, 1377 (Fed. Cir. 2004)). The difference in a patent holder's price for a product embodying the patented technology and the infringer's price for the accused product can affect this analysis as a result of a concept called "demand elasticity," under which demand changes in relation to price changes. *Id.* at 1380. "The more elastic the demand, the more sensitive it is to change. A demand is described as 'inelastic' if, when the price changes by a certain percentage, the demand changes by a smaller percentage." *Id.* Limelight argued that the 100 percent price disparity between its accused product and Akamai's product rendered lost profits completely unavailable to Akamai, as Limelight's customers would never have purchased Akamai's more expensive product. *Id.*

The Federal Circuit disagreed, finding that Akamai's damages expert employed a methodology that took into account the price difference between Limelight's less expensive product and Akamai's product. *Id.* at 1381. Among other things, Akamai's expert assumed that, as a result of the price difference, demand for Akamai's products would be 25 percent less than the demand for Limelight's products. *Id.* The expert opined that demand would not drop more than that because Akamai and Limelight's products were revenue-generating and, thus, customers would be more willing to expend money to buy a more expensive product like Akamai's. *Id.* Additionally,

Akamai and Limelight were direct competitors, yet Akamai maintained a dominant market share despite Limelight's lower price. *Id.* Thus, "[t]hough Limelight is correct that its customers expressed a clear preference for lower-priced products — as evidenced by their buying Limelight's significantly cheaper product — and therefore would have been less likely to buy Akamai's products than the average consumer, [Akamai's expert's] testimony took this consideration into account both in excluding the lowest 25 percent of Limelight's customers from his lost profits analysis, and for discounting the potential award for price elasticity." *Id.*

\* \* \*

An interesting decision from the Northern District of California addressed similar lost profit issues and came to a different conclusion than that in the *Akamai* decision. This decision, however, predated the Federal Circuit's *Akamai* decision, and it is unclear if the California court might have come out the other way in light of this more recent precedent.

**[GOOD TECHNOLOGY. CORP. V. MOBILEIRON, INC., NO. 5:12-CV-05826-PSG, 2015 WL 3882608 \(N.D. CA. JUNE 23, 2015\)](#)**

Good Technology Corp. sought lost profits from MobileIron for allegedly infringing patents relating to the management of data on a mobile device. In addition to finding that Good Technology Corp.'s lost profits analysis improperly applied the EMVR, the court also found that its experts failed to properly apply other aspects of the lost profits rule.

The court explained that, to recover lost profits, a patent holder must put forward "sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture." *Id.* at \*1 (quoting *Grain Processing Corp. v. Am. Maize-Prods.*,



Co., 185 F. 3d 1341, 1350 (Fed. Cir. 1999)). Here, the expert's demand analysis did not account for market elasticity. As the court explained, "[i]n constructing a hypothetical 'but for' market for the purposes of a lost profits analysis, '[a]ll markets must respect the law of demand,' which counsels that 'consumers almost always purchase fewer units of a product at a higher price than at a lower price, possibly substituting other products.'" *Id.* at \*5 (quoting *Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1359 (Fed. Cir. 2001); *BIC Leisure Prods. v. Windsurfing Int'l, Inc.*, 1 F.3d 1214, 1218 (Fed. Cir. 1993)). The record showed that Good's product prices were between 194 percent and 819 percent higher than MobileIron's during the relevant period; Good's expert assumed that its products were "perfect substitutes" for MobileIron's, thus attributing all MobileIron sales to Good. *Id.* The expert failed, though, to evaluate whether Good, in fact, would have absorbed all of MobileIron's sales at such a high price or would have had to drastically lower its price. *Id.* at \*5-6. "Based on the significant price differentials, it is untenable to assume or suggest—without providing any evidence—that consumers would ever consider Good and MobileIron to be perfect substitutes." *Id.* at \*6. Nor did he make any effort to show that Good's products were, in fact, suitable substitutes for MobileIron's accused products. *Id.* at \*6-7.

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## EXTRATERRITORIALITY

As stated by the Supreme Court, "[i]t is the general rule under United States patent law that no infringement occurs when a patented product is made and sold in another country." *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454 (2007). As more businesses expand into foreign markets, and with the broad reach of the Internet,

the manufacture and sales of goods and services that occur at least in part overseas have complicated the determination as to where patent infringement actually occurs. This, in turn, has complicated the damages calculus when establishing the appropriate base of sales from which one must determine lost profits or apply a reasonable royalty rate.

