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Entire Market Value Rule Is Alive But Not Well

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On Sept. 20, 2018, the Federal Circuit issued a modified opinion in Power Integrations v. Fairchild Semiconductor International Inc. Addressing the patent holder's burden when claiming that the damages base should be revenues for the entire product and not merely the smallest salable patent practicing unit, Power Integrations retreated from an earlier panel ruling that set an unattainable standard. The "entire market value rule" persists, albeit in a diminished form.

Power Integrations arises from a jury verdict in 2014 finding Fairchild infringed Power Integration's Patent No. 6,212,079. As a result of the infringement finding, the jury awarded Power Integrations $105 million as reasonable royalties. Six months after the jury verdict, and while the case was still pending in the district court, the Federal Circuit decided VirnetX Inc. v. Cisco Systems, Inc., which concerned the general rule that a patentee seeking damages based on an infringing product with both patented and unpatented features must "apportion damages only to the patented features" even after identifying the smallest salable unit. Because Power Integrations' royalty calculation in the first trial did not apportion beyond the "smallest salable unit" and Power Integrations had disclaimed reliance on the entire market value rule, the district court granted a new trial on the issue of damages.

The second damages trial was held in December 2015. The district court granted a Daubert motion excluding Power Integrations' expert's testimony based on apportionment, but allowed the case to proceed to trial on an entire market value rule damages theory. At the conclusion of the second trial, the jury awarded $139.8 million in damages. Fairchild appealed the jury's decision and in July 2018, the Federal Circuit vacated the damages award and remanded the case for a new trial holding that "the evidence presented by Power Integrations was insufficient as a matter of law to invoke the entire market value rule."

The Federal Circuit's first opinion explained that:

The entire market value rule allows for the recovery of damages based on the value of an entire apparatus containing several features, when the feature patented constitutes the basis for consumer demand. Lucent Techs., Inc. v.

Gateway, Inc., 580 F.3d 1301, 1336 (Fed. Cir. 2009); see also Rite-Hite Corp. v. Kelley Co., 36 F.3d 1538, 1549 (Fed. Cir. 1995) (en banc). As we have explained, "[t]he law requires patentees to apportion the royalty down to a reasonable estimate of the value of its claimed technology," unless it can "establish that its patented technology drove demand for the entire product." VirnetX, 767 F.3d at 1329. "[S]trict requirements limiting the entire market value exception ensure that a reasonable royalty 'does not overreach and encompass components not covered by the patent.'" Id. at 1326.

The Federal Circuit then addressed the patentee's burden in proving it was entitled to apply the entire market value rule. The court stated that, "[w]here the accused infringer presents evidence that its accused product has other valuable features beyond the patented feature, the patent holder must establish that these features are not relevant to consumer choice." Later in the opinion, the court reiterated the point, but with slightly different language stating: "[w]hen the product contains other valuable features, the patentee must prove that those other features did not influence purchasing decisions." One obvious problem with this opinion is that the Federal Circuit's different descriptions of the patentee's burden would almost certainly cause confusion in application. But even assuming that these different descriptions are functionally synonymous, the Federal Circuit articulated a burden likely to prove nearly impossible to meet. Faced with evidence of other "valuable features" presented by an infringer, the patentee would then be compelled to "prove" that those other features "were not relevant" to a consumer's decision to purchase the infringing product.

Following this first opinion, Power Integrations sought rehearing en banc. Despite denying the en banc petition, the full Federal Circuit issued a "modified precedential opinion." Perhaps realizing how high it had set the bar in its first decision, the Federal Circuit revised its opinion. In particular, the Federal Circuit modified its holding, stating that "[w]here the accused infringer presents evidence that its accused product has other valuable features beyond the patented feature, the patent holder must establish that these features do not cause consumers to purchase the product." The Federal Circuit's reiteration of this point in the revised opinion was also modified to be consistent with the first statement. ("When the product contains other valuable features, the patentee must prove that those other features do not cause consumers to purchase the product.").

Facially, as a simple matter of the language used, the revised opinion lowers the hurdle to invoke the entire market value rule. Certainly, the burden of showing a feature did not cause the purchase of a product appears lower than showing that the feature was not relevant to or did not influence that choice. However, in reality, the newly formulated burden will prove to be just as difficult to meet in practice. Consider for a moment what evidence can be presented that will satisfy the Federal Circuit's considerable scrutiny of a patentee's attempt to seek damages under the entire market value rule? Perhaps a survey or a mountain of third-party discovery.

Practitioners might immediately think they can secure the necessary evidence through surveying the patentee's customers. However, the Federal Circuit implied in footnote 7 that the relevant customer decisions are those customers that bought the infringer's accused product and not the patentees' product. There is a significant discovery burden in proving that other features did not cause an infringer's consumers to purchase the infringer's product. First, a patentee would have to identify the infringer's customers in discovery. Second, the patentee would have to serve third party discovery on those customers to prove other features did not cause consumers to purchase the infringing product. Third, the patentee would have to convince a district court judge that the burden or expense of the proposed third party discovery did not outweigh its likely benefit when the facts at issue were relevant to a damages theory the Federal Circuit has deemed "a demanding alternative to our general rule of apportionment." The other question left outstanding is how many customers' decisions would meet the

Federal Circuit's high burden of proof? If a majority of the infringer's customers admitted that no other features caused them to purchase the infringing product, would that be sufficient? Or, does the burden require proof that no other feature caused any of the infringer's customers to purchase the infringing product? Or, something in between.

In addition, the Federal Circuit faulted Power Integrations for suing and seeking damages for a second patent on a second feature. That raises the question of what a patentee should do if they have multiple patents directed to a single accused product. For instance, if a patentee were to mark its products pursuant to 35 U.S. Code § 287 with multiple patent numbers, would it need to concede prior to trial that either: (1) none of the other patents read on the accused product; or (2) that the other patents, even if they were infringed, had no value? Neither choice seems appealing. An election not to do so could later preclude invocation of the entire market value rule.

In practice, the Federal Circuit's revised language does little to make the entire market value rule any more viable than it would have been under the opinion's original language. It only reinforces that any patentee seeking damages under the entire market value rule, must also present an alternative plausible theory of damages under a theory that apportions damages based on the patented features and the smallest salable unit.

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