

Patent Law

Prof. Roger Ford

Wednesday, November 29, 2017

Class 25 – Remedies: Damages Economics;
Increased Damages and Attorney Fees

Recap

Recap

- Damages framework
- Lost profits
- Reasonable royalty

Today's agenda

Today's agenda

- Review-session scheduling
- Damages economics
- Attorney fees
- Increased damages for willfulness
- Midterm notes

**Review-session
scheduling**

Review session

- Last year, I did a comprehensive review during the last class session
- This year:
 - Thursday, December 7?
 - Friday, December 8?

**Damages
economics**

Damages economics

- Both reasonable-royalty and lost-profit damages attempt to go back in time
 - Lost profits: If the defendant never infringed, what profits would the patent holder have made, if any?
 - Reasonable royalty: If the defendant never infringed, what royalty would the parties have agreed to?

Damages economics

- Lost profits: *Panduit* factors
 - Demand for the patented product
 - Absence of noninfringing substitutes
 - Patent holder's manufacturing and marketing capability
 - Amount of profits that would have been made

Damages economics

→ Lost profits: *Panduit* factors

- Demand for the patented product
- Absence of noninfringing substitutes
- Patent holder's manufacturing and marketing capability
- Amount of profit that would have been made

Would the patent holder have made additional profits at all?

Damages economics

→ *Georgia-Pacific* factors:

1. Royalties received by patent holder
2. Royalties paid by licensee for similar patents
3. Nature and scope of the license
4. Patent holder's licensing practices/policies
5. Commercial relationship between parties
6. Effect of patent on patent holder's products
7. Duration of the patent term and license term
8. Profitability and success of patent product

Damages economics

→ *Georgia-Pacific* factors:

- 9. Advantages of patent product over others
- 10. Nature of patented invention
- 11. Extent to which infringer used invention
- 12. Portion of profit or selling price customarily allowed for use of the invention
- 13. Portion of profit attributable to the invention
- 14. Opinion testimony of qualified experts
- 15. Outcome from hypothetical negotiation

Damages economics

→ *Georgia-Pacific* factors: **What royalty would the parties have agreed to in the hypothetical negotiation?**

- 9. Advantages of patent product over others
- 10. Nature of patented invention
- 11. Extent to which infringer used invention
- 12. Portion of profit or selling price customarily allowed for use of the invention
- 13. Portion of profit attributable to the invention
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Damages economics

- Lost profits must be reasonably foreseeable, but need not involve sales of the patented process:
 - *Rite-Hite*: Sales of a non-patented product can still count because they would have earned additional profits

Damages economics

- Lost profits aren't available if the defendant would have just switched to a competing noninfringing alternative
 - *Grain Processing*: Process IV was available the whole time

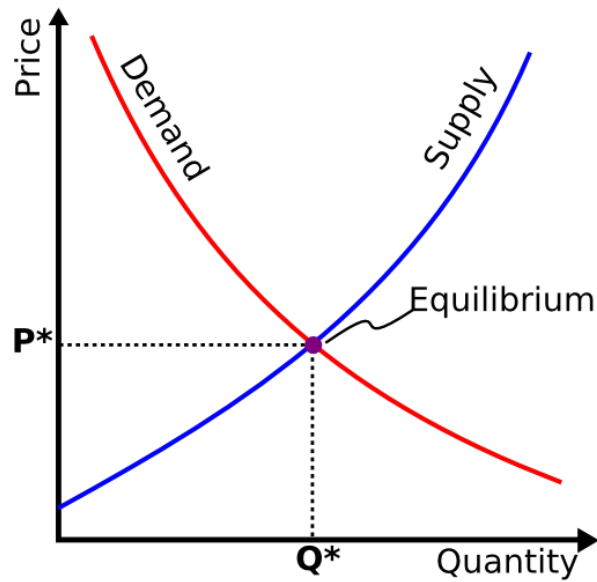
Damages economics

- Lots more lost-profits complications:
- Price erosion: In competition, prices will fall
 - Lost sales: Higher monopoly prices will drive some customers out of the market
 - Returns to scale: Monopoly producer will have higher volume and so better returns to scale