The Federal Circuit addressed these issues in two decisions this year, but the issue is far from resolved. In fact, the Federal Circuit in *Carnegie Mellon Univ. v. Marvell Tech. Group, LTD*, 807 F. 3d 1283 (Fed. Cir. 2015), noted that "[t]he standards for determining where a sale may be said to occur do not pinpoint a single, universally applicable fact that determines the answer, and it is not even settled whether a sale can have more than one location."

### **CARNEGIE MELLON UNIV. V. MARVELL TECH. GRP., LTD., 807 F. 3D 1283 (FED. CIR. 2015)**

In this matter involving patents related to hard disk drives, a jury awarded Carnegie Mellon \$1.17 billion in damages after finding Marvell liable for infringement. The award was based on a royalty rate of 50 cents for each of certain semiconductor chips sold by Marvell for use in hard disk drives. *Id.* at 1288. The Federal Circuit affirmed every aspect of the damages award except one: that relating to Marvell chips made and delivered abroad and never imported into the United States. *Id.* The court ordered a new trial on damages relating to those chips to determine the location(s) of their sale, explaining that if — and only if — the sales were made in the United States, Carnegie Mellon could receive a royalty on those sales. *Id.*

The court explained that 35 U.S.C. §271(a) prescribes infringement for making, using or selling in the United States, and for importing into the United States, "even if one or more of those activities also occur abroad." *Id.* at 1306. "[T]erritoriality is satisfied when and only when any

one of those domestic actions for that unit (e.g., sale) is proved to be present, even if others of the listed activities for that unit (e.g., making, using) take place abroad.” *Id.*

Notably, the court did not set forth a test to determine whether a sale occurred in the United States, saying only that it is insufficient that the foreign activity be “factually caused, in the ordinary sense, by domestic activity constituting infringement[.]” *Id.* at 1307. As the court explained:

“[a]lthough all of Marvell’s sales are strongly enough tied to its domestic infringement as a causation matter to have been part of the hypothetical-negotiation agreement, that conclusion is not enough to use the sales as a direct measure of the royalty except as to sales that are domestic (where there is no domestic making or using and no importing). As a practical matter, given the ease of finding cross-border causal connections, anything less would make too little of the presumption against extraterritoriality that must inform our application of the patent laws to damages.” *Id.*

Thus, the court remanded the case for a determination of where the relevant sales had occurred. *Id.* at 1308-09. The court explained that, while there is no single, universally accepted set of facts for determining where a sale was made, “[p]laces of seeming relevance include a place of inking the legal commitment to buy and sell and a place of delivery ... and perhaps also a place where other ‘substantial activities of the sales transactions’ occurred.” *Id.* at 1308 (citations omitted). The court left it to the lower court to analyze the issue in the first instance. *Id.* at 1308-09.

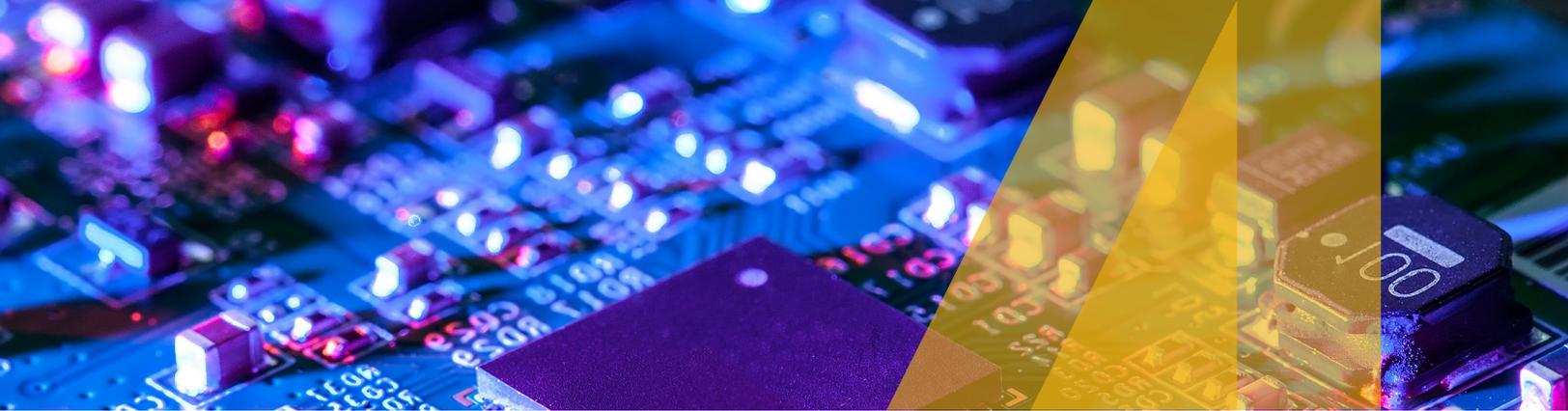
### **WESTERNGECO LLC V. ION GEOPHYSICAL CORP., 791 F.3D 1340 (FED. CIR. 2015)**

