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TIGHT CORNER FOR PATENT INJUNCTIONS?
NEW “DRIVES DEMAND” TEST PORTENDS MISCHIEF

“Driving consumer demand” may soon drive patent infringement litigants crazy, especially if they are seeking preliminary injunctions. This new test may increase litigation risks for patentees, and the cost of litigation will rise for everyone.

The Federal Circuit recently applied the “driving consumer demand” test previously used in cases involving the entire market value rule (EMVR) to a case involving a motion for preliminary injunction. Pondering this new test, litigants may wonder, “If the Federal Circuit’s restrictive use of ‘drives demand’ in evaluating the EMVR in *LaserDynamics* spelled the death of that option in many damages cases, does the court’s recent use of the same phrase in *Apple v. Samsung* mean it will be impossible to get an injunction as well?”

Comparing the EMVR and Injunction Cases

In *LaserDynamics, Inc. v. Quanta Computer, Inc.*,¹ the Federal Circuit reviewed the EMVR in the context of a reasonable-royalty case, saying:

If 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.²

Compare that passage with the Federal Circuit’s language in *Apple Inc. v. Samsung Elec. Co., Ltd.*,³ that:

If the patented feature does not *drive the demand* for the product, sales would be lost even if the offending feature were absent from the accused product. Thus, a likelihood of irreparable harm cannot be shown if sales would be lost regardless of the infringing conduct.⁴

Understanding the significance of the Federal Circuit’s convergence of “drives demand” in damages and injunction cases requires a brief review of the cases where the concept came into play.

LaserDynamics and the EMVR

The origins of the EMVR lie in U.S. Supreme Court precedent requiring patentees to apportion damages between the patented feature and unpatented features using evidence that is reliable and tangible, not conjectural or speculative.⁵ In effect, the EMVR ensures that royalty damages sought under 35 U.S.C. § 284 are “reasonable” in light of the technology at issue.⁶

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1 694 F.3d 51 (Fed. Cir. 2012).
2 *Id.* at 67 (citing *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549, 1551) (emphasis added).
3 695 F.3d 1370 (Fed. Cir. 2012).
4 *Id.* at 1374 (citing *Apple Inc. v. Samsung Elec. Co., Ltd.*, 678 F.3d 1314, 1324 (Fed. Cir. 2012) (emphasis added).
5 *LaserDynamics, Inc.*, 694 F.3d at 67 (citing *Garretson v. Clark*, 111 U.S. 120, 121 (1884) (“[T]he entire value of the whole machine, as a marketable article, [must be] properly and legally attributable to the patented feature.”)).
6 *Id.* at 67.

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When only small parts of multi-component products are accused of infringement, a reasonable royalty calculation based on sales of the entire product carries a “considerable risk” that the patentee will be compensated for non-infringing components. Thus, royalties are generally based on the “smallest salable patent-practicing unit.”

Error from an improperly admitted EMVR theory may manifest in the disclosure of revenues earned by the accused infringer on a complete product rather than on the patented component only. Disclosure of overall product revenues skews the jury’s perception by making the patentee’s damages appear modest in comparison to the entire product revenues. This perception artificially inflates the amount of damages apparently required to provide “adequate” compensation to the patentee.

When only small parts of multi-component products are accused of infringement, a reasonable royalty calculation based on sales of the entire product carries a “considerable risk” that the patentee will be compensated for non-infringing components.⁷ Thus, royalties are generally based on the “smallest salable patent-practicing unit.”⁸

The EMVR has been a narrow exception to this rule.⁹ Damages are recoverable on the entire market value of the accused product under the EMVR *only* “if the patented apparatus was of such paramount importance that it substantially created the value of the component parts.”¹⁰ To determine whether the EMVR applies, “the patentee must prove that the patent-related feature is the *basis for customer demand*” of the entire product.¹¹

In *LaserDynamics*, the Federal Circuit Court of Appeals granted a new trial on damages based on plaintiff’s misapplication of the EMVR.¹² The *LaserDynamics* panel approached the EMVR urging caution:

- In a product using dozens of distinct components, assessing the value of each patented and non-patented component as a part of the overall product “can be an exceedingly difficult and error-prone task.”¹³
- Error from an improperly admitted EMVR theory may manifest in the disclosure of revenues earned by the accused infringer on a complete product rather than on the patented component only.¹⁴ Disclosure of overall product revenues skews the jury’s perception by making the patentee’s damages appear modest in comparison to the entire product revenues. This perception artificially inflates the amount of damages apparently required to provide “adequate” compensation to the patentee.¹⁵

