DISGORGEMENT + APPORTIONMENT TALKING POINTS

Whole Hog or a Hill of Beans: A Conversation About Disgorgement and Apportionment

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TRADE SECRETS

Slide: Economic Trade Secret Remedies: Overview

- Short overview of distinction between damages and equitable economic remedies to set stage

Slide: Economic Trade Secret Remedies: Overview 2

- Short overview of some of the most common trade secret remedies (by category – damages vs equitable economic remedies)

Slide: Economic Trade Secret Remedies: Disgorgement

- Pros and cons of disgorgement remedies in trade secret cases
- Examples help set the stage for the case for economic equitable remedies in trade secret misappropriation cases
- Cons set stage for DTSA discussion

Slide: Trade Secret Remedies Under the DTSA

- Focus on "damages for any unjust enrichment"
- Us of the word Damages appears to have caused confusion: Why?
- Damages are harm to the Plaintiff
- Unjust enrichment is more commonly an economic equitable remedy and not a damage
- Some cases allow for unjust enrichment as a proxy for damages
- Language in the DTSA – same section – states "damages for any unjust enrichment … that is not addressed in computing damages for actual loss"
    - This language states the obvious – no double counting – which is a universal consideration when awarding both damages and disgorgement remedies
    - Yet – it appears to have caused more confusion

Slide: Trade Secret Remedies: Avoided Costs

- If time allows: go over a few cases that appear to take conflicting positions on whether disgorgement is "compensation" for a harm, or an equitable remedy.
- Implications: if disgorgement is not available under the DTSA as an equitable remedy, then what?

DISGORGEMENT + APPORTIONMENT TALKING POINTS

- Plaintiffs likely will be penalized for catching and attempting to quickly shut down misappropriation.
- Defendants can achieve a windfall if they don't use them to compete.
- Long term use is rewarded over short term use: unless avoided costs are available
- In our experience Damages often do not come close to the magnitude of ill-gotten gain received by the Defendant
- Is the goal to compensate the Plaintiff or to prevent a windfall to the defendant or both?

DISGORGEMENT + APPORTIONMENT TALKING POINTS

DESIGN PATENTS

Slide: Patent Damages Generally

- Quick recap of §284, case law origin of apportionment requirement, and the case law impetus for the additional design patent remedy of disgorgement §289

Slide: Design Patent Damages

- Quick recap of §289 and summary of key holdings from Apple v. Samsung (US 2016), specifically: (1) no apportionment of defendant's profits; (2) first inquiry is what is the relevant "article of manufacture" and (3) second inquiry is what is the "total profit" on the article of manufacture

Slide: Design Patent Damages – Article of Manufacture

- Recap of key holding from Apple v. Samsung: article of manufacture can be a product sold to consumers or a component of that product given that design patents are granted under §171 on an "article of manufacture" (as opposed to a "product")
- Inquiry is therefore whether the article of manufacture is the entire product or a component of a product
    - For example, a dinner plate (the product is the article of manufacture) vs. a decorative component of kitchen oven
- Ambreen recent case example [at least mention type of product if not parties] focusing on different views of article of manufacture (product vs. component) and additional issue of disgorgement of profits from alleged convoyed sales

Slide: Design Patent Damages – Total Profit

- …of article of manufacture (product or component, as previously discussed)
- Measure of profit contemplated to be one that allowed defendant to recoup all capital + labor
- No appellate post-*Apple* determinations of "total profit" – *Nordock* (Fed Cir 2015) required gross revenue methodology resulting in total profits on the article of manufacture (dock leveler) not just those profits attributable to the patented design – but not defining what measure of profit
- Most recently Delta-T MD Fla. 2021 allowed deduction of fixed costs from revenues from article of manufacture (ceiling fans)

APPORTIONMENT

I. Patent Apportionment Considerations

- 35 U.S.C.§ 28: provides that "the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty."
    - Compensation to the patentee for infringement of any patent can take the form of lost profits or reasonable royalty damages.
    - Disgorgement of infringer's profits not available.