This case involved four patents with system claims relating to technologies used to search for oil and gas beneath the ocean floor. Following trial, a jury found ION Geophysical Corp. (“ION”) liable for patent infringement, and awarded WesternGeco LLC (“WesternGeco”) \$93 million in lost profits and \$12.5 million in reasonable royalty damages. *Id.* at 1342-43. On appeal, ION challenged (among other things) the award of lost profits resulting from lost contracts for services to be performed abroad. *Id.* at 1343.

In a 2-1 ruling, the Federal Circuit held that lost profits could not be awarded for damages resulting from the lost contracts. *Id.* at 1354. WesternGeco domestically manufactured a product that embodied its patents, but performed the ocean floor surveys abroad. *Id.* at 1349. Similarly, ION domestically made its accused product, but then shipped it to overseas customers who performed the surveys abroad. *Id.* WesternGeco contended that, but for ION’s supplying its customers with the infringing product, WesternGeco would have been awarded at least 10 contracts that were awarded to ION’s customers, and that those contracts were worth approximately \$90 million in profit. *Id.*

In ruling against WesternGeco, the Federal Circuit acknowledged the presumption against extraterritoriality, but noted that WesternGeco relied on 35 U.S.C. § 271(f), which expanded the territorial scope of the patent laws to treat the export of components of patented systems abroad as if the finished system itself were exported. *Id.* at 1350. Congress passed § 271(f) to address situations in which domestic manufacturers of components of an infringing product exported the components abroad without combining them with the rest of the infringing product, thus rendering not liable under § 271(a). *Id.* (citing *DeepSouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527-29 (1972)). Nonetheless, “[t]here is no indication that in doing so, Congress intended to extend the United States patent law to cover uses abroad of the articles created from the exported components.” *Id.* Relying on *Power Integrations, Inc. v. Fairchild Semiconductor, Int’l, Inc.*, 711 F.3d 1348, 1371-72 (Fed. Cir. 2013), the court reiterated that “the entirely extraterritorial production, use, or sale of an invention patented in the United States is an independent, intervening act that, under almost all circumstances, cuts off the chain of causation initiated by an act of domestic infringement.” *WesternGeco*, 791 F.3d at 1351. Accordingly, WesternGeco could not obtain damages for the 10 contracts performed abroad. *Id.* at 1351-52.

The court rejected WesternGeco’s argument that *Power Integrations* applies only to § 271(a) and (b), and not to (f), stating that § 271(f) “does not eliminate the presumption against extraterritoriality,” but “creates a limited exception” to it. *Id.* at 1351. Section 271(f) “operates to attach liability to domestic entities who export components they know and intend to be combined in a would-be infringing manner abroad. But the liability



attaches in the United States. It is the act of exporting the components from the United States which creates the liability.” *Id.* A reading of § 271(f) that allowed recovery of foreign profits would result in a broader reading of § 271(f) (which covers only components) than of § 271(a) (which covers finished products). *Id.*

