

No. 17-804

IN THE
Supreme Court of the United States

EVE-USA, INC., SYNOPSIS EMULATION AND
VERIFICATION, S.A.S., SYNOPSIS, INC.,
Petitioners,

v.

MENTOR GRAPHICS CORPORATION,
Respondent.

**On Petition for a Writ of Certiorari to the
United States Court of Appeals
for the Federal Circuit**

**BRIEF OF HP INC., EBAY INC.,
L BRANDS, INC., ORACLE AMERICA, INC.,
RED HAT, INC., SYMMETRY LLC, VARIAN
MEDICAL SYSTEMS, INC., VERIFONE, INC.,
AND VIZIO, INC. AS AMICI CURIAE
IN SUPPORT OF PETITIONERS**

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INTEREST OF *AMICI CURIAE*¹

Pursuant to Supreme Court Rule 37.2, HP Inc., eBay Inc., L Brands, Inc., Oracle America, Inc., Red Hat, Inc., Symmetry LLC, Varian Medical Systems, Inc., VeriFone, Inc., and VIZIO, Inc. respectfully submit this brief as *amici curiae* in support of the petition for certiorari with respect to the second question presented (lost profits damages).

Amici include market-leading technology innovators and users of technology that develop, manufacture and sell complex products and services, including printers, computers, televisions, software services, payment solutions, radiation oncology treatment systems and software and IT infrastructure, provide ecommerce platform services, and/or sell retail products through a family of brands. Like most technology companies and users of technology, *amici* have patent portfolios of their own but also frequently face patent licensing solicitations and patent infringement actions from competitors and non-practicing entities. Accordingly, *amici* have an interest in the clear, consistent and fair application of patent damages law, whether in the context of reasonable royalties or, as here, lost profits. This is especially true in light of the growing number of cases in which patentees seek to recover damages that are disproportionate to the value of the claimed invention or the

¹ Pursuant to Supreme Court Rule 37.6, *amici* certify that no counsel for a party authored this brief in whole or in part, and that no such counsel or party (other than *amici* or their counsel) made a monetary contribution to the preparation or submission of this brief. Counsel of record for all parties received timely notice of the intent to file this brief. Letters from the parties consenting to the filing of this brief have been filed with the Clerk of this Court.

harm caused to the patent holder that is attributable to the infringement.

The Federal Circuit's decision in this case raises important issues regarding the need for apportionment of damages between patented and unpatented features when a patent owner seeks lost profits for sales of multi-component products. Despite acknowledging the need for apportionment, the Federal Circuit's decision permits only two outcomes in a lost profits case: all or nothing. This approach creates the risk of large damages awards far out of proportion to the value created by the patented features. This risk, in turn, gives undue leverage to patentees and imposes potentially prohibitive costs on doing business—even in products and services that largely reflect the accused infringer's own innovation.

SUMMARY OF THE ARGUMENT

The Federal Circuit's *Panduit* test cannot be used to apportion lost profits any more than a ruler can be used to measure weight. *Panduit* is designed to measure *whether* a patentee is entitled to lost profits for infringement. This Court's apportionment rule requires a different measurement: *what portion* of the lost profits is attributable to the patented feature. The *Panduit* test cannot be used to measure apportionment. Like a ruler being asked to measure weight, it simply does not provide a mechanism for doing so.

While recognizing the need for apportionment, the Federal Circuit erroneously held that the *Panduit* test is capable of achieving it. It does no good to acknowledge the apportionment requirement without providing a tool that is actually capable of achieving it. That state of affairs is tantamount to a rule of *no* apportionment in lost profits cases—the very opposite of this

Court's long-standing mandate for patent damages. If left intact, therefore, the Federal Circuit's all-or-nothing rule of lost profits recovery would nullify this Court's precedent. This direct conflict between a court of appeals decision and this Court's precedent on an important and pure question of law presents a compelling case for this Court's immediate review.

This question is important because the Federal Circuit's rule gives outsized leverage to patentees in lost profits cases. The decision below also creates the risk of ruinous losses across multiple patent cases where combined damages far exceed lost profits—especially when products having numerous potentially patented and unpatented features are involved. As a result, *amici* urge this Court to grant the petition for certiorari.