Damages economics

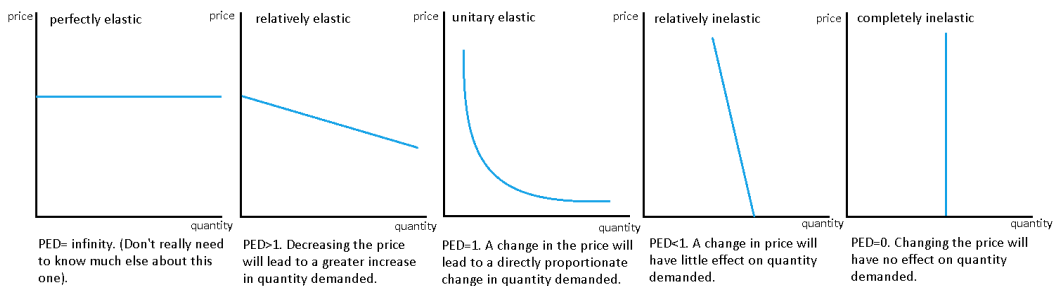
- Lots more lost-profits complications:
- Promotional expenses: In competition, promotion will be more expensive
 - Accelerated market entry: If a competitor infringes, it will gain know-how that will help after the patent expires

Damages economics



Damages economics

Elasticities of Demand



Damages economics

→ Elasticity of demand:

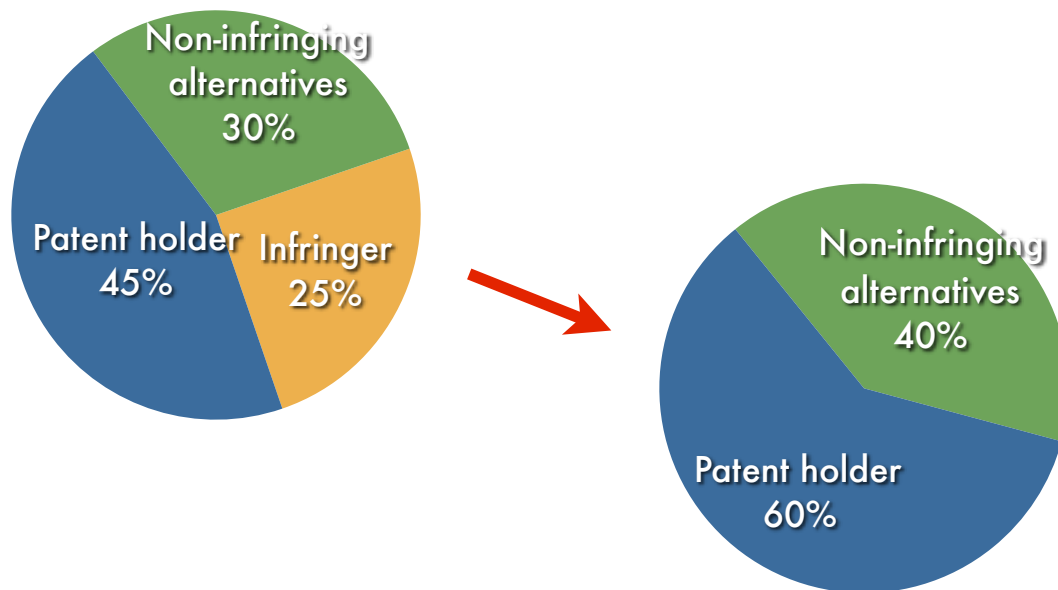
- How much demand would be lost from the patented product for every dollar increase in its price?
- Candy; cars; Windows computers: high price elasticity of demand
- Unique drugs; gasoline: low price elasticity of demand

Damages economics

→ The market-share approach:

- Sometimes it is reasonable to assume that the patent holder will get a proportionate share of the market once the infringer is excluded
- *State Industries v. Mor-Flo*

Damages economics



Damages economics

- Problem: This includes a bunch of economic assumptions
- That we have the right market – different competitors had greater and lesser market shares on different coasts
 - That the products are undifferentiated substitutes – what if the infringer's customers would prefer the noninfringing competitor?