- A reasonable royalty must "carefully tie proof of damages to the claimed invention's footprint in the marketplace." (*ResQNet.com, Inc. v. Lansa, Inc.,* 594 F.3d 860, 869 (Fed. Cir. 2010); *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1320 (Fed. Cir. 2011).)

- The principle of apportionment seeks to ensure that the patent holder does not obtain an unfair benefit by receiving value for features of the infringing product that are not covered by the asserted patent.
    - Requires that the patentee "apportion" the damages between the patented feature and all other non-patented features.

- If the entire value of the marketed product is attributable to the patented feature of that product, then no apportionment is required.
    - The entire market value rule is a "demanding alternative" to the general rule of apportionment. (*Power Integrations, Inc. v. Fairchild Semiconductor International Inc.*, Case Nos. 16-2691; 17-1875 (Fed. Cir. Jul. 3, 2018) (Dyk, J).

- As the Federal Circuit emphasized in *Ericsson,* the "essential requirement is that the ultimate reasonable royalty award must be based on the incremental value that the patented invention adds to the end product." (*Ericsson, Inc. v. D-Link Systems, Inc.,* 197 F.2d 1625, 40 (Fed. Cir. 2014).)

II. Apportionment in Nonpatent Matters

- As we heard with regard to design patents and trade secrets - in nonpatent IP matters can seek disgorgement of infringer's profits

A. Copyright: Entitled to "profits of the infringer that are attributable to the infringement"

- Copyright Act 17 U.S. Code § 504 - Remedies for infringement: Damages and profits

- *Sheldon v. Metro-Goldwyn Pictures Corp.,* 106 F.2d 45, 51 (2d Cir. 1939) recognized the "difficulty of making an exact apportionment" and observed "that mathematical exactness was not possible" and what is required is only "reasonable approximation."

- For apportionment the expert should not consider just the infringing work's quantitative share of the total but rather its relative value to the overall work.

B. Trademark: Entitled to "profits earned by the defendant that are attributable to the infringement"

- Infringer can argue should apportion those profits to reflect the presence and influence of other factors on the consumers' decision to do business with the infringer.

- Experts sometimes consider just the infringing work's quantitative share of the total (e.g., seconds of broadcast time devoted to false advertising); but the court has in some cases rejected this if value of the wrongful message or misappropriated mark was disproportionate to its physical representation.

C. Trade Secrets

- State by state considerations

- 2 issues in trade secret apportionment:
    - If the product or service in question have parts or components unrelated to the trade secrets, then evaluate the trade secrets' "integral nature" in the product, and their contributions to total product value.
    - Some courts have required an additional evaluation as to different trade secrets' contributions to value (if more than one), if they are separable.

III. Advanced Techniques for Apportionment

A. Ordinary Course of Business Usage

- Documents and data may be available to estimate how often consumers use patented feature.

  This type of apportionment is economically valid because, ceteris paribus, consumers would be willing to pay more for a feature they get more use of out.

- This is also compelling information for the jury – as some cases involve features that they have never even heard of yet the damages expert has estimated huge damages.

- For example, in a recent case we applied a usage percentage that reduced damages by about 95% because the plaintiff's expert started with revenues that were much too broad and not specific to the feature in question.

B. Surveys

- Use of survey expert for estimates for usage, relative importance, or willingness-to-pay for patented feature can be helpful

- Conjoint surveys: various features are combined together in different ways and survey participants are asked how much they would pay for each composite products.
    - In this way, the value of the individual features can be estimated – because some of the composite products have the patented feature and some do not.

- Conjoint surveys are useful to determine:
    - Does the presence/absence of specific feature(s) impact/drive purchasing decision?
    - How much are consumers willing to pay ("WTP") for a certain feature?

C. Technical Apportionment

- Requires expert opinion from technical expert regarding relative importance of patented feature.

