Nos. 15-1470, -1554, -1556

IN THE

United States Court of Appeals for the Federal Circuit

MENTOR GRAPHICS CORPORATION, an Oregon corporation,
Plaintiff-Cross-Appellant,

v.

EVE-USA, INC., a Delaware corporation,
SYNOPSYS EMULATION AND VERIFICATION, S.A.S.,
formed under the laws of France,
SYNOPSYS, INC., a Delaware corporation,
Defendants-Appellants.

On Appeal from the U.S. District Court for the District of Oregon, Case Nos. 3:10-cv-00954-MO (Lead), 3:12-cv-01500-MO, 3:13-cv-00579-MO, Hon. Michael W. Mosman

BRIEF OF *AMICUS CURIAE* INTELLECTUAL PROPERTY LAW SCHOLAR IN SUPPORT OF DEFENDANTS-APPELLANTS' PETITION FOR REHEARING EN BANC

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May 15, 2017

FORM 9. Certificate of Interest **Form 9 Rev. 03/16**

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

Mentor Graphics Corp., an Oregon Corp. **v.** EVE-USA, Inc., et al.

Case No. 15-1470, -1554, -1556

CERTIFICATE OF INTEREST

Counsel for the:
☐ (petitioner) ☐ (appellant) ☐ (respondent) ☐ (appellee) ☒ (amicus) ☐ (name of party)

Eric E. Bensen

certifies the following (use "None" if applicable; use extra sheets if necessary):

1. Full Name of Party Represented by me	2. Name of Real Party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:	3. Parent corporations and publicly held companies that own 10 % or more of stock in the party
Eric E. Bensen	Eric E. Bensen	None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (**and who have not or will not enter an appearance in this case**) are:

None

May 15, 2017
Date

/s/ Eric E. Bensen
Signature of counsel

Please Note: All questions must be answered

Eric E. Bensen
Printed name of counsel

cc: Counsel of Record

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STATEMENT OF INTEREST[1]

Amicus curiae is the author or coauthor of a number of intellectual property law treatises and other works and has, beginning in 2005 and continuing through the present, written extensively about the apportionment requirement for patent damages. He has no interest in the outcome of this matter. However, he has a strong interest in seeing patent law develop in a consistent and positive way.

INTRODUCTION

In patent law, "apportionment" is the requirement that a patentee's monetary recovery be based solely on the portion of an article's value that is attributable to the claimed invention. In *Mentor Graphics Corp. v. EVE-USA, Inc.*, 851 F.3d 1275 (Fed. Cir. 2017), the panel correctly recognized that lost profits awards are subject to the apportionment requirement. However, the panel held that a patentee can satisfy the apportionment requirement by satisfying the so-called "*Panduit* test." This is not so.

The *Panduit* test merely provides a framework for a patentee to prove that but for an infringement, it would have made some number of additional sales. Critically, the test neither requires the patentee to identify the portion of its lost profits that would have been attributable to the patented invention nor limits the

[1] No party's counsel authored any part of this brief. No party, party's counsel, or other person besides the amicus curiae contributed money to fund preparing or submitting this brief.

patentee's recovery to that portion. Rather, a patentee will either satisfy the test and receive its entire lost profits, or not satisfy the test and receive no lost profits. Thus, the panel's holding actually *excludes* any role for apportionment.

The Supreme Court has made it clear that a patentee seeking to recover lost profits must in every case satisfy the apportionment requirement. Moreover, apportionment of lost profits is consistent with the long-recognized need to balance incentives for innovation with the need for a competitive marketplace. The panel's rationales for holding that the *Panduit* test satisfies the apportionment requirement do not suffice to reconcile the panel's holding with Supreme Court precedent.

Defendants-Appellants' Petition for Rehearing En Banc should be granted to allow the Court to correct the panel's error.

ARGUMENT

I. A Patentee that Seeks to Recover its Lost Profits from Infringement Must Satisfy the Apportionment Requirement.

a. The Supreme Court has Repeatedly Required Apportionment in Lost Profits Cases.

In more than two-dozen decisions between 1854 and 1915, the Supreme Court held that a patentee has the burden of apportionment. See 4 Eric E. Bensen, *Patent Law Perspectives* § 5.2[1A] (Matthew Bender 2017). Lost profits were no exception: the Court required the patentee to limit its recovery to the portion of its lost profits that would have been attributable to its invention. The Court's

decisions have rarely been discussed in detail, so an overview will be helpful.[2]

As it happens, lost profits were at issue in the Court's first apportionment decision, *Seymour v. McCormick*. 57 U.S. 480 (1854). The patent at issue claimed an improvement to a reaping machine. *Id*. at 485. Reversing a lost profits award, the Court held that it was "very grave error" for the lower court to instruct the jury that "as to the measure of damages the same rule is to govern, whether the patent covers an entire machine or an improvement on a machine." *Id*. at 491. The Court reasoned that where a patent claims an entire device, an award based on the device's entire value is justified because infringement invades the patentee's exclusive right to supply demand for the device at its own price. *Id*. at 489. However, where a patent claims only an improvement to a device, an award based on the value of the entire device is not justified because the patentee's exclusive right under the patent extends only to the improvement, i.e., the patent gives the patentee no right to control sales of the underlying device. *Id*.