Judge Wallach dissented from the court’s ruling, arguing that the Supreme Court previously allowed noninfringing foreign sales to be included in a calculation of lost profits so long as the patented product was manufactured in the United States. *Id.* at 1356 (citing *Goulds’ Mfg. Co. v. Cowing*, 105 U.S. 253 (1881); *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641 (1915)). In *Goulds’*, for example, the defendant manufactured pumps used for drawing off gas from oil wells in Pennsylvania and Canada. 105 U.S. at 254–55. The court included pumps sold in Canada in the lost profits calculation, explaining that the patent holder could have filled those orders. *Id.* at 256. And in *Dowagiac*, the court considered lost profits relating to a patent for an improvement in grain drills. 235 U.S. at 642–43. Some of the drills at issue were sold in Canada. *Id.* at 650. The court refused to let the plaintiff recover profits as to these sales, distinguishing *Goulds’* because, unlike *Goulds’*, the defendants did not manufacture the accused products themselves. *Id.* According to Judge Wallach, this ruling implied that, had the *Dowagiac* defendants manufactured in the United States the accused products that were the subject of the foreign sales, those sales could have been used to calculate lost profits. *WesternGeco*, 791 F.3d at 1356.

The dissent also distinguished *Power Integrations*, explaining that the patent holder there could have protected itself from foreign sale, manufacture and use by obtaining patents abroad, while no such protection was available on the high seas, where the extraterritorial activity here took place and where it was possible no country’s patent laws could reach. *Id.* at 1360.

*WesternGeco* sought rehearing *en banc*, which the Federal Circuit rejected, with Judges Wallach, Reyna and Newman dissenting. Thus, it appears that this case raised an issue that this court is likely to revisit in an upcoming case.

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## DESIGN PATENT DAMAGES

Design patents are limited to “any new, original and ornamental design for an article of manufacture.” 35 U.S.C. § 171. As with utility patents, a patent owner may seek to recover a reasonable royalty or lost profits as damages for infringement under 35 U.S.C. § 284. Unique to design patents, a design-patent holder may elect, as an alternative, to recover the infringer’s entire profits as a remedy under 35 U.S.C. § 289, which provides that one who “applies the patented design ... to any article of manufacture ... shall be liable to the owner to the extent of his total profit, ... but [the owner] shall not twice recover the profit made from the infringement.” Although this remedy has been available since 1952 when Congress enacted 35 U.S.C. § 289, the power of this remedy had largely been ignored in recent years. The Federal Circuit addressed issues related to the recovery of an infringer’s profits in two key decisions in 2015, both of which may strengthen the value of design patents and lead to an increase in both applications for design patents and assertions of design patents in litigation.

### **APPLE INC. V. SAMSUNG ELECTRONICS CO. LTD., 786 F.3D 983 (FED. CIR. 2015)**

In one of the most closely watched (and longest-running) patent infringement actions in the past few years, Apple accused Samsung of infringing its design patents that claim certain design elements embodied in Apple’s iPhone. After the jury found Samsung liable, it awarded more than \$290 million in damages to Apple. *Id.* at

990-91. On appeal, Samsung argued that apportionment was necessary because Apple did not “establish that infringement of its limited design patents ... caused any Samsung sales or profits.” *Id.* at 1001.

The Federal Circuit rejected Samsung’s argument, explaining that 35 U.S.C. §289 held infringers of design patents “liable to the owner to the extent of his total profit[.]” *Id.* Thus, §289 “explicitly authorizes the award of total profit from the article of manufacture bearing the patented design.” *Id.* at 1001-02. Accordingly, the Federal Circuit affirmed the damages award as it related to Apple’s design patents. *Id.* at 1002.

**[NORDOCK, INC. V. SYSTEMS INC., 803 F.3D 1344 \(FED. CIR. 2015\)](#)**

Nordock’s asserted design patent covered the ornamental design of a lip and hinge plate for a dock leveler. *Id.* at 1347. The leveler was designed to be attached to a truck loading and could be adjusted to provide a smoother linkage between the dock and the truck being loaded/unloaded. *Id.* at 1348. The jury found infringement, but awarded only \$46,000 in reasonable royalty damages after the district court forced an apportionment of profits. *Id.* at 1351. Specifically, the district court instructed the jury as follows:

In this case, Nordock seeks Systems’ profits from sales of products alleged to infringe the ‘754 Design Patent. If you find infringement, and do not find the ‘754 Design Patent is invalid, you are to award Nordock Systems’ total profit attributable to the infringement. Systems’ “total profit” means the entire profit on the sale of the article to which the patented design is applied, or with which it is used and not just the portion of profit attributable to the design or ornamental aspects of the patent.