- Damages expert should carefully cite to the work of the technical expert.

- Danger for technical expert to be excluded if they do not provide reasonable basis and analysis supporting conclusions; avoid ipse dixit.

D. Econometric Tools

- Variety of tools and techniques available to measure incremental impact of patented feature on prices, unit sold, profits, or costs.

IV. Specific Econometric Tools for Apportionment

A. Hedonic Regression

- Regression using data from multiple products or models where the price is predicted based upon a variety of product features.

- Considerations include:
    - Must be able to isolate the patented feature. When features move together too much you have something called multicollinearity.
        - In *Stragent, LLC., et al., v. Intel Corp.* the patented feature moved together with a set of 21 other features and the results of Plaintiff's hedonic regression was excluded.
        - In *VSLI v. Intel* the trial court allowed but is now on appeal with consideration of whether non-infringing features included.
    - Have you included all relevant characteristics? i.e., no omitted variables bias.
        - For example, a 2008 paper by the Yale economist Robert Shiller highlighted a hedonic regression that found home buyers had a negative willingness to pay for air conditioning when
        - Problem was proximity to the water was not held constant – but those homes cost more and more often don't require air conditioning.

B. Differences-in-Differences

- Quasi-experimental technique, meaning that to use it there must be a treatment and control group.

- This technique allows for the possibility that the groups may have different outcomes. The question is – is that difference *different* over time.

- For example, we used this in a trade secrets case to show that the tortious interference caused economic harm to the plaintiff.

C. Structural Break Analysis

- Test hypothesis that feature-at-issue drives demand. If it does – then should see a significant shift in consumer demand when that feature is introduced.

- Need dataset that includes before and after the infringement allegedly started.

- Involves running a regression on time series data, often conducted using a Chow Test.

- We have used Chow tests in a variety of cases, including a trade secrets matter and a number of patent infringement cases.

D. Time Series Predictive Modeling

- Can use time series forecasting to predict what an outcome, such as unit sales, would have been over time but-for the alleged infringement.

- Those forecasted values can then be compared with actual values for an estimate of change due to the patented feature.

- Must consider issues like stationarity (is history predictive of the future) and what model would be most appropriate.

- We used time series modeling in an FTC case to show that foreign dumping of commodities were associated with a statistically significant decrease in domestic prices.

Eastern District of Texas Bench Bar

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Trade Secret Damages & Disgorgement Pros and Cons: Still a "Wild West"

Economic Trade Secret Remedies: Overview

Two Categories of Economic Remedies

- **Damages**: Harm to the Plaintiff
- **Equitable**: Benefit to the Defendant
  - Unjust enrichment schools of thought
    - Remedy NOT TIED to harm
    - Remedy is a PROXY for harm

Economic Trade Secret Remedies: Common Types

- **Damages Remedies**: Harm to the Plaintiff (same as patent law)
  - Lost Profits/Price Erosion
  - Reasonable Royalty
- **Equitable Economic Remedies**: Benefit to the Defendant (incremental over patent law)
  - Disgorgement of avoided costs
  - Disgorgement of ill-gotten gains
    - Unjust enrichment (profits)
    - Head start advantage

Economic Trade Secret Remedies: Disgorgement Pros & Cons

- **Pros**:
  - Eliminates penalty to plaintiff for moving quickly
  - Allows for equitable outcomes
  - Eliminates injunction compliance concerns (which are widespread)
- **Cons**:
  - Few boundaries allows for misuse (still the wild west)
  - Unfortunate DTSA wording: “damages”
  - Confusion/disagreement among Courts

Economic Trade Secret Remedies: DTSA

‘(i)(I) **damages** for **actual loss** caused by the misappropriation of the trade secret; and

‘‘(II) **damages** for any **unjust enrichment** caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss;

or

‘‘(ii) in lieu of damages measured by any other methods, the **damages** caused by the misappropriation measured by imposition of liability for a **reasonable royalty** for the misappropriator’s unauthorized disclosure or use of the trade secret;

Trade Secret Remedies: Avoided Costs

PPG v Jiangsu (3d Cir.)
Epic v Tata (7th Cir.)