Damages economics

- This is an area of few hard-and-fast rules
- The economic sophistication of your lost-profits argument (and your judge / panel) will matter a lot

Damages economics

- Courts have approved lots of lost-profits theories, from the obvious to the wacky:
 - “We lost sales because we had infringing competitors”
 - “Our prices fell because we had infringing competitors”
 - “We had to advertise more because we had infringing competitors”
- So invest in a really good damages expert

Damages economics

- Same thing for reasonable royalties: Courts have adopted reasonable and not-so-reasonable arguments for royalty numbers
 - Criticism: The line between lost profits and reasonable royalties is unclear and not always followed by courts

“In practice, [] **the lines between lost profits and reasonable royalties are blurring**. In significant part, this is because courts have insisted on **strict standards of proof for entitlement to lost profits**. Specifically, patentees must prove demand for the patented product, the absence of noninfringing substitutes, the ability to meet additional demand in the absence of infringement, and the proportion of those sales that represent profits. This in turn means that **many patent owners who have in fact probably lost sales to infringement cannot prove lost profits damages and must fall back on the reasonable royalty measure**. The result is that **courts have distorted the reasonable royalty measure in various ways, adding ‘kickers’ to increase damages, artificially raising the reasonable royalty rate, or importing inapposite concepts like the ‘entire market value rule’ in an effort to compensate patent owners whose real remedy probably should have been in the lost profits category**. Unfortunately, Congress is now considering locking one of those distortions—the entire market value rule—into reasonable royalty law.”

Mark Lemley, *Distinguishing Lost Profits from Reasonable Royalties*, 51 William & Mary Law Review 655, 656 (2009)

“While the *Georgia-Pacific* factors include several that require the consideration of the value of those noninfringing components, in fact for a variety of reasons those components are undervalued. Most notably, in *Fromson v. Western Litho Plate & Supply*, the Federal Circuit **simply rejected the very idea that a patentee’s remedy should be apportioned based on the share of the value of the overall product the patentee contributed**. The district court quite reasonably had concluded that **the parties would have set a royalty rate based on the proportion of the value of the defendant’s product that was ‘attributable to the invention.’** The Federal Circuit reversed and required that the award take the form of **a percentage of the defendant’s entire product sales**, even if that exceeded the total profit the defendant made on the product. Ignoring the other components that contribute to defendant’s sales, as *Fromson* appears to require, is **intellectually indefensible**. Not surprisingly, this approach has led to reasonable royalty rates that are decidedly unreasonable, and indeed that often exceed the defendant’s total profit on a product even when that product was composed primarily of noninfringing components.”

Lemley, *Distinguishing Lost Profits from Reasonable Royalties* at 665–66

“Finally, and most dramatically, courts have occasionally simply increased the reasonable royalty award because they fear that it undercompensated a plaintiff that should in fact have received lost profits. *Panduit* is the most notable example. In that case, ... the court affirmed the district court’s rejection of plaintiff’s lost-profits theory for hypertechnical reasons. Having done so, it proceeded to **excoriate the district court for applying the normal reasonable royalty rules**. Instead, the appellate court **reimported many of the concepts of lost profits, reasoning that the defendant would not have been able to make the sales at all but for the infringement, and therefore the plaintiff was entitled to damages that far exceeded the 60 percent of defendant’s profit that the district court had awarded as a reasonable royalty**. Although the Federal Circuit has rejected the express use of ‘kickers’ to compensate patentees for attorney’s fees, the court also has **approved discretionary increases in the reasonable royalty designed to avoid undercompensation**, which amounts to much the same thing.”

Lemley, *Distinguishing Lost Profits from Reasonable Royalties* at 666–67

Damages economics

- *Lucent* was a turning point in damages, where courts began closely scrutinizing jurors' verdicts
 - Starting to see what evidence is insufficient
 - But it's less clear what evidence will be sufficient

Damages economics

- After *Lucent*, courts are beginning to exercise their **gatekeeper function** and scrutinize licenses:
 - *ResQNet.com v. Lansa* (Fed. Cir. 2010): "The majority of the licenses on which ResQNet relied in this case are problematic for the same reasons that doomed the damage award in *Lucent*."

Damages economics

- After *Lucent*, courts are beginning to exercise their **gatekeeper function** and scrutinize licenses:
- *Wordtech Sys.* (Fed. Cir. 2010): “We explained in *Lucent* that lump-sum licenses are generally more useful ... for proving a hypothetical lump sum.... Of Wordtech’s thirteen licenses, only two were lump-sum agreements.”

Attorney fees

(post-AIA) 35 U.S.C. § 285 — Attorney fees

The court in **exceptional cases may award reasonable attorney fees** to the prevailing party.