ARGUMENT

I. THIS COURT'S PRECEDENT REQUIRES APPORTIONMENT OF LOST PROFITS DAMAGES BETWEEN PATENTED AND UNPATENTED FEATURES

It is undisputed that, under *all* theories of patent damages, this Court's precedent requires apportionment of damages between patented and unpatented features. *See Garretson v. Clark*, 111 U.S. 120, 121 (1884) (“The patentee . . . must *in every case* give evidence tending to separate or apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features.”) (emphasis added); *see also Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 646 (1915) (espousing same rule); *Seymour v. McCormick*, 57 U.S. 480, 490-91 (1853) (espousing same rule). The Federal Circuit acknowledged the universality of this principle in its

panel opinion. Referring to the above-cited cases, the court of appeals stated “we find the basic principle of apportionment which they espouse applies in all of patent damages.” Pet. App. 10a-11a n.3. The opinion concurring in the denial of *en banc* rehearing, to which half a dozen Federal Circuit judges subscribed, agreed that “where an infringing product is a multi-component product with patented and unpatented components, apportionment is required” in both lost profits and reasonable royalty cases. Pet. App. 67a (citing, *inter alia*, *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226 (Fed. Cir. 2015) (“[A]pportionment is required even for non-royalty forms of damages.”)).

The issue in this case, therefore, is not whether apportionment is required. Rather, the question is whether the Federal Circuit has imposed a legal regime for lost profits damages that renders the required apportionment impossible. As discussed below, the answer to this question is “yes,” and this Court’s intervention is required to fix the problem.

II. THE FEDERAL CIRCUIT’S RULE ALLOWS NO APPORTIONMENT AND CONTAINS NO LIMITING PRINCIPLE

Despite agreeing in principle that apportionment of lost profits damages is required, the Federal Circuit’s decision charts an impassable course to that destination. The panel decision professes to “not depart from this principle [that every patent damages case requires apportionment] today.” Pet. App. 10a-11a n.3. The panel decision instead asserts “[r]ather, we hold that in this case, on these facts, apportionment is achieved through the court’s use of the *Panduit* factors.” *Id.* One searches the panel decision in vain, however, for any rational indication of how a different set of facts could ever lead to a different conclusion. *Id.*

at 9a-25a. Moreover, the panel effectively acknowledged the universal application of its holding when it stated: “We conclude that, when the *Panduit* factors are met, they incorporate *into their very analysis* the value properly attributed to the patented feature.” *Id.* at 25a (emphasis added). Under the terms of the panel’s own holding, therefore, satisfaction of the *Panduit* test will automatically yield the conclusion that an award of 100% of the patentee’s lost profits is required. If this is “apportionment,” it is apportionment in name only, as it allows no possibility of a damages award consisting of any sum greater than zero and less than all of the patentee’s lost profits.

As the dissenters from the denial of rehearing observed, satisfaction of the *Panduit* test does not satisfy this Court’s instruction to apportion lost profits between patented and unpatented features. *See* Pet. App. 70a-78a. The panel decision held that apportionment was inherent in the “but-for” causation requirement embodied in the first two *Panduit* factors: (1) demand for the patented product and (2) the absence of acceptable noninfringing substitutes. Pet. App. 15a-16a, 19a-25a. But these two factors, whether singly or in combination, cannot achieve apportionment. Each factor presents a binary choice. Either there is demand for the patented product or there is not. Acceptable noninfringing substitutes are either present or absent. There is no inquiry into the relative extents to which patented and unpatented features drive demand or otherwise account for the value of the accused product. The only inference that the satisfaction of the first two *Panduit* factors permits is that the patented feature is *one* but-for cause of consumers’ purchasing decisions. It tells us nothing about whether there are other but-for causes, the relative significance of different features in causing

purchasing decisions, or anything else about the size of the footprint of the invention in the marketplace as compared to that which existed in the prior art. Accordingly, the panel decision committed a broad legal error when it equated *Panduit*-style but-for causation with this Court's apportionment requirement.

