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District Court Orders New Trial on Damages In Light of Virnetx, Inc. v. Cisco Systems, Inc.

Dec 1, 2014

Reading Time : **2 min**

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At trial, Plaintiff Power Integrations, Inc.'s damages expert, Mr. Putnam, provided a damages opinion for the jury based on the expected harm of Fairchild's infringement. In doing so, Mr. Putnam testified that "[i]f you have got competitors where the sale of the product causes the patentee to lose something . . . you don't apportion [damages to only the patented features]."

Apportionment Requirement for Patent Damages

It has been a longstanding requirement that a 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 . . . [or] that the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature." Garretson v. Clark, 111 U.S. 120, 121 (1884). Subsequent Federal Circuit precedent has provided further instructions on calculating damages in technical cases where claims are drawn on an individual component of a multicomponent product and, when using a "royalty base claim encompassing a product with significant noninfringing components," the patentee should identify and bases its damages on "the smallest salable infringing unit with close relation to the claimed invention." See Virnetx, Inc. v. Cisco Sys., Inc., 767 F.3d 1308, 1327 (Fed. Cir. 2014) (quoting Cornell Univ. v. HewlettPackard Co., 609 F. Supp. 2d 279, 285 (N.D.N.Y. 2009)).

In *VirnetX*, the Federal Circuit provided additional clarification on when apportionment must occur. VirnetX's damage expert had claimed to identify the smallest salable infringing unit and

calculated a royalty based on that identification. *See id*. at 132526. On appeal, Cisco Systems, Inc. argued that the lower court's jury instruction, which stated "In determining a royalty base, you should not use the value of the entire apparatus or product unless . . . the product in question constitutes the smallest salable unit containing the patented feature," improperly suggested that when using a smallest scalable infringing unit, no further apportionment is needed. *See id*. at 1327. The Federal Circuit agreed, and held that the patentee must in all cases apportion between the patented and unpatented features. Even where a patentee identifies the smallest salable infringing unit, "the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology." *See id*. at 132728.

The VirnetX Opinion Required District Court to Reconsider Its Opinion

The court found that the Federal Circuit's opinion in VirnetX provided a clarification that represented a material difference in law from that which was presented to the court and, therefore, Fairchild had shown good cause for reconsideration. Next, the court reviewed the testimony of Mr. Putnam, who disclaimed reliance on the entire market value rule, and focused on a royalty based on expected harm. Despite Power Integrations' argument that VirnetX did not require apportionment on its expected harm theory, the court held that VirnetX mandated a new trial on damages. The court noted the "Federal Circuit's clear directive [in VirnetX] that no matter what the form of the royalty, a patentee must take care to seek only those damages attributable to the infringing features." Because Mr. Putnam's analysis did not undertake any apportionment, the court concluded that the prior jury lacked sufficient evidence upon which to base its damages award and, consequently, a new trial on damages is required.

Power Integrations, Inc. v. Fairchild Semiconductor International, Inc. (N.D. Cal.) (Nov. 25 Order).

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