

## Castle Defense

### *Federal Circuit Reinforces Patent Damages Gate in VirnetX* *Part Two of a Two-Part Article*

By Rudy Kim and Michelle Yang

*In Part One, last month, the authors examined the Federal Circuit's VirnetX decision affirming lower courts' role as gatekeepers for expert testimony. The discussion continues herein.*

#### POST-VIRNETX STRATEGIES

While *VirnetX, Inc. v. Cisco Sys., Inc.*, No. 2013-1489, --- F.3d --- (Fed. Cir. Sept. 16, 2014) (“slip op.”) decision provides important clarification, the decision leaves open several strategies that plaintiffs may now attempt to employ in attacking the patent damages

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gate — and which defendants must now counter.

#### Royalty Base

One strategy plaintiffs may employ is to argue that an accused product is not a “multi-component” product. Though the *VirnetX* court noted that the patentee must apportion between patented and unpatented features “in every case,” its holding was directed to situations “[w]here the smallest salable unit is, in fact, a multi-component product containing several non-infringing features.” *Id.* at 26 (emphasis added) (quoting *Garretson v. Clark*, 111 U.S. 120, 121 (1884)); *Id.* at 29. It remains to be seen how this holding will be applied in cases involving certain technologies. In *Astrazeneca AB v. Apotex Corp.*, 985 F. Supp. 2d 452, 490 (S.D.N.Y. 2013), for example, the district court rejected defendant's attempt to apportion damages to the infringing subcoating of a delayed-release capsule for treating heartburn, accepting instead the value of the entire accused capsule as the royalty base. According to the district court, “there is little reason to import these [apportionment]

rules for multi-component products like machines into the generic pharmaceutical context.” *Id.* In light of *VirnetX*, some form of apportionment is likely required, but there may be limited “precedent for doing so” especially for certain types of technologies. *Id.*

Another potential strategy for plaintiffs is to argue that substantially all of the components within an accused product are necessary to practice the asserted claims, and are therefore the features with sufficiently close relation to the patented functionality. The *VirnetX* decision offered no opinion on whether the alternative royalty base, a \$29 software upgrade for Mac computers that added FaceTime functionality, was sufficiently related to the claimed feature. *VirnetX*, slip op. at 32 n.3. Given this silence, plaintiffs may argue, as the district court found in *Personalized Media Commc'ns, LLC v. Zynga, Inc.*, No. 2:12-cv-00068, 2013 WL 5979627 (E.D. Tex. Nov. 8, 2013), that the damages expert could not have further divided the accused product and “still remained consistent with [plaintiff's] theory of infringement.”

Defendants, however, may rely on other decisions rejecting attempts to use the entire accused product as the royalty base, particularly when there is only a “cursory recitation of the entire device in the asserted claims.” *GPNE Corp. v. Apple Inc.*, No. 12-cv-02885, 2014 WL 1494247, at 12 (N.D. Cal. Apr. 16, 2014). As in *GPNE*, defendants may succeed by proposing a smaller royalty base, notwithstanding the recitation of generic “node” and “memory” elements, if the patented invention is directed to a specific feature. *Id.* at 12-13.

### **Royalty Rate**

Plaintiffs who wish to rely on the Nash Bargaining Solution or similar generic assumptions must now show how the underlying premises of the Nash Bargaining Solution (or any similar theorem) fit the facts of the case. The *VirnetX* decision cites several district court decisions where the plaintiff’s damages expert appropriately considered “the facts of the case, specifically the relationship between the parties and their relative bargaining power, the relationship between the patent and the accused product, the standard profit margins in the industry, and the presumed validity of the patent.” *Sanofi-Aventis Deutschland GmbH v. Glenmark Pharm. Inc., USA*, No. 07-cv-5855, 2011 WL 383861, at 12-13 (D.N.J. Feb. 3, 2011); *see also, Gen-Probe Inc. v. Becton Dickinson & Co.*, Nos. 09-cv-2319, 10-cv-0602, 2012 WL 9335913, at 3 (S.D. Cal. Nov. 26, 2012). The Federal Circuit, however, did not elaborate on the specific

factual circumstances under which the use of the Nash Bargaining Solution or similar types of assumptions would be appropriate.

### **Multiple Siege Attempts**

Although risky, plaintiffs may attempt to wage successive siege campaigns by taking aggressive initial positions on damages and arguing for a second chance if their expert testimony is excluded. They may cite to *Cornell*, where Judge Rader allowed the expert a second chance to testify and apportion damages to a smaller component, or other district court decisions that similarly allowed new expert reports. *See, Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283-84 (N.D.N.Y. 2009) (Rader, J., sitting by designation). *See also, e.g., Dynetix Design Solutions, Inc. v. Synopsys, Inc.*, No. C 11-05973, 2013 WL 4538210, at 5 (N.D. Cal. Aug. 22, 2013); *Wi-Lan Inc. v. Alcatel-Lucent USA Inc.*, Nos. 6:10-CV-521, 6:13-CV-252, slip op. at 8 (E.D. Tex. June 28, 2013).

Defendants, however, may point to *Rembrandt*, where the Federal Circuit declined to hear an interlocutory appeal on the exclusion of a plaintiff’s damages expert’s testimony on the eve of trial, noting: [G]iven the nature of the [apportionment] inquiries involved, the rules are not so precise in their application or scope as to make a single opportunity for compliance clearly or always enough — though, in the right circumstances, a district court may well decide that it is.

*Rembrandt Soc. Media, LP v.*

*Facebook, Inc.*, 561 F. App’x 909, 910, 912-13 (Fed. Cir. 2014).

The Federal Circuit has also previously held that reasonable royalty damages can be awarded even without expert testimony. *Dow Chem. Co. v. Mee Indus., Inc.*, 341 F.3d 1370, 1381-82 (Fed. Cir. 2003). Defendants may raise this precedent to argue that “giving a second bite simply encourages overreaching on the first bite” on damages. *Network Prot. Scis., LLC v. Fortinet, Inc.*, No. C 12-01106, 2013 WL 5402089, at 8 (N.D. Cal. Sept. 26, 2013).

### **CONCLUSION**

The Federal Circuit in *VirnetX* has reinforced the district court’s gatekeeping role against unreliable expert testimony that: 1) fails to apportion damages even when an accused multi-component product is the “smallest salable unit;” or 2) relies on the Nash Bargaining Solution or similar generic assumptions without tying the underlying premises to the facts of the case. The *VirnetX* decision, however, also leaves open several potential strategies for plaintiffs to maximize damages (and potential counter-strategies for defendants), thereby creating further opportunities for district courts to exercise their gatekeeper role.