The American Rule

- Each party normally pays its own attorney fees
 - English rule: loser pays
 - Theory: fee-shifting rules prevent potential plaintiffs from bringing meritorious legal claims
 - Exceptions in narrow circumstances
 - sanctions for misconduct; copyright; civil-rights claims; a few more

Pre-Octane law

- Three Federal Circuit doctrines:
 - Attorney fees are limited to two cases:
 - (1) material inappropriate conduct; or
 - (2) litigation that both was brought in “subjective bad faith” and was “objectively baseless”
 - Must be proved by clear and convincing evidence
 - Reviewed de novo by Federal Circuit
- All three overturned in *Octane/Highmark*

Octane Fitness

- Structure of § 285: Substantial flexibility
 - “Exceptional cases”
 - “May award”
 - “Reasonable attorney fees”
- None of this supports the Federal Circuit’s strict rules

Octane Fitness

→ What counts as an exceptional case?

Octane Fitness

- What counts as an exceptional case?
- “One that stands out from others with respect to the **substantive strength of a party’s litigating position** ... or the **unreasonable manner in which the case was litigated.**”

Octane Fitness

- What counts as an exceptional case?
 - “One that stands out from others with respect to the **substantive strength of a party’s litigating position** ... or the **unreasonable manner in which the case was litigated.**”
 - Not entirely different from before:
 - (1) material inappropriate conduct; or
 - (2) “subjective bad faith” and “objectively baseless”

Oplus Technologies v. Vizio

- District court (pre-*Octane Fitness*):
 - Case was exceptional due to extensive litigation misconduct
 - But, attorney fees not appropriate
- Fed. Cir. (April 10, 2015):
 - Vacated and remanded for reconsideration after *Octane Fitness*

Oplus Technologies v. Vizio

→ Misconduct:

- “Oplus misused the discovery process to harass Vizio by **ignoring necessary discovery**, **flouting its own obligations**, and **repeatedly attempting to obtain damages information to which it was not entitled.**”

Oplus Technologies v. Vizio

→ Misconduct:

- “Oplus implemented an **‘abusive discovery strategy’** that involved **‘avoid[ing] its own litigation and discovery obligations** while **forcing its opponent to provide as much information as possible about Vizio’s products, sales, and finances.**”

“The court noted that its ‘greatest concern ... was Oplus’s counsel’s **subpoena for documents counsel had accessed under a prior protective order.**’ In that instance, **counsel for Oplus represented an unrelated patentee in a prior litigation against Vizio and, pursuant to the protective order in that prior litigation, retained copies of documents produced by Vizio.** Here, counsel for Oplus, Niro, Haller & Niro, **drafted what it called a tailored subpoena for documents retained by counsel for the earlier plaintiff, which also happened to be Niro, Haller & Niro.** The court concluded that it ‘strain[ed] credulity’ to believe that Oplus **‘issued the subpoena without using any knowledge by three attorneys [that both worked on the earlier case and the present case] as to the content of the discovery sought.’”**

“In another example, it noted that whereas **‘Oplus’s infringement contentions cite[d] a patent to show infringement’** of Oplus’s patents, **its ‘expert testifie[d] that the same patent did not disclose the methods of Oplus’s patents.’** It found that ‘Oplus consistently twisted the Court’s instructions and decisions’ and **attempted ‘to mislead the Court.’** It complained that **when ‘Oplus had no evidence of infringement of one element of a claim, it simply ignored that element and argued another.’** It found that **‘Oplus regularly cited to exhibits that failed to support the propositions for which they were cited’** and that ‘Oplus’s malleable expert testimony and infringement contentions left Vizio in a frustrating game of Whac-A-Mole throughout the litigation.’”

“In fact, Oplus admitted, it **failed to address multiple noninfringement contentions in its summary judgment opposition.** * * * Fees Order at 8 n.3 (noting that Oplus’s opposition to summary judgment failed to even address several steps of the claimed method). **Rather than stipulating to noninfringement, counsel forced the court to consider its opposition,** which was predicated on the presentation of contradictory expert testimony. This conduct caused **additional process and wasted party and judicial resources.**”

Oplus Technologies v. Vizio

→ Court:

- “Although the award of fees is clearly within the discretion of the district court, **when, as here, a court finds litigation misconduct and that a case is exceptional,** the court **must articulate the reasons** for its fee decision.”