Applying EMVR rules to the facts, the court narrowed application of the EMVR when it concluded:

- It is *not enough* to show the patented feature is viewed as “valuable, important, or even essential” to the use of the accused product.¹⁶
- It is *not enough* to show the accused product without the patented feature would be “commercially unviable,” because proof that customers want a product with the patented features “is not tantamount to proof that only one of those features alone drives the market . . .”¹⁷
- Consumer preference for a product with the patented functionality says nothing about whether the presence of that functionality “is what motivates consumers to buy a [product] in the first place.”¹⁸ The EMVR requires this higher degree of proof.¹⁹
- Even though consumers may expect the patented feature to be present in a product, “[t]here is no evidence that this feature alone motivates consumers to purchase [the product], such that the value of the entire product can be attributable to the patented” feature.²⁰
- Plaintiff’s damages expert never conducted market studies or consumer surveys to gauge whether customer demand for the accused product was driven by the patented technology.²¹

⁷ *Id.*

⁸ *Id.* (citing *Cornell Univ. v. Hewlett-Packard Co.*, 609 F. Supp. 2d 279, 283, 287-88 (N.D.N.Y. 2009) (Rader, C.J., sitting by designation)).

⁹ *Id.*

¹⁰ *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1549 (Fed. Cir. 1995) (citations omitted).

¹¹ *Lucent Techs., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1336 (Fed. Cir. 2009) (citations omitted) (emphasis added); see, e.g., *Rite-Hite Corp.*, 56 F.3d at 1549.

¹² *LaserDynamics, Inc.*, 694 F.3d at 66.

¹³ *Id.*

¹⁴ *Id.* at 68.

¹⁵ *Id.* (citing *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011)).

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.* at 69.

²¹ *Id.* at 68.

The Federal Circuit fashioned a new two-step test for proving the irreparable harm required to establish the right to injunctive relief that pivots on the patented feature driving demand for the accused product: (1) irreparable harm will result absent the requested relief, and (2) “some causal nexus” exists between the infringement and the alleged irreparable harm.

The relevant question is not *whether* the injury is causally related to the infringement, but *to what extent* harm from selling the accused product can be ascribed to the infringement. The patentee must demonstrate the infringing feature *drives consumer demand* for the accused products.

Apple Inc. v. Samsung Elec. Co., Ltd. and Preliminary Injunctions

In two cases involving Apple and Samsung²², the Federal Circuit considered motions for injunctive relief. Specifically, the court analyzed whether the plaintiff “is likely to suffer irreparable harm in the absence of preliminary relief.” In those cases, the Federal Circuit adopted a new test for examining the existence of irreparable harm based on market demand for the accused product.

*Apple Inc. v. Samsung Elec. Co., Ltd. I*²³

In its opinion, the Federal Circuit discussed the irreparable harm factor and reasoned:

- Logically, to show irreparable harm, the infringement must have caused harm in the first place.²⁴
- There is no irreparable harm if sales would have been lost regardless of the infringing conduct.²⁵ Sales lost to an infringing product cannot irreparably harm the patentee if consumers buy the accused product for reasons other than the patent feature.²⁶
- Therefore, if the patented feature does not “*drive the demand* for the product” and sales would be lost even if the patented feature were absent from the accused product, there is no irreparable harm.²⁷

Given this analysis, the Federal Circuit fashioned a new two-step test for proving the irreparable harm required to establish the right to injunctive relief that pivots on the patented feature driving demand for the accused product: (1) irreparable harm will result absent the requested relief, and (2) “some causal nexus” exists between the infringement and the alleged irreparable harm.²⁸

*Apple Inc. v. Samsung Elec. Co., Ltd. II*²⁹

The newly minted two-step test for irreparable harm was affirmed and refined in a second case involving Apple and Samsung.³⁰ The Federal Circuit’s analysis took a familiar path:

