Patent Law

Prof. Roger Ford
Wednesday, November 30, 2016
Class 24 – Remedies:
Increased Damages and Attorney Fees

Recap

Recap

- → Damages framework
- → Lost profits
- → Reasonable royalty

Today's agenda

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- → Damages economics
- → Attorney fees
- → Increased damages for willfulness

Damages economics

Rite-Hite Corp. v. Kelley Co.

→ The lesson of *Rite-Hite*:

- Patent holder can collect foreseeable lost profits due to infringement
- Even if those profits would have been earned selling something that doesn't practice the patent claim

Rite-Hite Corp. v. Kelley Co.

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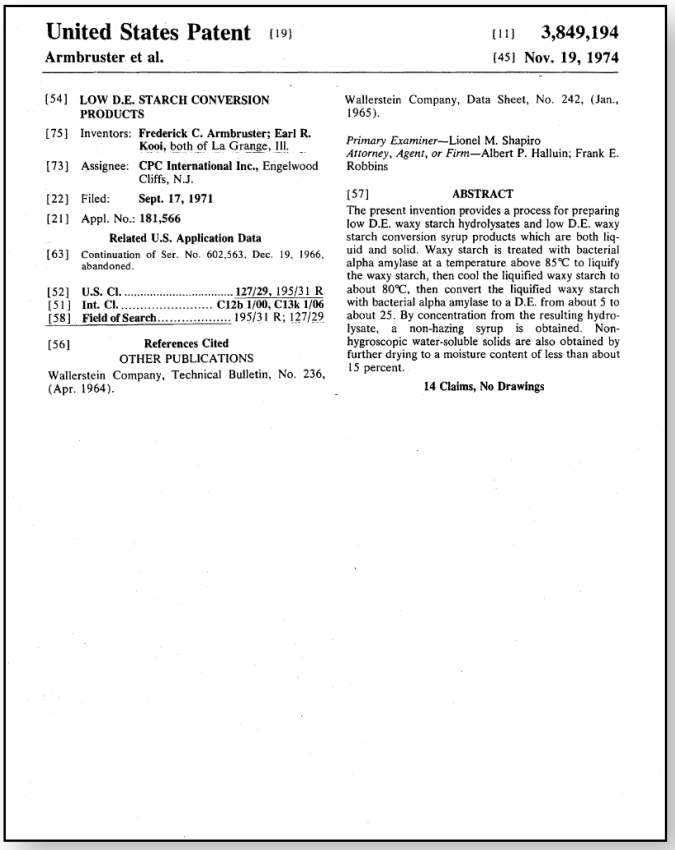
- Patent holder can collect foreseeable lost profits due to infringement
- Even if those profits would have been earned selling something that doesn't practice the patent claim

→ The other side of the coin: What proof of those lost profits is required?



United States Patent [19]
Armbruster et al.

[11] **3,849,194**
[45] **Nov. 19, 1974**

[54] **LOW D.E. STARCH CONVERSION PRODUCTS**

[75] Inventors: **Frederick C. Armbruster; Earl R. Kooi,** both of La Grange, Ill.

[73] Assignee: **CPC International Inc.,** Englewood Cliffs, N.J.

[22] Filed: **Sept. 17, 1971**

[21] Appl. No.: **181,566**

Related U.S. Application Data

[63] Continuation of Ser. No. 602,563, Dec. 19, 1966, abandoned.

[52] **U.S. Cl.** ..... **127/29,** 195/31 R
[51] **Int. Cl.** **C12b 1/00, C13k 1/06**
[58] **Field of Search** ..... 195/31 R; 127/29

[56] **References Cited**
OTHER PUBLICATIONS

Wallerstein Company, Technical Bulletin, No. 236, (Apr. 1964).

Wallerstein Company, Data Sheet, No. 242, (Jan., 1965).

Primary Examiner—Lionel M. Shapiro
Attorney, Agent, or Firm—Albert P. Halluin; Frank E. Robbins