*Id.* at 1353. The Federal Circuit vacated the damages award because 35 USC § 289 provides that an infringer is “liable to the owner to the extent of his total profit, but not less than \$250.” *Id.* at 1352. The reference to “his total profit” is a reference to the infringer’s profits. *Id.* at 1352-53. Relying on its decision in *Apple v. Samsung*, the Federal Circuit rejected the district court’s apportionment, stating without hesitation that “apportioning profits in the context of design patent infringement is not appropriate[.]” *Id.* at 1354 (quoting [Apple Inc. v. Samsung Elecs. Co., 786 F.3d 983, 1001–02 \(Fed. Cir. 2015\)](#)).

The court further found that both the jury and the district court “were confused with ... the interplay” between § 284 and § 289, rejecting the district court’s position that the jury could decide between awarding a reasonable royalty, lost profits or the infringer’s profits. *Id.* at 1357. The district court:

“overlooked a critical point: the fact that Nordock could recover only one type of damage on each sale — either (1) Nordock’s lost profits or a reasonable royalty or (2) Systems’ total profits — did not absolve the jury of its obligation to determine the amount of Systems’ total profits for purposes of determining damages under § 289. To the extent the district court believed that the jury could simply choose between awarding damages under § 284 or § 289, it is incorrect.” *Id.*

The court concluded that “[o]nly where § 289 damages are not sought, or are less than would be recoverable under § 284, is an award of § 284 damages appropriate.” *Id.*

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## CONCLUSION

This year saw issues related to apportionment and the EMVR continue to dominate the discussion around the appropriate measure of patent damages, with district courts continuing to struggle to apply the somewhat unclear Federal Circuit guidance. While there were no Federal Circuit decisions that clearly resolved this issue with a specific test or methodology that would be appropriate in all cases, the Federal Circuit did reiterate that the traditional four-factor test laid out in *Daubert* and FRE 702 is “a flexible one” and appeared willing to accept experts’ methodologies that were reasonable and tied to the facts of the case, even if the methodology was not peer-reviewed or published. We expect further guidance from the Federal Circuit on these issues in 2016.

The headline-grabbing *Apple v. Samsung* case brought design patent damages to the forefront, and reminded many of the power of the unique infringer’s profits measure of damages available under 35 U.S.C. § 289.

Looking ahead to next year, Samsung has filed a petition for *certiorari* seeking to reverse many aspects of the Federal Circuit’s affirmance of the district court’s damage award. In addition, the Supreme Court has granted *cert* petitions in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513, and *Stryker Corporation, et al. v. Zimmer, Inc.*, No. 14-1520, both on the issue of willfulness and enhanced damages, with many commentators expecting that the Supreme Court will lower the bar and provide district courts with increased flexibility in determining whether and to what extent damages should be enhanced.



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### **Practices**

Intellectual Property  
Patent Prosecution and  
Litigation  
Patent Litigation  
Licensing and Technology  
Transfer  
Trade Secrets Counseling and  
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cum laude, 1991

### **Bar Admissions**

District of Columbia  
New York  
Virginia

### **Languages**

Hebrew

As head of the firm's Intellectual Property Practice Group resident in the firm's Washington and Richmond offices, Maya advises companies and organizations on how to protect their valuable intellectual property rights. She represents plaintiffs and defendants in patent infringement disputes and has significant experience planning, coordinating and executing the defense of complex litigation involving multiple defendants and jurisdictions. When allegations of infringement arise, or when clients believe that their patent, trade secret or other IP rights have been infringed, Maya collaborates with clients to analyze the situation, assess the extent of potential infringement or damages, and to develop and implement an effective response. In addition to litigation, and when appropriate, Maya investigates and recommends alternative approaches to dispute resolution, including settlements and negotiation of licenses.

Maya represents clients from numerous industries, with an emphasis on the technology sector. She has litigated cases involving hearing aid technology, cable television technology, electronic payment technology and other technologies. Maya also has achieved client victories in product liability, class action and slavery reparations litigation, and regularly represents parents on a pro bono basis in international child abduction cases.

In 2001, she served as a Judicial Clerk for the Honorable Roger L. Gregory of the U.S. Court of Appeals for the Fourth Circuit. Over the course of her legal career, Maya has received numerous honors from various organizations and publications, including the American Inns of Court, the Virginia State Bar, Chambers USA, Benchmark Litigation, Virginia Business Magazine, Virginia Super Lawyers, The Best Lawyers in America (IP), and Inside Business.