- Where the accused product includes many features of which only one (or a small minority) infringe, a finding that the patentee risks irreparable harm does not alone justify an injunction. In such circumstances, *the patentee must also show the harm is sufficiently related to the infringement*.³¹
- Causal nexus and irreparable harm inquiries are inextricably related. Irreparable harm cannot be shown if sales would be lost regardless of the infringing product. In other words, the accused product would sell almost as well without the patented feature.³²
- The relevant question is not *whether* the injury is causally related to the infringement, but *to what extent* harm from selling the accused product can be ascribed to the infringement. The patentee must demonstrate the infringing feature *drives consumer demand* for the accused products.³³
- To establish a sufficiently strong causal nexus, the patentee must prove consumers buy the accused product *because* it includes the claimed technology.³⁴

22 *Apple Inc. v. Samsung Elec. Co., Ltd.*, 678 F.3d 1314 (Fed. Cir. 2012) (*Apple I*); *Apple Inc. v. Samsung Elec. Co., Ltd.*, 695 F.3d 1370 (Fed. Cir. 2012) (*Apple II*).

23 *Apple Inc. v. Samsung Elec. Co., Ltd.*, 678 F.3d 1325 (Fed. Cir. 2012) (*Apple I*).

24 *Id.* at 1325.

25 *Id.* at 1324.

26 *Id.*

27 *Id.* (emphasis added).

28 See *Apple II*, 695 F.3d at 1374; *Apple I*, 678 F.3d at 1324, 1327.

29 *Apple Inc. v. Samsung Elec. Co., Ltd.*, 695 F.3d 1370, 1973 (Fed. Cir. 2012) (*Apple II*).

30 *Apple II*, 695 F.3d at 1973 et seq.

31 *Id.* at 1374 (citing at 1324).

32 *Id.* at 1374-75.

33 *Id.* at 1375.

34 *Id.*

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Questions to Consider

Consider the following three questions regarding this new “drives demand” requirement for establishing “irreparable harm”:

1. Similar Application/Interpretation? In *LaserDynamics* and *Apple v. Samsung*, the Federal Circuit used “drives demand” in the same factual context (market demand for the accused product) to analyze the same question (Does the patented feature drive market demand for the accused product?). Given this, the court may use the restrictive interpretation of “drives demand” of *LaserDynamics* in future injunction cases. Because the “irreparable harm” factor relates to both preliminary and permanent injunctions, the court may apply the restrictive rules to permanent injunction cases as well as preliminary injunction cases. One court already has.³⁵

2. Litigation More Expensive? Application of the “drives demand” analysis will inevitably increase costs of litigation. For example, litigants in injunction cases, especially patentees, will be obligated to engage survey experts and experts on the issue of irreparable harm to prove consumer demand is driven by the patented feature. This will lead to a survey arms race with the inevitable wrangling and expense associated such expert opinions.

3. No Way to Win? The new “causal nexus” requirement for establishing irreparable harm and its accompanying “drives demand” analysis may pose a nasty Catch-22 for patentees seeking injunctions. Consider these possibilities:

- **Drives Demand** -- If the patentee proves the patented feature drives demand for the accused product and meets the two-pronged test for irreparable harm, the EMVR will be available. If the EMVR is available, then royalty damages are likely to be available. If money damages are available to rectify the infringement, the likelihood of injunctive relief is diminished.³⁶
- **Does Not Drive Demand** -- If the patentee fails to prove that the patented feature drives demand for the accused product, the two-pronged test for irreparable harm will not be met, and it is unlikely an injunction will be entered.³⁷ In addition, absent such proof, the EMVR will be unavailable. Without the EMVR, the patentee may be unable to recover damages.

35 *Brocade Comm. Sys., Inc. v. A10 Networks, Inc.*, No. C 10-3428 PSG, 2013 WL 140039 (N.D. Cal. Jan. 10, 2013).

36 *See eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006) (injunction factor (2) inadequate remedies at law); *Winter v. Natural Res. Def. Council*, 555 U.S. 7, 20 (2008) (applying eBay-like standards to preliminary injunction cases).

37 *See Jack Guttman, Inc. v. Kopykake Enters., Inc.*, 302 F.3d 1352, 1356 (Fed. Cir. 2002) (internal citations omitted); *Apple Inc. v. Samsung Elec. Co., Ltd.*, No. 11-CV-01846-LHK, 2011 WL 7036077, at *20 (N.D. Cal. Dec. 2, 2011) (citing *Jack Guttman, Inc.*).