Increased damages for willfulness

(post-AIA) 35 U.S.C. § 284 — Damages

* * *

When the damages are not found by a jury, the court shall assess them. In either event the court **may increase the damages up to three times the amount found or assessed**. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

* * *

Willfulness

- § 271(a): patent infringement is a strict-liability offense
- § 284: court may award “up to three times” damages

Willfulness

- § 271(a): patent infringement is a strict-liability offense
- § 284: court may award “up to three times” damages
- Federal Circuit: this is available only in the case of willful infringement
 - Supreme Court: this is consistent with the long history of the patent system

Willfulness

- Alleged in 92% of patent complaints
- Found in 55% of infringement trials
 - 67% of jury trials
- Affirmed in 94% of appeals
- (these are pre-*Halo* numbers)
- Often subject of summary-judgment motions

Willfulness

- Willfulness can also matter for other things:
 - Entitlement to injunctive relief under *eBay v. MercExchange*

Willfulness

→ Willfulness scenarios:

- Accused infringer is unaware of the patent before a lawsuit
- Accused infringer is aware of the patent but believes it does not infringe or the patent is invalid
- Accused infringer is aware of the patent but thinks there is a plausible defense
- Accused infringer is aware of the patent but ignores it or deliberately rolls the dice

Willfulness

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attorney
opinion
letters

Willfulness

- § 285: attorney fees in “exceptional cases”
 - Supreme Court: this gives district courts substantial discretion
- § 284: increased damages
 - Supreme Court: this applies to willfulness and gives district courts substantial discretion

Pre-*Halo* law

- Three Federal Circuit doctrines:
 - Enhanced damages are only available when two things are true: (1) an objectively high likelihood of infringement; and (2) that risk was known or should have been known
 - Must be proved by clear and convincing evidence
 - Three-step review by Federal Circuit
- All three overturned in *Halo*

Halo

- Structure of § 284: Substantial flexibility
 - “word ‘may’ clearly connotes discretion”
 - “no explicit limit or condition”
- At the same time, the long history of the purpose of § 284 limits it to punishment for willful acts

Halo

- When can a patent holder collect enhanced damages under § 284?

Halo

- When can a patent holder collect enhanced damages under § 284?
 - “Section 284 allows district courts to punish the full range of culpable behavior. ... Consistent with nearly two centuries of enhanced damages under patent law, however, such punishment should generally be reserved for egregious cases typified by willful misconduct.”

Halo

- This is a rare Supreme Court win for patent holders
 - Makes it easier to collect enhanced damages for willfulness
 - Note Justice Breyer, though: Should still be limited to egregious cases
 - (Can infringement really be egregious 55% of the time?)

Opinion letters

- Attorney opinion letters
 - Get-out-of-jail-free card for big companies, at least for willfulness
 - Typically cost \$10-\$100K
 - Attorney-shopping is an issue
 - Good way to build business
 - Typically, separate from litigation counsel

Opinion letters

- *Underwater Devices v. Morrison-Knudsen Co.* (Fed. Cir. 1983)
 - Era of widespread disregard for patent rights
 - Attorney advised client to ignore patent because most patents were invalidated, without analyzing the patent
 - Court: Upon notice of patent, potential infringer has “duty to exercise due care to determine whether or not he is infringing,” including duty to obtain a legal opinion

Opinion letters

- *Kloster Speedsteel* (Fed. Cir. 1986)
 - Failure to produce a legal opinion leads to an **adverse inference**
- *Knorr-Bremse Systeme v. Dana Corp.* (Fed. Cir. 2004) (en banc)
 - Adverse inference **may not be made from failure to obtain legal opinion, or failure to produce it (!)**

Opinion letters

- *Halo* doesn't really speak to attorney opinion letters – should companies get one?
- The old law did not require opinion letters – gave companies an incentive to bury heads in the sand
 - What about the new law?

Opinion letters

- One big risk in producing an opinion letter
 - Waiver of attorney-client privilege
- *Seagate* on privilege waivers:
 - Court: extends only to **opinion counsel**, not litigation counsel
 - Risk of distorting attorney-client relationship is too great

Opinion letters

- Hypothetical #1
 - Suppose I get a letter saying I infringe a patent
 - I consult a patent attorney, who says it's close – a 50/50 chance of validity and infringement
 - I keep selling the accused product
 - Willfulness?

