

Eric Bensen on

Apportionment of Lost Profits for Patent Infringement

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Lurking just below the surface of patent damages cases in recent years has been the question of whether a patentee that seeks to recover its lost profits from infringement bears the burden of “apportionment.” Apportionment is the requirement that a patentee identify the portion of its profit on an article or process that is attributable to the claimed invention. That portion, in turn, becomes the basis for the patentee’s damages award. In a series of 19th and early 20th century cases, the Supreme Court made it clear that a patentee has the burden of apportionment in *all* cases. In *Mentor Graphics Corp. v. EVE-USA, Inc.*, [2017 U.S. App. LEXIS 4595](#) (Fed. Cir. Mar. 16, 2017), the Federal Circuit first squarely recognized that a patentee has the burden of apportionment when seeking to recover lost profits. However, by mistakenly conflating “but for” causation and apportionment, the court created a framework for determining lost profit awards that actually *excludes* any role for apportionment.

The discussion below, after providing some background on the apportionment requirement, highlights the shortcomings in *Mentor Graphics’* reasoning.

Discussion

A Brief History of Apportionment.¹ The apportionment requirement traces its roots to 1854 when the Supreme Court held that it is “grave error to instruct a jury ‘that as to the measure of damages the same rule is to govern, whether the patent covers an entire machine or an improvement on a machine.’”² The Court’s rationale was this: where a patent is on an entire device, an award based on the device’s entire value is justified because infringement invades the patentee’s exclusive right to both manufacture the machine and to supply demand for that machine at the patentee’s own price, but where the patent is on an improvement or a component, the patentee has no such right to invade.³ Apportionment serves two important purposes in the latter scenario. First, it protects an infringer from having to pay as damages an amount that exceeds its total profits on a multicomponent device.⁴ Second, it prevents the patentee from using the patent to control the sale of unpatented components.⁵ The Court summed up the apportionment requirement in 1884:

1 For a fuller discussion of apportionment, see 4 Eric E. Bensen, *Patent Law Perspectives* § 5.2[1A] (Matthew Bender) (“*Patent Law Perspectives*”).

2 *Seymour v. McCormick*, [57 U.S. 480, 491](#) (1854).

3 *Seymour*, 57 U.S. at 489–90.

4 *Dobson v. Hartford Carpet Co.*, [114 U.S. 439, 444](#) (1885).

5 *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, [235 U.S. 641, 646](#) (1915); see also *LaserDynamics, Inc. v. Quanta Computer, Inc.*, [694 F.3d 51, 67](#) (Fed. Cir. 2012) (requiring apportionment in the reasonable royalty context) (“Where small elements of multi-component products are accused of infringement, calculating a royalty on the entire product carries a considerable risk that the patentee will be improperly compensated for non-infringing components of that product.”).

When a patent is for an improvement, and not for an entirely new machine or contrivance, the patentee must show in what particulars his improvement has added to the usefulness of the machine or contrivance. He must separate its results distinctly from those of the other parts, so that the benefits derived from it may be distinctly seen and appreciated.⁶

Or, as the Court later explained:

[T]he evidence, although showing that the invention was meritorious and materially contributed to the value of the [machines], made it clear that their value was not entirely attributable to the invention, but was due in a substantial degree to the unpatented parts or features. ... In so far as the profits from the infringing sales were attributable to the patented improvements they belonged to the plaintiff, and in so far as they were due to other parts or features they belonged to the defendants.⁷

That rule is implicit in the current patent damages statute. That statute permits a patentee to obtain damages adequate to compensate for “infringement.”⁸ Infringement, in turn, is the unauthorized practice of the claimed “*invention*.”⁹