The six-judge opinion concurring in the denial of *en banc* rehearing fares no better than the panel opinion in identifying even a single scenario in which the precedential panel decision would permit apportionment of lost profits. The concurring opinion did "not read the panel's decision to apply broadly to all lost profits analyses" but instead attributed the lack of apportionment to "the narrow facts of this case." Pet. App. 69a. However, the supposedly "narrow facts" to which the opinion pointed are actually facts that *necessarily* will be present in *all* cases in which lost profits are awarded. The concurring opinion's analysis of this point is both instructive and dispositive in establishing the need for this Court's review.

Specifically, the six-judge concurring opinion deemed the following facts to sufficiently cabin the panel opinion (*amici*'s response follows each identified fact):

- **Concurring Opinion:** "In this case, on the question of lost profits, the jury was instructed to consider the *Panduit* factors, including 'demand for the patented product' (factor one) and an 'absence of acceptable noninfringing substitutes' (factor two). *See Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978)." Pet. App. 68a.
- ***Amici*'s Response:** The jury almost certainly will receive this instruction in every lost profits case because *Panduit* has

become the accepted test for lost profits.
(The same is true in bench trials.)

- **Concurring Opinion:** “As the panel recognized, these two factors ‘consider[] demand for the patented product as a whole’ and ‘consider[] demand for particular limitations or features of the claimed invention.’” Pet. App. 68a (quoting Pet. App. 14a-15a) (alterations in original).
 - ***Amici’s Response:*** The fact-finder almost certainly will consider these two factors in every lost profits case because they constitute the first two *Panduit* factors.
- **Concurring Opinion:** “As the panel noted, the jury found that ‘Intel would not have purchased the [infringing] Synopsys emulator system without the two patented features and that there were no other alternatives available.’” Pet. App. 68a (quoting Pet. App. 18a) (alteration in original).
 - ***Amici’s Response:*** The fact-finder almost certainly will make these findings in every case where lost profits are awarded because they constitute the first two *Panduit* factors. Without these findings, lost profits cannot be awarded under *Panduit* at all.
- **Concurring Opinion:** “This undisputed fact finding established that Mentor proved that the patented features were what imbued the combined features that made up the emulator with marketable value.” Pet. App. 68a.
 - ***Amici’s Response:*** Again, the fact-finder almost certainly will make these findings in every case where lost profits are awarded

because they constitute the first two *Panduit* factors. Under the Federal Circuit’s reasoning, in every case where lost profits are awarded under *Panduit*, the patentee necessarily will have “proved that the patented features were what imbued the combined features that made up the [product] with marketable value.”

- **Concurring Opinion:** “Under these circumstances, further apportionment is unnecessary.” Pet. App. 68a.
 - ***Amici’s Response:*** As shown above, “these circumstances” will exist in every single case where lost profits are awarded under *Panduit*, regardless of the product, industry, technology space, competitive landscape, or any other surrounding fact.

The Federal Circuit’s decision thus cannot simply be explained away as a fact-specific application of the entire market value rule (“EMVR”) (assuming the EMVR is even consistent with this Court’s precedent, a proposition that *amici* dispute but is not necessary to reach here). Under the Federal Circuit’s EMVR, “[i]f it can be shown that the patented feature drives the demand for an entire multi-component product, a patentee may be awarded damages as a percentage of revenues or profits attributable to the entire product.” *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 67 (Fed. Cir. 2012) (cited at Pet. App. 69a). The Federal Circuit’s decision below means that satisfaction of the *Panduit* test for whether *any* lost profits can be awarded automatically satisfies the EMVR dictating that the *entire sum* of the lost profits be awarded. The court of appeals has improperly left no analytical daylight between the two inquiries.

The Federal Circuit’s decision—and the EMVR itself—now have no limiting principle in lost profits cases. The fact-finder is given no tools with which it possibly could determine what portion of the lost profits is attributable to the patented feature(s) and award only that portion. The fact-finder is instead allowed only a binary choice: award all the lost profits or award none of them at all. This state of affairs cannot be squared with this Court’s mandate—recognized and accepted by the Federal Circuit in theory, but thwarted by the court of appeals in practice—that damages must be apportioned “in every case.” *Garretson v. Clark*, 111 U.S. 120, 121 (1884).