## RELEVANT EXPERIENCE

- Lead counsel for defendant in litigation involving secure online transactions. The case is currently pending.
- Lead counsel for defendant in litigation involving smartphone app technology. The case is currently pending.
- Lead counsel for defendant in litigation involving POS technology. The case is currently pending.
- Lead counsel for defendant in litigation involving website searching technology. The case is currently pending.
- Lead counsel for defendant in federal court and ITC litigation involving UBS thumb drive technology. The federal court case remains pending; the ITC case resolved favorably.
- Lead counsel for defendants in litigation involving ownership of patents covering wireless email technology. The case is currently pending.
- Lead counsel for defendant in patent infringement litigation involving technology relating to parking systems. The case is currently pending.
- Lead counsel for defendant in patent infringement litigation involving package tracking technology. The case settled favorably.
- Trial counsel for patent holder in *Energy Transportation Group, Inc. v. Sonic Innovations, Inc. et al.* Civ. Act. No. 05-422(GMS) involving hearing aid technology. The jury returned a verdict for client ETG, finding willful patent infringement and awarding damages of \$31 million against two defendants. The Federal Circuit affirmed the jury's verdict and the trial court's post-trial rulings. (2012) Trial counsel for patent holder in infringement litigation involving cable television technology. After obtaining successful ruling in week-long trial on licensing issues, case was favorably settled with multi-million dollar license. (2011)
- Lead counsel for patent holder in infringement litigation relating to document security technology. The case was favorably settled. (2011)
- Lead counsel for defendant in patent infringement litigation involving utility and design patents. The case was favorably settled. (2010)
- Lead counsel in ICC arbitration involving dispute over patent license agreement. The case was favorably settled. (2010).
- Lead counsel for defendants in patent infringement litigation involving above-ground storage tanks. Case was favorably settled with no-cost license for defendants. (2009)
- Counsel for Fortune 500 company in trademark infringement litigation against competitor. Case was favorably settled. (2008)
- Lead counsel for defendant Interactive Communications International, Inc. in *TGIP, Inc. v. AT&T Corp. et al.* (E.D. Tex.). After obtaining summary judgment of non-infringement on majority of products at issue, settlement reached resulting in dismissal before trial. (2007)
- Trial counsel for patent owner ePlus in *ePlus, Inc. v. SAP*, Civil Action No. 3:05cv281 (E.D. Va.) in infringement litigation involving electronic procurement systems. Case was favorably settled while awaiting the court's decision following a four-week trial. (2006)
- Counsel for patent owner in infringement litigation to prevent defendant companies from using technology related to wireless email. Case was favorably settled after receiving jury verdict of infringement and validity. (2006)
- Significant experience with software and business method patent litigation.
- Counsels clients on legal issues related to use of open source software.

## MEMBERSHIPS

- Thomas Jefferson Intellectual Property American Inn of Court

## PUBLICATIONS

- Editor, Patent Damages Year In Review, 2014
- Co-author, 2013 Eastern District of Virginia Intellectual Property Year In Review, July 2014
- Co-editor, 2013 Patent Damages Year In Review, May 15, 2014
- Co-author, Don't Let Your Right To Inter Partes Review Slip Away, *Law360*, August 29, 2012
- Co-author, The Expert of My Enemy Is My Expert: Conflicts of Interests Amongst Expert Witnesses, *Litigation News, Virginia State Bar*, Summer 2012
- Co-author, The (Unintended) Consequences of the AIA Joinder Provision, AIPLA Spring Conference, May 10, 2012
- Co-author, Business Methods After Bilski, *Law360*, June 5, 2009
- Co-author, Joint Patent Infringement, American Intellectual Property Law Association Spring Conference, May 13, 2009
- Author, Patent Reform Act proposes new ways to grant and test patents, *Virginia Lawyers Weekly*, May 28, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages, May 15, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages, May 15, 2007
- Co-author, Multiple Defendant Patent Infringement Cases: Complexities, Complications and Advantages (PowerPoint), May 15, 2007