The general apportionment requirement is subject to just two exceptions. The first exception is that apportionment is not necessary where a patent claims an entire marketable article.¹⁰ The second exception is the “entire market value rule.” Under that rule, the patentee can satisfy the apportionment requirement by establishing that the entire market value of a patented device is attributable to the component or feature claimed by the patent.¹¹ Unlike the first exception, which necessarily follows from the Court’s rationale for adopting the apportionment requirement, the second has a questionable pedigree. The Court first recognized entire market value rule in *Manufacturing Co. v. Cowing* where the patent claimed an improvement to a gas pump that permitted the pump to be used in high altitude markets for the first time.¹² The Court held that because without the improvement, the pump had no value in the high altitude markets, the patentee could recover defendant’s entire profits on its sales of the pump in those markets.¹³ However, the Court considered its decision “exceptional,”¹⁴ as a later decision from the Court would emphasize.¹⁵ In the later decision, the Court strongly indicated that it would be the unusual case where the requirements of the entire market value rule could be met because factors beyond the patent will typically contribute to the value of a patented article.¹⁶ Notably, the mere fact that an

6 *Garretson v. Clark*, [111 U.S. 120, 121](#) (1884).

7 *Dowagiac Mfg.*, [235 U.S. at 646](#).

8 [35 U.S.C. § 284](#).

9 [35 U.S.C. § 271\(a\)](#) (emphasis added).

10 *Warren v. Keep*, [155 U.S. 265, 268](#) (1894) (“Where the patented invention is for a new article of manufacture, which is sold separately, the patentee is entitled to damages arising from the manufacture and sale of the entire article.”).

11 *Garretson*, [111 U.S. at 121](#).

12 [105 U.S. 253](#), 255–56 (1881).

13 [105 U.S. at 255–56](#).

14 [105 U.S. at 256](#).

15 *Dobson*, [114 U.S. at 445](#).

16 *Dobson*, [114 U.S. at 445–46](#) (“Approval of the particular [patented] design or pattern may very well be one motive for purchasing the article containing it, but the article must have intrinsic merits of quality and structure, to obtain a purchaser,

article with a patented improvement had displaced unimproved articles in the marketplace is not enough to satisfy the rule.¹⁷

Between 1854 and 1915, the Supreme Court decided more than two dozen significant patent damages cases and in each, adhered to the rule that a patentee must satisfy the apportionment requirement to recover for infringement.¹⁸

Apportionment of Lost Profits.¹⁹ A patentee's rights are derived solely from the Patent Act. Accordingly, the patentee is entitled to recover only what the Act allows. For historical reasons, deciphering what the law allows with respect to lost profit awards is a little tricky: during the time that the Court handed down its apportionment decisions, most patent cases were brought in courts of equity where damages were available, but where the primary form of monetary recovery was the *infringer's* profits.²⁰ Nonetheless, as will be discussed, decisions from that era establish that a patentee had to satisfy the apportionment requirement to recover its lost profits from infringement.

Perhaps the most notable of the Court's decisions on apportionment of lost profits was *Dobson v. Hartford Carpet Co.*²¹ Plaintiff had been awarded its lost profits from lost carpet sales resulting from defendant's infringement of plaintiff's patents on various carpet designs.²² However, the Court vacated the award because plaintiff had failed to apportion its profits between those attributable to the patented design and those attributable to other features, such as the materials used and craftsmanship.²³ True, as a result of that decision, Congress passed the predecessor to [35 U.S.C. § 289](#), which essentially exempted the recovery of an infringer's profits for design patent infringement from the apportionment requirement.²⁴ However, in doing so, Congress left the apportionment requirement for utility patents untouched.

In *Blake v. Robertson*, the Court affirmed an award of nominal damages because the patentee failed to show, among other things, how much of its profit was manufacturer's profit as opposed to profit attributable to its patent.²⁵ In *Yale Lock Manufacturing Co. v. Sargent*, the patentee sought price

aside from the pattern or design; and to attribute, in law, the entire profit to the pattern, to the exclusion of the other merits, unless it is shown, by evidence, as a fact, that the profit ought to be so attributed, not only violates the statutory rules of 'actual damages' and of 'profits to be accounted for,' but confounds all distinctions between cause and effect.").