Syntel v Trizetto (2d Cir.)

Design Patent Damages: *Total Profits* on *Articles of Manufacture*: The Old West Meets The New Frontier

Patent Damages Generally

- General Patent Damages: 35 USC 284, “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention”
- *Garretson v. Clark* (US 1884, mop head): “the patentee…must in every case…apportion the…patentee's damages between the patented feature and the unpatented features”
- *Dobson v. Hartford* Carpet (US 1886, carpet design): nominal award applying *Garretson* led to the Act of 1887 adding disgorgement for design patents (now 35 USC 289)

Design Patent Damages

- Types of damages and rules for determining damages are the same as utility patent damages EXCEPT…
  - ➢35 USC 289 provides for disgorgement of "total profit" from the "article of manufacture" that applies the patented design.

<u>Key Considerations</u>

(confirmed by *Apple v. Samsung*, US 2016)

- ➢no apportionment of total profit
- ➢determine the "article of manufacture" (cf. SGs 4-factors), then
- ➢determine "total profit" on the article of manufacture

Design Patent Damages: Article of Manufacture

- *Apple v. Samsung* (US 2016): "…the term 'article of manufacture' is broad enough to encompass both a product sold to a consumer as well as a component of that product."
- Some design patents relate to single articles of a multi-article product (35 USC 171) and *need not be sold separately* (*Apple*)
- Inquiry: Multicomponent v. Single Component Product?
- Current case example of product vs. component
  - Bonus topic: Disgorgement of profits on convoyed sales?

Design Patent Damages: Total Profit

- "Total profit" from the "article of manufacture"
- Historical interpretations of total profit attempt to reconcile tensions between causation and contribution, concluding:

  "…none of the profit on the infringing sales was causally attributable to the defendant's contribution once defendant was allowed to retain its capital and labor"
- Suggests a fully loaded cost approach, e.g., operating profit (*Delta-T*, MD Fla 2021, allowing deduction of fixed costs)
  - *But* "gross revenue methodology…[is] based on the [profits of the] entire article of manufacture not just those attributable to the patented design" (*Nordock*, Fed. Cir. 2015)

Apportionment:
Where the Wild West Meets the Final Frontier?

Patent Apportionment Considerations

- A reasonable royalty must "carefully tie proof of damages to the claimed invention's footprint in the marketplace." (ResQNet.com, Inc. v. Lansa, Inc., 594 F.3d 860, 869 (Fed. Cir. 2010); Uniloc USA, Inc. v. Microsoft Corp., 632 F.3d 1292, 1320 (Fed. Cir. 2011).)
- Apportionment and entire market value rule
  - For EMVR must show the patented feature is the "basis for customer demand." (*State Indus., Inc. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).)

Apportionment in Other IP Matters

- Copyright: entitled to “profits of the infringer that are attributable to the infringement”
- Trademark: entitled to “profits earned by the defendant that are attributable to the infringement”
- Trade Secrets: two-part consideration
  - Evaluate the trade secrets’ “integral nature” in the product;
  - Some courts have required evaluation of value on secret-by-secret basis (if separable)

Advanced Apportionment Techniques

- Usage from ordinary course of business via discovery
- Surveys: can provide estimates for usage, relative importance, or willingness-to-pay
- Technical apportionment: based upon opinion from technical expert regarding relative importance of patented feature
- Econometric tools: variety of tools to measure incremental impact of patented feature on prices, unit sold, profits, or costs

Specific Econometric Tools

- Hedonic regression
  - ➢Trial court initially accepted in *VLSI Technology LLC v. Intel Corp*. but excluded in *Stragent, LLC., et al., v. Intel Corp*.
- Quasi-experimental techniques:
- Differences-in-differences
- Structural break analysis
- Time series predictive models


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