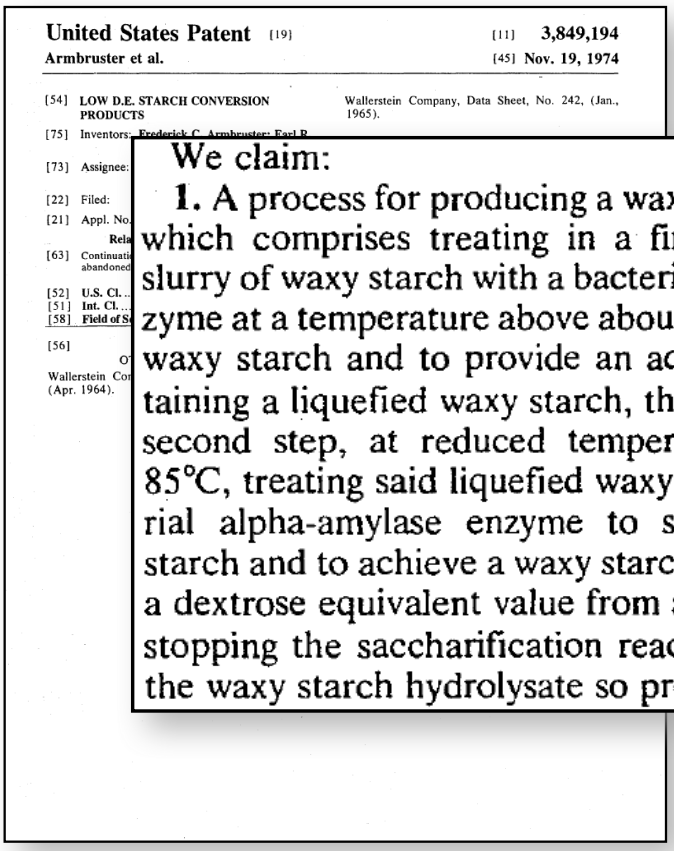
[57] **ABSTRACT**

The present invention provides a process for preparing low D.E. waxy starch hydrolysates and low D.E. waxy starch conversion syrup products which are both liquid and solid. Waxy starch is treated with bacterial alpha amylase at a temperature above 85°C to liquify the waxy starch, then cool the liquified waxy starch to about 80°C, then convert the liquified waxy starch with bacterial alpha amylase to a D.E. from about 5 to about 25. By concentration from the resulting hydrolysate, a non-hazing syrup is obtained. Non-hygroscopic water-soluble solids are also obtained by further drying to a moisture content of less than about 15 percent.

14 Claims, No Drawings

U.S. Patent No. 3,849,194

→ "Low D.E. Starch Conversion Products"



United States Patent [19]
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[54] **LOW D.E. STARCH CONVERSION PRODUCTS**

Wallerstein Company, Data Sheet, No. 242, (Jan., 1965).

We claim:

1. A process for producing a waxy starch hydrolysate which comprises treating in a first step an aqueous slurry of waxy starch with a bacterial alpha-amylase enzyme at a temperature above about 85°C. to liquefy the waxy starch and to provide an aqueous solution containing a liquefied waxy starch, then subsequently in a second step, at reduced temperatures below about 85°C, treating said liquefied waxy starch with a bacterial alpha-amylase enzyme to saccharify the waxy starch and to achieve a waxy starch hydrolysate having a dextrose equivalent value from about 5 to about 25, stopping the saccharification reaction and recovering the waxy starch hydrolysate so produced.

U.S. Patent No. 3,849,194

Grain Processing

→ Product: Lo-Dex 10, a maltodextrin food additive

- Produced by four methods
- Processes I, II, and III infringed
- Process IV did not infringe
- Customers did not care about the differences

Grain Processing

→ Grain Processing: we lost sales due to the infringing product

→ Court: what would have happened absent the infringement?

Grain Processing

→ Let's look to the *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

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Grain Processing

→ Court: a noninfringing substitute may be available even if it's not currently being used

- American Maize switched to Process IV in two weeks – "practically instantaneous"
- American Maize "did not have to 'invent around' the patent"

Grain Processing

→ Note: Not all cases are this economically enlightened

- *Zygo Corp. v. Wyko Corp.* (Fed. Cir. 1996): "It is axiomatic [ ] that if a device is not available for purchase, a defendant cannot argue that the device is an acceptable non infringing alternative for the purposes of avoiding a lost profits award." (M&D 969)

Grain Processing

→ But what about the fact that Process IV cost more?

Grain Processing

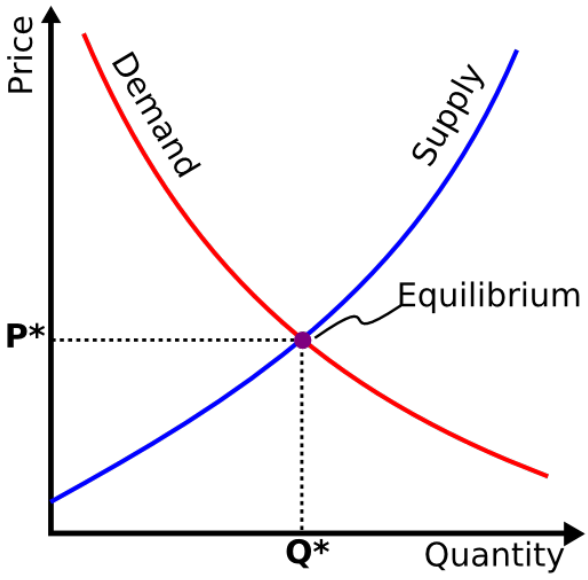
→ But what about the fact that Process IV cost more?