Opinion letters

→ Hypothetical #2

- Suppose I get a letter saying I infringe a patent
- I consult general counsel (non-patent lawyer), who says "I'm no expert, but I think we're fine"
- I keep selling the accused product
- Willfulness?

Opinion letters

→ Hypothetical #3

- Suppose I get a letter saying I infringe a patent
- Patent lawyer #1: "You infringe."
Patent lawyer #2: "You infringe."
Patent lawyer #3: "You don't infringe."
- I keep selling the accused product
- Willfulness?

Midterm notes

Midterm notes

- Graded out of 40 points
- Average: ~~23.9~~ **24.3** points
- Median: ~~24~~ **24.5** points
- Maximum score: 34 points
- **Highest-scoring answer is now up on the website**

Midterm notes

→ Part 1:

- § 102 is a detailed and specific statute – you need to go through it carefully to apply it

Scenario A:

- February 12, 2006: Lydia files a patent application in Germany describing and claiming a novel method for synthesizing an existing pharmaceutical compound. (Lydia's application does not designate any other countries under the Patent Cooperation Treaty.)
- February 15–March 4, 2006: Walter independently conceives of the same process and, after considerable work, reduces it to practice.
- March 18–26, 2006: Walter uses the process to prepare substantial quantities of the pharmaceutical compound for commercial sale.
- April 1, 2006: Walter's pharmaceutical compound is first sold to the public by contract salespersons in the American Southwest.
- March 28, 2007: Walter files a U.S. patent application describing and claiming the method.
- June 10, 2007: Lydia receives a German patent covering the method; her application is published at the same time.

Can Walter receive a patent on the method? Explain.

Scenario B:

- December 1, 2015: Kim, a lawyer, invents a secure rolling file cart by modifying an existing cart with a novel locking apparatus.
- January–March, 2016: Kim routinely uses the cart to carry files into and out of court appearances and meetings with clients and opposing counsel.
- March 8, 2016: Jimmy, a lawyer for an office-supply company, sees Kim's cart and takes several photos of it while Kim isn't looking. He sends the photos to colleagues, who decide they should build and sell a similar cart.
- April 8, 2016: Kim's cart breaks, due to a design flaw, and she stops using it for several months. She tries to fix it but gives up after a few hours.
- October 14, 2016: Jimmy's company starts selling a cart identical to Kim's design. Kim sees it in a store and decides to seek a patent.
- November 21, 2016: Kim files a U.S. patent application claiming her cart.

Can Kim receive a patent on the file cart? Explain.

Midterm notes

→ Part 2:

- Written description and enablement are different requirements – make clear you understand which one is at issue and apply the correct rule
- Written description, enablement, and definiteness are highly fact-dependent and contextual – spend much of your answer discussing/applying the facts

Chris tells you that she has tested several embodiments of her invention, with mixed but promising results. She was able to get some of her mixtures working by varying the specific chemical fertilizer and bacteria used in that mixture, along with the quantities of the three components, but several others mixtures did not work. **All in all, she has tried a total of 22 mixtures, using three different chemical fertilizers and four different bacteria with different quantities of the ingredients; of those 22 experiments, six worked well.** (All of her experiments used common beeswax as the binding agent.)

Chris tells you that she has not been able to figure out what causes certain mixtures to work and others not to work. It seems to go better if the proportion of chemical fertilizer is about 50–70% by weight and if the proportion of bacteria is under 5%, but this does not explain all her results; sometimes mixtures with other percentages worked, and sometimes ones with percentages in those ranges didn't work. **She suspects that some combinations of a specific chemical fertilizer with a specific nitrogen-fixation bacteria may not work because the two somehow inhibit each other.**

Midterm notes

→ Written description:

- Does the patent make clear that the inventor possessed the full scope of the invention at the time of filing?
- *Ariad*: Are there enough common structural features or principles for someone of ordinary skill in the art to recognize that the inventor has invented a genus, not a species?

Midterm notes

→ Enablement:

- Does the patent teach one of ordinary skill in the art how to make and use the full scope of the claimed invention, without undue experimentation, as of the effective filing date?
- *Incandescent Lamp Patent*: Only a few out of 6000 combinations work – here, 6 out of 22
- *Wands* factors

Next time

Next time

→ Grab bag: Patent defenses