17 *E.g.*, *LaserDynamics, Inc. v. Quanta Computer, Inc.*, [694 F.3d 51, 68](#) (Fed. Cir. 2012) ("[I]t enough to show that a laptop computer without [the patented feature] would be commercially unviable. Were this sufficient, a plethora of features of a laptop computer could be deemed to [satisfy the entire market value rule]."); *Garretson v. Clark*, [1878 U.S. App. LEXIS 2023, at *8](#) (C.C.N.D.N.Y. July 15, 1878), *aff'd*, [111 U.S. 120](#) (1884); see *4 Patent Law Perspectives* § 5.2[1A][c].

18 *4 Patent Law Perspectives* § 5.2[1A][a] (listing cases); see also Eric E. Bensen, *Apportionment of Lost Profits in Contemporary Patent Damages Cases*, [10 VA. J.L. & TECH. 8, 29-42](#) (2005) ("Bensen, *Apportionment of Lost Profits*") (discussing most of those cases in detail).

19 A patentee also has the burden of apportionment when seeking to recover a reasonable royalty for infringement. Eric E. Bensen & Danielle M. White, *Using Apportionment to Rein in the Georgia-Pacific Factors*, [9 COLUM. SCI. & TECH. L. REV. 1](#) (Fall 2007); 1 Harold Einhorn & Eric E. Bensen, *Patent Licensing Transactions* § 3.01a[3][a] (Matthew Bender) ("*Patent Licensing Transactions*").

20 Bensen, *Apportionment of Lost Profits* at 24-25.

21 [114 U.S. 439](#) (1885).

22 [114 U.S. at 442-443](#).

23 [114 U.S. at 443-446](#).

24 *4 Patent Law Perspectives* § 5.2[1A][e].

25 [94 U.S. 728, 734](#) (1877).

erosion damages, a form of lost profits.²⁶ The Court affirmed the master’s decision to reduce the patentee’s damages to account for the value of a component in defendant’s product that was covered by a third party’s patent.²⁷

Lest there be any doubt, the Court, in summarizing the apportionment rule, made it clear that “damages”—which include lost profits²⁸—are subject to apportionment:

The 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, and such evidence must be reliable and tangible, and not conjectural or speculative²⁹

In contemporary cases, apportionment of lost profits has followed a somewhat tortuous path. Getting things off in the wrong direction was *W.L. Gore & Associates, Inc. v. Carlisle Corp.*, where the court expressly held that apportionment is no longer required.³⁰ The court’s rationale was, essentially, that because the apportionment cases cited to it addressed infringer’s profits and infringer’s profits were no longer available for patent infringement,³¹ apportionment was no longer required.³² As detailed above, however, a number of significant apportionment cases made it clear that apportionment was required for lost profits awards.

Next up was the Federal Circuit’s en banc holding in *Rite-Hite Corp. v. Kelly Co.* that a patentee can recover lost profits on lost sales of an *unpatented* product if those sales were lost due to the infringement of a patent.³³ That holding begged the question, how does one determine the apportioned value of a claimed invention that is not used in the patentee’s product? *Rite-Hite* was followed by *King Instruments Corp. v. Perego*, where the Federal Circuit attempted to make things simple: if a patentee could establish that “but for” an infringing sale, it would not have lost a sale, it was entitled to recover its entire lost profit.³⁴ However, as discussed more fully below, establishing “but for” causation does not, as apportionment does, establish the quantum of damages to be recovered.

On the other hand, there was *Grain Processing Corp. v. American Maize-Products Co.*, where the patentee had plainly lost sales due to defendant’s infringement.³⁵ Nonetheless, the Federal Circuit affirmed the lower court’s refusal to award lost profits because defendant established that in terms

26 *E.g.*, *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, [575 F.2d 1152, 1157](#) (6th Cir. Mich. 1978) (“The right to damages caused by price reduction stands on the same ground as that to damages caused by lost sales.”).

27 [117 U.S. 536](#), 552–53 (1886).

28 When courts distinguished between “profits” and “damages”, “damages” referred to the patentee’s losses, which might have included its lost profits on lost sales due to infringement, and “profits” or “infringer’s profits” referred to the infringer’s gains, i.e., the profit the infringer obtained from infringement. *E.g.*, *Birdsall v. Coolidge*, [93 U.S. 64, 69](#) (1876).

