

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

REPLY BRIEF OF PETITIONERS

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REPLY

I. The Court Should Grant Certiorari On Assignor Estoppel.

The Court should eliminate or greatly narrow assignor estoppel. Mentor does not disagree that “the [assignor-estoppel] doctrine as applied by the Federal Circuit might warrant this Court’s consideration at some point.” Opp. 19. Mentor does not defend the scope of assignor estoppel. Nor does Mentor dispute the fundamental problems with assignor estoppel as a whole: it is contrary to the Patent Act; was understood by Congress, courts, and academics as abolished after *Lear*; impedes the strong public policy favoring eliminating invalid patents; and imposes costly constraints on employee mobility. Pet. 15-21.

Mentor does not disagree that the Petition is a perfect vehicle to *eliminate* assignor estoppel, arguing only that this is not the right case to consider assignor estoppel’s *scope*. Mentor’s vehicle arguments are doubly wrong: Synopsys preserved its challenge, though it was not required to do so in the face of binding circuit precedent. §I.A.

Having accepted much of Synopsys’ challenge to assignor estoppel as a whole, Mentor cites the “equities” that originally justified assignor estoppel under very narrow circumstances. Opp. 21-22. Those limited defenses do not warrant saving assignor estoppel, in whole or in part. §I.B.

A. The petition presents an ideal vehicle.

Mentor raises two meritless arguments why this is not a proper vehicle to consider assignor estoppel's scope.

1. Mentor claims that Synopsys waived any challenge to the doctrine's scope by not making detailed arguments to the panel about all the aspects of assignor estoppel that Synopsys finds objectionable. Opp. 16-19. But Mentor does not dispute that 30 years of binding Federal Circuit precedent foreclosed such arguments. Pet. 22-23. Synopsys was not required to press such futile arguments, as Mentor seemingly acknowledges, Opp. 17-18 n.5 (citing *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 125 (2007)); *accord US Airways, Inc. v. McCutchen*, 569 U.S. 88, 101 n.7 (2013) (addressing argument raised for the first time because circuit precedent foreclosed earlier consideration).

Moreover, there is no dispute that Synopsys challenged the district court's application of assignor estoppel by arguing for assignor estoppel's abolition. Pet. 11-13. Having made that broader argument challenging the application of assignor estoppel against it, Synopsys is now free to "make any argument in support of that claim," including that the doctrine should be narrowed, *Yee v. Escondido*, 503 U.S. 519, 534 (1992). Indeed, because assignor estoppel's scope is covered by the question presented and will be briefed on the merits, nothing prevents the Court from resolving the issue. *PGA Tour, Inc. v. Martin*, 532 U.S. 661, 678 n.27 (2001).

Mentor cites Synopsys' rehearing petition, but that petition shows Synopsys *did* challenge assignor estoppel's scope. See *United States v. Tohono O'odham Nation*, 563 U.S. 307, 321 (2011) (Sotomayor, J.) (noting that majority reached issues first raised in rehearing petition). Synopsys argued that assignor estoppel's rationales do not apply today, where assignments are not at arms' length, are a condition of employment, often involve no consideration beyond salary, and usually are assignments of patent applications. Reh'g Pet. 13-15.

2. Mentor argues that further factual and legal development is necessary. Mentor insists that the record is insufficient, Opp. 17-19, but points to no holes in the evidence. Assignor estoppel was decided on a full summary-judgment record. D.Ct. Dkt. 366, 386. Synopsys adduced plenty of evidence demonstrating why it would be inappropriate to apply assignor estoppel here.

Mentor says this case would not allow the Court to fully consider the contours of assignor estoppel because the doctrine "arises in widely varying circumstances." Opp. 16. But that will be true of every case, and cannot prevent this Court from considering the scope of the doctrine. If this Court grants certiorari, it will have the benefit of decades of caselaw from the Federal Circuit exploring assignor estoppel's scope; no further development is needed to review the purely legal question of the doctrine's scope.

The facts here make this an especially good vehicle. Synopsys' challenge implicates several facets of

the Federal Circuit’s doctrine, including whether assignor estoppel applies to (1) defendants who are not the inventor, (2) assignments of patent applications, (3) assignments as a condition of employment, and (4) assignments without proof of valuable consideration beyond an employee’s salary.