- Process IV was "not prohibitively expensive"
- Profit margins were high enough to absorb the 2.3% cost increase
- Probably this would have mattered in a license negotiation

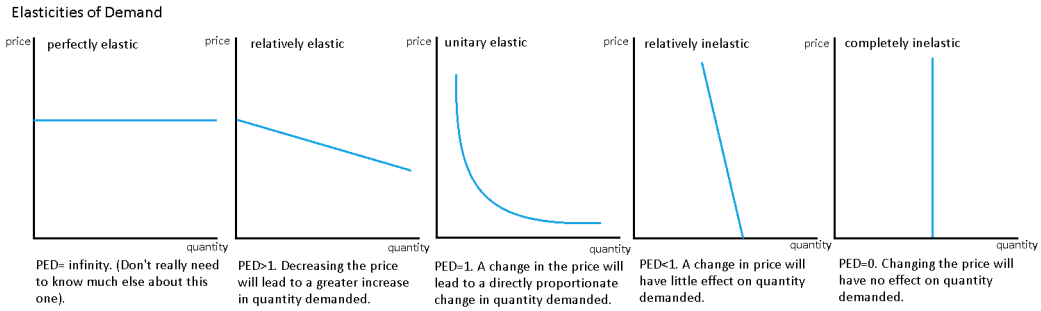
Lost-profit complications

- → 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
- → 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

Lost-profit complications



Lost-profit complications



PED= infinity. (Don't really need to know much else about this one).

PED>1. Decreasing the price will lead to a greater increase in quantity demanded.

PED=1. A change in the price will lead to a directly proportionate change in quantity demanded.

PED<1. A change in price will have little effect on quantity demanded.

PED=0. Changing the price will have no effect on quantity demanded.

Lost-profit complications

→ 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

State Inds. v. Mor-Flo

Company	Tech	Patent status
State Inds.	Foam insulation	Patent owner
Mor-Flo Inds.	Foam insulation	Infringer (sued)
Hoyt, Rheem, Bradford-White	Foam insulation	Likely infringers (not sued yet)
A.O. Smith	Fiberglass insulation	Not infringer

State Inds. v. Mor-Flo

→ So what is the relevant market for the purpose of calculating damages?

State Inds. v. Mor-Flo

→ So what is the relevant market for the purpose of calculating damages?

- Court: it's foam water heaters
- "The court found that fiberglass was not an acceptable substitute for foam because of foam's advantages in reducing the size of water heaters, increasing resistance to denting, and meeting governmental energy standards."

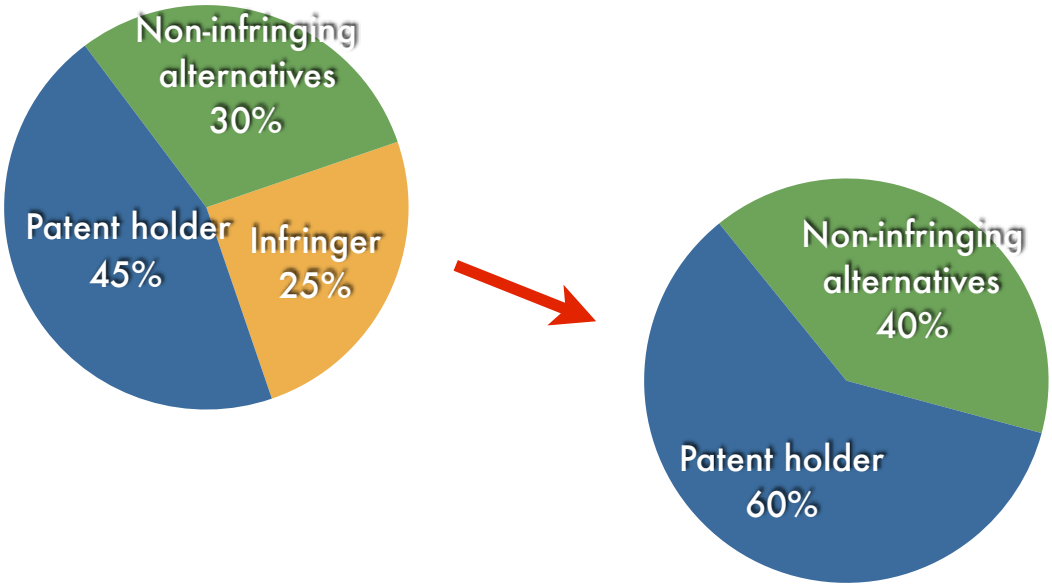
State Inds. v. Mor-Flo

→ In that market, State has 40% of the market share

→ So it's reasonable to assume that it would get 40% of the increase in sales

- (Really should be 40% out of whatever percent Mor-Flo doesn't have, but the court ignores that)

State Inds. v. Mor-Flo



State Inds. v. Mor-Flo

→ This includes a bunch of economic assumptions

- That we have the right market – what if the right market is the west coast?
- That the products are basically undifferentiated substitutes – what if Mor-Flo customers would actually go to Hoyt?

Damages economics

→ *Rite-Hite:* Patent holder can recover for lost sales even when those sales don't practice the patented invention

→ *State Industries:* Patent holder can recover for lost sales proportional to market share even when there are competitors who would get some sales

→ *Grain Processing:* Patent holder can't recover for lost sales if the defendant would have just switched processes

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

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

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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

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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?

Next time

Next time

→ Wednesday, December 7

- A few words on antitrust and patent misuse
- Review
- Email me questions!