Perhaps the most straightforward of the Court's decisions on apportionment of lost profits was *Dobson v. Hartford Carpet Co.* 114 U.S. 439 (1885). Plaintiff had been awarded its entire lost profits on the carpet sales that it lost due to

[2] The Supreme Court's decisions respecting apportionment pre-date the current patent damages statute, 35 U.S.C. § 284, but that section was codified as part of the 1952 Patent Act, which, in turn, was intended to merely reorganize and clarify then-existing patent law. *E.g.*, *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1930 (2016) (discussing the history of section 284).

infringement. *Id*. at 443. However, the award "not only violate[d] the statutory rules of 'actual damages' … but confound[ed] all distinctions between cause and effect." *Id*. at 445-46. Drawing on a broad array of its earlier apportionment decisions, the Court explained that if the entire profit on a carpet could be attributed to its patented design, then the entire profit could also be attributed to *each* of the carpet's other features. *Id*. at 444-45. Were that permitted, a defendant could be called on to pay over an amount that far exceeded the value of the patents that it had infringed. *Id*. at 445. Accordingly, "[t]here is but one safe rule -- to require the actual damages or profits to be established by trustworthy legal proof." *Id*.

In *Blake v. Robertson*, the patentee sought to recover his entire lost profits, but offered no evidence to show how much of that profit was attributable to the patented component of his machine as opposed to other components. 94 U.S. 728, 733-34 (1877). Accordingly, the Court affirmed an award of nominal damages. *Id*. at 734. "It would have been error to give more." *Id*.

In *Yale Lock Manufacturing Co. v. Sargent*, the patentee sought price erosion damages, a form of lost profits. 117 U.S. 536, 552 (1886). The patented invention was "the essential feature" of the patentee's lock and because of the infringement, the patentee had to lower its prices to maintain its sales. *Id*. at 553. However, the Court approved the master's reduction of the patentee's lost profits

to account for, among other things, the value of a feature of the defendant's lock that was claimed by a third party's patent. *Id*.

Lastly, the Supreme Court's summary of the apportionment requirement in *Garretson v. Clark* makes it clear that the requirement applies to lost profits:

> '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 … .'

111 U.S. 120, 121 (1884) (emphasis added; quoting the decision of the lower court)). "Damages," of course, includes lost profits. *E.g., Birdsall v. Coolidge*, 93 U.S. 64, 68-69 (1876).

Thus, the Court has consistently required apportionment where lost profits were sought even though doing so meant that the patentee would not necessarily recover all of its lost profits that might have been traceable to the infringement.[3]

b. Requiring Apportionment for Lost Profits Awards is Consistent with Long-Recognized Patent Policy.

No doubt it is counterintuitive to suggest that a patentee might not be entitled to recover the entire profit it would have made but for an infringement. However, the balance struck by the Patent Act dictates that result. It has long been recognized that "the primary purpose of our patent laws is not the creation of

[3] Consistent with the apportionment requirement, a patentee can recover its entire lost profits if (i) its patent claims an entire marketable article, *Warren v. Keep*, 155 U.S. 265, 268 (1894), or (ii) the entire market value of a patented device is attributable to the patented feature, *Garretson*, 111 U.S. at 121.

private fortunes for the owners of patents but is 'to promote the progress of science and useful arts.'" *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510-511 (1917) (quoting U.S. Const. art. I, § 8; citing *Pennock v. Dialogue*, 27 U.S. 1, 19, (1829)). Accordingly, the Patent Act strikes a careful balance between the need to promote innovation and the need to protect competition. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964) ("[T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition.").

Requiring apportionment for lost profits awards strikes the required balance by allowing a patentee to profit from its invention, but prohibiting the patentee from profiting from the innovative work of others. *Cf. Motion Picture Patents*, 243 U.S. at 510 ("[T]he patentee receives nothing from the law which he did not have before, and … the only effect of his patent is to restrain others from manufacturing, using or selling that which he has invented."). On the other hand, in the absence of apportionment, "the smallest part is made equal to the whole, and 'actual damages' to the plaintiff may be converted into an unlimited series of penalties on the defendant." *Seymour*, 5 U.S. at 490-491. In practice, an infringer subject to a lost profits award might additionally be subject to one or more reasonable royalty awards in suits by other patentees. Were each award based on the *entire* value of the article, the total damages paid by the infringer would be

truly excessive.[4] Even by itself, an unapportioned lost profits award is "a pretty hard measure of justice" because it requires the infringer to pay over an amount beyond the value contributed by the invention. *Whitney v. Mowry*, 29 F. Cas. 1102, 1104 (C.C.S.D. Ohio 1868). The possibility of a manufacturer having to pay an amount that far exceeds the value of what it might unknowingly take from a patentee would be a significant disincentive to enter a market.