Finally, the invitation for other litigants to challenge assignor estoppel in the future rings hollow. *See* Opp. 13, 17. Nothing about the Federal Circuit’s treatment of assignor estoppel suggests it will be considered en banc—which would be necessary to overturn the panel decisions that expanded the doctrine. The Federal Circuit has *never* rejected *any* application of assignor estoppel. Pet. 23. And even in the unlikely event that rehearing was granted, the Federal Circuit believes itself powerless to eliminate assignor estoppel altogether. Pet. 12-13. Only this Court has the authority to fully consider the issue.

B. Assignor estoppel should be eliminated or dramatically curtailed.

Having accepted that the current scope of assignor estoppel is not sustainable and having failed to refute several grounds for assignor estoppel’s abolition, Mentor argues around the edges against only some of the reasons for eliminating the doctrine. Those arguments do not warrant denying review.

Mentor argues that “*Lear* does not remotely require that assignor estoppel should be abolished” because the rationales for licensee and assignor estoppel are “entirely different.” Opp. 21. Everyone concluded

otherwise in real-time, including this Court. Pet. 16-18.

In words equally applicable to assignor estoppel, *Lear* explained licensee estoppel's premise as a party "should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void." *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969). Rather than address *Lear*, Mentor relies on Federal Circuit language to argue that assignor estoppel's "foundation" is that "one should not benefit 'from his own wrong'" by entering a contract for value and then claiming it is worthless because the patent is invalid. Opp. 21. That's no different than licensees who received the benefit of patented technology, without fear of potentially debilitating litigation, only to try to escape expensive royalty payments by suing to have the patent invalidated and the license voided. *Lear*, 395 U.S. at 669-70. In any event, not only is Mentor's argument inapposite to modern assignments, *Lear* held that the public policy harm of invalid patents on competition categorically outweighs private equities. *Id.* at 670-74.

Mentor's analogy to estoppel-by-deed is equally unavailing. Estoppel-by-deed prevents a seller from derogating title to real property. To the extent applicable, it is analogous only to an assignor's representations about title to the patent, not to representations about validity. Unlike real property, the boundaries of an invention are not easily determined. When an inventor assigns the rights to a not-yet-issued patent, she "in effect says: 'Here is my device; I do not know whether it is patentable, or, if it is, how broadly; take

it, prosecute the patent application, and get what you can.” *Westinghouse Elec. & Mfg. Co. v Formica Insulation Co.*, 288 F. 330, 333 (6th Cir. 1923), *aff’d*, 266 U.S. 342 (1924). Even for an issued patent, the metes and bounds of patent claims are often subject to intense debate and necessarily uncertain. *See, e.g., Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996).

Mentor argues that fewer defendants are incapacitated from contesting validity under assignor estoppel than licensee estoppel. Opp. 22. But improper restraints on “even a single company” are repugnant to competition. *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401, 2407 (2015). Moreover, Mentor’s argument ignores that the Federal Circuit has expanded assignor estoppel to those in privity with the inventor. Pet. 22. It is just such entities—with “enough economic incentive to challenge [an invention’s] patentability”—that should not be “muzzled.” *Lear*, 395 U.S. at 670.

Finally, Mentor makes two half-hearted attempts to justify assignor estoppel’s application here. First, Mentor points to the availability of inter partes review (IPR). Opp. 19. Mentor ignores that IPRs are limited to a narrow category of invalidity challenges: only certain §102 (anticipation) and §103 (obviousness) defenses. 35 U.S.C. §311(b). Other anticipation and obviousness challenges are unavailable, as are challenges under §101 (unpatentable subject matter) and §112 (indefiniteness, written description, and enablement). *Id.* These are increasingly important defenses. *See* Brian C. Howard, *Patent Litigation Year in Review 2017*, 26 (Lex Machina Feb. 2018) (Fig. 46)

(more than twice as many patents are invalidated under §101 than under §102 and §103; §112 defenses increased after *Nautilus*). Mentor also ignores that invalidity challenges in district court—unlike in IPRs—are important checks on patentees seeking overly broad claim constructions for infringement purposes. See Ford, *Patent Invalidity Versus Noninfringement*, 94-95.

Synopsys' earlier IPR presents no impediment to this Court's review. Were this Court to reverse on assignor estoppel, the IPR would not prevent Synopsys on remand from raising invalidity arguments not permitted in IPRs, using prior art not at issue in the IPR, or contesting on any basis the patent claims not reviewed in the IPR. See *Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1052-53 (Fed. Cir. 2017).