III. THE ISSUE IS IMPORTANT

Not only is the conflict with this Court’s precedent clear, but the Federal Circuit’s decision also has significant ramifications for the patent landscape. The court of appeals decision transforms lost profits into an outsized threat that unfairly and inefficiently tilts that landscape in patentees’ favor.

First, the Federal Circuit’s rule will generate excessive windfalls in individual cases. Congress intends lost profits patent damages awards to be compensatory only. *See* 35 U.S.C. § 284 (“Upon finding for the claimant the court shall award the claimant damages adequate to *compensate* for the infringement . . .”). (emphasis added). But the Federal Circuit’s rule inevitably awards lost profits damages corresponding to the commercial value of a product’s unpatented features in addition to whatever value may be attributable to its patented features. Such windfalls carry lost profits damages far beyond the realm of compensation to which they are statutorily confined.

The Federal Circuit has been attentive to these principles in reasonable royalty cases. However, the Federal Circuit's lost profits jurisprudence has not kept pace with its evolving recognition of the need for effective apportionment tools in reasonable royalty cases. *See, e.g., Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011); *LaserDynamics, Inc. v. Quanta Computer Inc.*, 694 F.3d 51 (Fed. Cir. 2012); *VirnetX, Inc. v. Cisco Systems, Inc.*, 767 F.3d 1308, 1326 (Fed. Cir. 2014) (all shaping doctrine to try to confine reasonable royalty patent damages awards to the value of the infringing product that is properly attributable to the patented features). This case is an opportunity for this Court to realign the treatment of these two forms of patent damages to empower fact-finders to fulfill the mandate of apportionment "in every case," *Garretson*, 111 U.S. at 121.

Second, the Federal Circuit's rule will correspondingly produce undue leverage for patentees. The mere threat of extracting the entirety of a product's value, even where the patented contribution is small, may lead inefficiently to settlements far out of proportion with economic reality. This will occur even where the value of the allegedly infringing product is due largely to the accused manufacturer's *own* innovation. This result is again inconsistent with the compensatory purpose of patent damages and upsets the balance between access to ideas and incentives for innovation that the patent system is designed to achieve. It is also a familiar problem that this Court's patent jurisprudence has assuaged in other contexts. *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396-97 (2006) ("When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may

well be sufficient to compensate for the infringement and an injunction may not serve the public interest.”) (Kennedy, J., concurring).

Third, the Federal Circuit’s rule can cause especially severe problems of damages stacking that will deter production and innovation. Manufacturers and sellers are often subject to multiple patent lawsuits on the same product and may face the threat of multiple damages awards on those products. Damages stacking can pose a problem even if each of those lawsuits seeks only a reasonable royalty. But the problem is much worse if even one of those lawsuits seeks lost profits damages. Producers then face the risk of paying out a sum that exceeds—and sometimes far exceeds—the total profit that another entity may have made from selling that product. While apportionment may not be a panacea for the problem of stacking, it is an essential tool for mitigating it. By depriving courts and juries of meaningful tools for apportionment in lost profits cases, the decision below exacerbates a problem that this Court’s precedent and the Federal Circuit’s own reasonable royalty jurisprudence have otherwise sought to contain.

IV. THE ISSUE IS RIPE FOR REVIEW AND SQUARELY PRESENTED IN THIS CASE

Having denied *en banc* rehearing of its precedential panel decision, the Federal Circuit has spoken definitively on the question presented for certiorari. Its holding leaves no room for apportionment of lost profits in any factual scenario. Given the Federal Circuit’s exclusive jurisdiction over patent cases, there is also no realistic possibility of a circuit split. As a result, no further percolation of the issue can reasonably be expected in the courts of appeals. It already has fully ripened.

The petition for certiorari thus squarely presents a pure question of patent damages law that cries out for immediate resolution of the clear conflict with this Court's precedent. There is no reason to wait for another case to come along. Review is needed now to prevent district courts and future Federal Circuit panels from going down the wrong path.

CONCLUSION

Amici respectfully ask this Court to grant the petition for certiorari to address the important question relating to apportionment of lost profits damages in patent cases.

Respectfully submitted,

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