29 *Garretson*, [111 U.S. at 121](#) (emphasis added).

30 198 U.S.P.Q. 353, 364–65 (D. Del. 1978).

31 For the unusual history leading to the elimination of infringer’s profits as a form of recovery for patent infringement, see 4 *Patent Law Perspectives* § 5.2[1B].

32 [198 U.S.P.Q. at 365](#).

33 [56 F.3d 1538, 1545](#) (Fed. Cir. 1995).

34 [65 F.3d 941, 952](#) (Fed. Cir. 1995).

35 [185 F.3d 1341](#) (Fed. Cir. 1999).

of market value, the patented product had no advantage over a noninfringing alternative later developed by defendant.³⁶ In *Ferguson Beauregard/Logic Controls v. Mega Systems, LLC*, the Federal Circuit agreed that the lower court erred in basing a lost profit award on lost sales of the patentee's product that included both a component claimed by the infringed patent and a component claimed by another patent.³⁷ The proper basis for the award, the court held, was the patentee's product that included only the component claimed by the infringed patent.³⁸ In both cases, the Federal Circuit showed sensitivity to the need for apportionment in the lost profits context, but did not squarely address the issue.³⁹

Some years later, the Federal Circuit seemingly accepted apportionment in the lost profits context when it said, "Indeed, apportionment is required even for non-royalty forms of damages: a jury must ultimately 'apportion the defendant's profits and the patentee's damages between the patented feature and the unpatented features' using 'reliable and tangible' evidence."⁴⁰ However, that comment was made in a reasonable royalty case.

Recent lower court decisions have applied the apportionment requirement in lost profits cases.⁴¹

"But for" Causation. "But for" causation is not a complicated concept in patent law. Simply put, if the defendant's activities did not cause the patentee to lose sales, the patentee is not entitled to recover lost profits.⁴² If defendant's activities did cause the patentee to lose sales, the patentee can seek to recover some or all of its lost profits. To establish that it lost sales to an infringer, a patentee will most commonly, if not almost universally, rely on the so-called "*Panduit test*," so named for the decision in which the test was first set forth, *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*⁴³ Under the *Panduit test*, a patentee can establish a right to recover lost profits by proving:

1. demand for the patented product, i.e., that the patented and infringing product were sufficiently similar to compete against each other in the same market for the same customers;
2. an absence of acceptable noninfringing substitutes;
3. its manufacturing and marketing capability to exploit the demand; and
4. the amount of the profit it would have made.⁴⁴

36 [185 F.3d at 1351](#).

37 [350 F.3d 1327, 1345-46](#) (Fed Cir. 2003).

38 [350 F.3d 1345-46](#).

39 Bensen, [Apportionment of Lost Profits at 18-21](#).

40 *Ericsson, Inc. v. D-Link Sys.*, [773 F.3d 1201, 1226](#) (Fed. Cir. 2014) (quoting *Garretson*, [111 U.S. at 121](#) (1884)).

41 *E.g.*, *Good Tech. Corp. v. MobileIron, Inc.*, [2015 U.S. Dist. LEXIS 81552, at **9-12](#) (N.D. Cal. June 23, 2015) (rejecting lost profits award because of the patentee's failure to apportion); *Electro-Mechanical Corp. v. Power Distrib. Prods.*, [2013 U.S. Dist. LEXIS 128871, at *16](#) (W.D. Va. Sept. 10, 2013) (same); *CareFusion 303, Inc. v. Sigma Int'l*, [2012 U.S. Dist. LEXIS 158, at *8](#) (S.D. Cal. Jan. 3, 2012) (rejecting an application of the entire market value rule in a lost profits context); *see also Universal Elecs., Inc. v. Universal Remote Control, Inc.*, [2014 U.S. Dist. LEXIS 182756](#) (C.D. Cal. Apr. 21, 2014) (noting the potential merit of defendant's apportionment of lost profits argument, but declining to resolve the matter on summary judgment) (citing Bensen, *Apportionment of Lost Profits*).