Simply put, permitting a patentee to recover an amount that exceeds the value of its invention improperly places the patentee's desire for private gain ahead of the public's need for free competition. The proper rule is that damages recoverable for infringement are limited to the actual value of what the infringer used without authority. *E.g.*, *Philp v. Nock*, 84 U.S. 460, 462 (1873) ("Where the infringement is confined to a part of the thing sold, the recovery must be limited accordingly.").

II. Satisfaction of the *Panduit* Test Does Not Satisfy the Apportionment Requirement.

a. Satisfaction of the *Panduit* Test Merely Establishes that "But For" an Infringement, the Patentee would have Made Additional Sales.

Under the *Panduit* test, a patentee can establish a right to recover lost profits by proving "(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit

[4] For this reason, apportionment is also required where a patentee seeks to recover a reasonable royalty. 1 Bensen, *Patent Law Perspectives* § 5.2[3][c].

the demand, and (4) the amount of the profit he would have made." *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc*., 575 F.2d 1152, 1156 (6th Cir. 1978). A patentee's satisfaction of the first three factors establishes that but for the infringement, it would have made additional sales. *Panduit* itself, which never mentions apportionment, makes it clear that the fourth factor refers to only the patentee's *total* profit on its lost sales of the patented article. *Id*. at 1156 (holding that the patentee failed to satisfy the fourth factor solely because it failed to offer evidence of fixed costs). Thus, satisfaction of the *Panduit* test merely establishes the "but for" causation predicate for a lost profits award.

The conclusion that the *Panduit* test also satisfies the apportionment requirement is defied by the fact that the test contains no mechanism to limit the patentee's lost profits to those attributable to the claimed invention. Under the test, a patentee will either receive its entire lost profits, or no lost profits at all. Properly, to recover lost profits in a manner that comports with Supreme Court precedent, a patentee must first establish "but for" causation, such as by satisfying the *Panduit* test, and separately satisfy the apportionment requirement.

b. The Panel's Rationales for Concluding that the *Panduit* Test Satisfies the Apportionment Requirement do not Reconcile its Holding with Supreme Court Precedent.

The panel's decision was rooted in two premises: that patent damages should "be treated no differently than the compensatory damages in other fields of law,"

and that in other fields of law--primarily, tort and contract--a claimant is put in the "same position it would have occupied had the harmful act never occurred." 851 F.3d at 1284. Neither premise is well grounded. It is axiomatic that the Patent Act preempts "other fields of law" with respect to inventions. *E.g.*, *Sears, Roebuck & Co.*, 376 U.S. at 230-31. It follows that compensatory damages for patent infringement *must* be treated differently from other compensatory damages if the Patent Act so requires. It is also axiomatic that notions of "other fields of law" are no license to depart from clearly applicable Supreme Court precedent.

Further, "other bodies of law" do not necessarily put a claimant in the "same position" as it would have been but for the wrong. For example, a claimant's recovery may be limited by comparative negligence in tort law, *e.g.*, N.Y. C.P.L.R. § 1411 (reducing the recovery in tort cases to the extent that the claimant contributed to the injury), and the bar on damages for unforeseeable losses in contract law, *e.g.*, *Restatement (Second) of Contracts* § 351(1) (1981). Even the panel acknowledged that a patentee cannot recover unforeseeable losses from infringement, 851 F.3d at 1285, n.4, i.e., that patent law does not necessarily put a patentee in the "same position" that it would have been in but for the infringement.

The panel's willingness to "leave for another day whether a different theory of 'but for' damages adequately incorporates apportionment principles," 851 F.3d at 1288, does not actually leave room for apportionment. The *Panduit* test is

merely a framework for using circumstantial evidence to establish "but for" causation. The only alternative is to offer *direct* evidence, e.g., by having defendant's customers testify about the basis for their purchase decisions. However, were apportionment not required in the former, there would be no rational basis to require it in the latter.

Lastly, the panel's reliance on statements in several Supreme Court decisions to the effect that a patentee is entitled to be restored to the position it would have been in had no infringement occurred, 851 F.3d at 1283-1284, was misplaced. Each of the quoted statements merely addressed the availability of a *category* of monetary recovery. *Gen. Motors Corp. v. Devex Corp.*, 461 U.S. 648, 654-55 (1983) (prejudgment interest); *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964) (damages for contributory infringement); *Yale Lock*, 117 U.S. at 552-53 (price erosion damages). Notably, *Yale Lock*, the only one of the three decisions to address apportionment, *affirmed* the master's apportionment of the patentee's lost profits. *Id*. at 553.

CONCLUSION

For the reasons stated above, *amicus curiae* respectfully urges the Court to grant Defendants-Appellants' Petition for Rehearing En Banc, overturn the panel decision and clarify that satisfying the *Panduit* test does *not* satisfy the apportionment requirement.

Respectfully submitted,

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CERTIFICATE OF COMPLIANCE

This brief complies with the typeface requirements of Fed. R. App. P. 32(a)(5) and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2010 in Times New Roman 14-point font.

/s/Eric E. Bensen
Eric E. Bensen

CERTIFICATE OF SERVICE

I hereby certify that I electronically filed the foregoing with the Clerk of the Court for the United States Court of Appeals for the Federal Circuit by using the appellate CM/ECF system on May 15, 2017.

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