Second, Mentor says Synopsys could have defended itself by asserting that the '376 patent practices the prior art. Opp. 15. That still leaves Synopsys barred from raising all the invalidity defenses discussed above. Moreover, the defense itself is "likely illusory" because the Federal Circuit "has all but eliminated" it. Lemley, *Rethinking Assignor Estoppel*, 522-23.

II. The Court Should Grant Certiorari On Apportionment Of Lost Profits.

In opposing review of the Federal Circuit's damages holding, Mentor argues that the panel applied settled law to unique facts. Neither is true. Although

this Court has long made clear that lost-profits damages must be apportioned for multicomponent products, the decision departed from that precedent by holding that the *Panduit* factors for proving but-for causation accomplish the required apportionment. That holding will have far-reaching consequences: Mentor’s damages theory is entirely commonplace, patentees often seek lost profits, and *Panduit* is the predominant framework for proving entitlement to those damages.

This petition presents an ideal vehicle for resolving an important and recurring question regarding apportionment of lost-profits damages for multicomponent products. §II.A. Demonstrating but-for causation proves a threshold entitlement to *some* lost profits, but, when damages are based on a multicomponent product, more than the *Panduit* factors are needed to determine the *amount* of lost profits. §II.B.

A. The petition presents a perfect vehicle to address this important question.

In holding that the apportionment requirement is satisfied “when the *Panduit* factors are met,” Pet. App. 25a, the panel’s opinion will govern nearly all—if not all—lost-profits cases involving multicomponent products. Contrary to Mentor’s argument, Opp. 24-26, the panel’s rule is not limited to “the unique facts of this case,” Pet. 35-37. Indeed, because Synopsis does not challenge the evidentiary predicates of Mentor’s damages theory, the facts are both “undisputed,” Opp. 24, and “remarkably simple for a patent damages appeal,” Pet. App. 16a. “[T]he 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.” HP Br. 6.

None of the supposed “limitations” on the panel’s holding, Opp. 30, actually constrains its scope. It does not matter that the panel purported to heed the principle that damages must be apportioned: “[C]alling the first and second *Panduit* factors apportionment” does not make it so. Pet. App. 72a (Dyk dissent). The question is whether satisfying *Panduit* actually accomplishes the apportionment this Court requires. “[I]t does not.” Pet. App. 77a; *see* Pet. 31-34.

There is nothing “rare,” Opp. 25, 28, about Mentor’s damages theory. Lost profits represent one of two forms of patent damages, Pet. 25-26, and are by no means exceptional. PwC, *2017 Patent Litigation Study* 11, <https://tinyurl.com/yakact24> (from 2007-2016, 40% of damages awards for practicing entities included lost profits). Modern patent litigation commonly involves multicomponent products. Pet. 37-38. And *Panduit* is “by far the most common approach” for proving lost profits. Mark A. Glick, *Intellectual Property Damages* 141 (2002). It blinks reality for Mentor to maintain that *Panduit* is rarely invoked because it is “exceedingly difficult,” Opp. 3, or “nearly impossible,” Opp. 29.¹

¹ Nor is the panel’s holding confined to a “two-supplier market.” Opp. 29. Mentor also sought and obtained lost profits for sales in a multi-supplier market. Mentor C.A. Princ. Br. 44; C.A. A170 (jury instruction) (non-Intel sales).

Mentor is also wrong that the panel’s rule was dictated by “longstanding precedent.” Opp. 25. The district court labeled the Federal Circuit’s damages jurisprudence a “hot mess.” C.A. A41,996-97. For good reason. If the law was settled, the district court wouldn’t have repeatedly reversed itself, Pet. 9-10, the panel wouldn’t have adopted a “new theory” no one raised, *see* Pet. App. 76a (Dyk dissent), the concurrence from rehearing denial wouldn’t have adopted its own distinct theory, Pet. 34-35, and two dissenting judges wouldn’t have found the panel’s ruling “directly contrary” to Supreme Court precedent, Pet. App. 75a.

Finally, Mentor wrongly asserts, Opp. 4, 30-33, that no district court has adopted our approach to lost profits. Several have, including one we cited to the Federal Circuit. *See* 4-5 *Patent Law Perspectives* § 5.2[2][a][iv] & n. 80.95 (collecting cases); *Good Tech. Corp. v. MobileIron, Inc.*, No. 5:12-cv-05826-PSG, 2015 WL 3882608 (N.D. Cal. June 23, 2015) (cited by Synopsys Opening Br. 52).