## EVENTS

- Litigating Against Non-Practicing Entities: Strategies for Success, December 5, 2012
- Presenter, The (Unintended) Consequences of the AIA Joinder Provision, AIPLA Spring Conference, May 10, 2012
- Presenter, Overcoming Client Development Challenges for Women Lawyers, American Intellectual Property Law Association Webinar, February 28, 2012
- Presenter, Procedural Issues in Civil Litigation in the Richmond Division of the Rocket Docket, Federal Bar Association, September 29, 2010
- Speaker, Joint Patent Infringement -- It's Argued, But Does It Really Exist?, American Intellectual Property Law Association Spring Conference, May 13, 2009
- Presenter, Procedural Pitfalls in Complex Litigation, Second Annual Advanced Business Litigation Institute, Virginia CLE and Virginia Law Foundation, April 2, 2009

## AWARDS & RECOGNITION

- Selected as one of 2015's Women Leaders in the Law by ALM
  - *Managing Intellectual Property* IP Star, 2014-2015
  - *The Best Lawyers In America*, Intellectual Property Law, 2009, 2011-2015
  - *Managing Intellectual Property*, Top 250 Women in IP, 2013
  - *Benchmark Litigation* Top 250 Women in Litigation, 2012
  - Martindale-Hubbell 2014 Top-Rated Lawyers in Intellectual Property Law
  - AV® Peer Review Rated in Martindale-Hubbell
  - Leader in the Law, Intellectual Property, Virginia, *Chambers USA*, 2009-2015
  - 2015 Class of "Influential Women of Virginia", *Virginia Lawyers Weekly*
  - *Virginia Super Lawyers*, 2007-2014
  - "Up and Comers," *Chambers USA*, 2008
  - "Future Litigation Star," *Benchmark Litigation Guide*, 3rd ed., 4th ed., 5th ed.
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## MICHAEL A. OAKES

### Partner

Michael Oakes handles complex civil disputes, with a focus on patent litigation and other intellectual property and technology-related matters before federal district courts and before the US International Trade Commission. He has experience with patents in a variety of fields, including semiconductors and electronics, software, computer networking and Internet technology, biotechnology and pharmaceuticals, medical devices, automotive and nuclear manufacturing technology.

Michael also advises clients on data security and privacy issues. He is experienced in handling the investigative and legal response to network intrusions and data breach events and has represented clients in class action litigation and regulatory investigations involving claims arising out of these incidents. He also advises clients on liability issues related to the use of technology and the Internet, including issues related to cloud computing, online sweepstakes and related marketing programs.

Michael is admitted to practice in the US Court of Appeals for the Federal Circuit and the 4th Circuit, and the US District Courts for the Eastern District of Texas, Eastern District of Virginia and the Western District of Michigan. He is also registered to practice before the US Patent and Trademark Office.

### Practices

Business Litigation  
Cyber Investigation and  
Privacy Litigation  
Life Sciences Industry  
Energy Sector Security  
Team  
Consumer Products

### Contact

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### Education

JD, Duke University School of  
Law, cum laude, 2001

BA, Biology, University of  
Virginia, 1996

### Bar Admissions

District of Columbia  
Virginia  
US Patent and Trademark  
Office

### RELEVANT EXPERIENCE

- Represented a leading Internet company in a jury trial in the Southern District of Texas relating to claims that the company infringed three streaming media patents. Case settled favorably during trial.
- Represented an automotive manufacturer in the Southern District of Texas against claims that its manufacturing processes infringed a high speed laser welding patent. Plaintiff's claims were dismissed on summary judgment following a favorable claim construction ruling.
- Represented a major electronics company in a four-week jury trial in New Jersey District Court relating to claims that the company infringed three semiconductor memory patents. The defense verdict was highlighted in *The National Law Journal's* 2007 Defense Hot List.
- Represented a manufacturer seeking an injunction against a competitor arising out of trade secret misappropriation and patent infringement claims in the Western District of Virginia. Case settled favorably after motion for preliminary injunction was granted.
- Represented a major international bank and payment processor victimized by network security breach and theft from ATM network during investigation and subsequent litigation.
- Represented an international retail chain following a network intrusion. Coordinated internal investigation, represented company in obtaining dismissal of multiple class action lawsuits, and represented company in response to FTC inquiry into data security practices.
- Advised multiple clients on legal issues arising out of credit card skimming incidents.
- Represented several companies in assessing risks associated with moving to cloud computing environments.

### PUBLICATIONS

- Editor, Patent Damages Year In Review, 2014
- 2013 Patent Damages Year In Review, May 15, 2014





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