B. The Federal Circuit wrongly held that *Panduit* accomplishes apportionment.

It is common ground that the requirement to apportion applies to all forms of patent damages. The *Panduit* test, however, does not apportion, and proving but-for causation (under *Panduit* or otherwise) is not the same thing as proving apportionment. Pet. App. 72a-73a; Bensen Br. 15. Apportionment requires that “the patentee ... separate ... the patentee’s damages between the patented feature and the unpatented features,” *Garretson v. Clark*, 111 U.S. 120, 121

(1884). *Panduit* might indicate that customers regard the patented feature as important, such that the patentee has proven it lost a sale and is due *some* amount of lost profits. Pet. App. 71a, 77a. But *Panduit* does not account for *other* features that also contribute to the product's value. Pet. 33-34; HP Br. 5-6; Chao Br. 5-7. And *Panduit* does not even necessarily establish the importance of the patented feature because (as here) customers may reject a non-infringing alternative for reasons having nothing to do with patented feature. Pet. 33-34. Thus, something more than *Panduit* is needed to determine what profits are attributable to the patented feature.

Contrary to Mentor's assertion, we do not argue that lost profits must be "apportioned twice." Opp. 4. Once would suffice. The problem is that there was no apportionment here at all. When Synopsys tried to show that some of the emulator's value was due to other features, the district court ruled: "That's apportionment. You can't do that[.]" C.A. A42,241. The jury was also never instructed on apportionment. Nevertheless, the Federal Circuit upheld the award on the theory that Mentor apportioned its damages—without trying, Pet. 10.

Mentor defends the panel opinion by arguing that once a patentee proves it is entitled to *any* lost profits, the principle of "full compensation" requires that it be "made whole," because anything less would "under-compensate[]." Opp. 24, 32-34. But that begs the question of what "full compensation" means for lost sales of a multicomponent product. Damages are limited to those "adequate to compensate for the infringement," 35 U.S.C. §284. "Under §284, damages ... 'must reflect

the value attributable to the infringing features of the product, and no more.” *CSIRO v. Cisco Sys.*, 809 F.3d 1295, 1301 (Fed. Cir. 2015).

This Court has never held otherwise. Pet. 26, 29-31. Mentor over-reads *General Motors Corp. v. Devex Corp.*, 461 U.S. 648 (1983), which referred to “full compensation.” *General Motors* involved prejudgment interest—not lost profits. *Id.* at 654. Similarly, when the plurality in *Aro Manufacturing Co. v. Convertible Top Replacement Co.* asked “how much [the patentee] would have made if [the defendant] had not infringed,” it was considering whether a patentee who had already been fully compensated for direct infringement could also recover for contributory infringement. 377 U.S. 476, 507-12 (1964). Neither *General Motors* nor *Aro* had occasion to consider whether the longstanding apportionment rule should be abrogated or modified.

By contrast, when this Court has considered damages theories similar to Mentor’s, it has held that apportionment is necessary *after* but-for causation has been shown. The Court said so in *Yale Lock Manufacturing Co. v. Sargent*, 117 U.S. 536 (1886), which addressed the damages available to a patentee who proved that infringement caused a reduction in the price of its product. Instead of compensating the plaintiff for the full amount of the price reduction, the award “made proper allowances for all other causes which could have affected the plaintiff’s prices.” *Id.* at 553. This Court approved that deduction even though the patented feature was “the essential feature” of the plaintiff’s product. *Id.*

Mentor distinguishes *Yale Lock* because the damages claimed there were lost profits via reduction in price, whereas Mentor seeks lost profits via lost sales. Opp. 33-34. That distinction makes no difference. What's critical is that neither damages theory could proceed without proof that infringement was a but-for cause of the injury. This Court in *Yale Lock* treated the causation showing as a threshold for obtaining any lost profits and then went on to require an apportionment that accounted for other value-contributing features. The same principle applies when the harm is for lost sales.

Mentor also misapprehends (Opp. 35) the jury charge in *Seymour v. McCormick*, which stated that lost profits are intended to measure what the plaintiff "would have made, provided the defendants had not interfered with his rights." 57 U.S. 480, 486 (1854). Mentor overlooks that *Seymour* reversed the damages award because it was a "very grave error to instruct a jury" to award damages that "cover[] an entire machine" when the patent is only for an improvement. *Id.* at 491; see Bensen Br. 19-20. The Federal Circuit's approach, if left to stand, would repeat that error.

CONCLUSION

This Court should grant the petition.

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