42 Naturally, the patentee can still seek a reasonable royalty. For a discussion of reasonable royalty awards for patent infringement, *see 1 Patent Licensing Transactions* § 3.01a.

43 [575 F.2d 1152](#) (6th Cir. 1978).

44 [575 F.2d at 1156](#). For a discussion of the *Panduit* factors, *see 4 Patent Law Perspectives* § 5.2[2][a].

As it turns out, the patentee in *Panduit* was not able to satisfy the *Panduit* test⁴⁵ and, accordingly, the court never reached the issue of apportionment. However, in view of the Supreme Court's precedent on apportionment, it is clear that satisfaction of the *Panduit* test establishes only the "but for" causation predicate for a lost profits award, not the quantum of the award.⁴⁶

In *Rite-Hite*, the Federal Circuit took "but for" causation down an entirely new path. There, the infringer sold a mechanism for restraining trucks to loading docks that embodied the patentee's invention, but competed primarily with an unpatented restraint system produced by the patentee.⁴⁷ The Federal Circuit allowed a lost profits award for the plaintiff's lost sales of the unpatented restraint system on the ground that the infringer knew that the infringing product would compete directly with the patentee's unpatented restraint, and, therefore, the lost sales were "foreseeable."⁴⁸ As the court explained, the statutory standard for damages "surely states a 'but for' test" limited only by the foreseeability of the lost sales.⁴⁹

However, under *Rite-Hite's* logic, a patentee is entitled to recover its entire lost profit even if the patent *did not contribute* to that profit, that is, even if the apportioned value of the patent was necessarily \$0. As discussed above, that cannot be the case, as that contradicts previous rulings from the Court. Moreover, the patentee also lost sales on unpatented dock levelers that it would have normally anticipated selling with the restraints.⁵⁰ It was clear that the patentee would have made additional sales of the levelers "but for" the infringement,⁵¹ and that the loss of those sales was foreseeable.⁵² However, the Federal Circuit held that the patentee was not entitled to lost profits on the levelers because the levelers did not meet the requirements of the entire market value rule.⁵³ In other words, under the Federal Circuit's logic, "but for" causation and foreseeability entitle a patentee to recover all its lost profits except those profits that the patentee is not entitled to recover.

Mentor Graphics. The pertinent facts in *Mentor Graphics* are relatively simple. The patent that was the basis for the lost profits award claimed a process related to debugging source code.⁵⁴ Plaintiff and defendant each sold a device, i.e., an "emulator," that utilized the claimed process.⁵⁵ It was

45 [575 F.2d at 1156](#)-1157.

46 The fourth factor merely clarifies that the patentee has the burden quantifying its total lost profits, which total would provide a base from which recoverable lost profits can be determined.

47 [56 F.3d at 1543](#).

48 [56 F.3d at 1548-49](#).

49 [56 F.3d at 1545-46](#).

50 [56 F.3d at 1548-49](#). The dock levelers were used to bridge the gap between the rear of the truck and the loading dock. *Id.* at 1550-51.

51 Both the district court and the Federal Circuit in *Rite Hite* noted that the plaintiff would have sold additional dock levelers "but for" the infringement. *Rite-Hite Corp. v. Kelley Co.*, [774 F. Supp. 1514, 1452](#) (E.D. Wis. 1991) ("[The] infringement of the '847 patent permitted [the infringer] to sell the Truk Stop restraint, which in turn permitted [it] to sell a significant number of levelers."); [56 F.3d at 1551](#) (noting that "customers frequently solicited package bids for the simultaneous installation of restraints and dock levelers").

52 The district court in *Rite-Hite* found that part of the infringer's motivation for developing the infringing restraint system was to capture sales of dock levelers. 774 F. Supp. at 1521.

53 [56 F.3d at 1550-51](#).

54 2017 U.S. App. LEXIS 4595, at *5.

55 2017 U.S. App. LEXIS 4595, at **6-7.

undisputed that (i) the relevant market was comprised of suppliers of emulators to Intel, (ii) plaintiff and defendant were the only two suppliers in that market and (iii) had defendant not been in the market, plaintiff would have made a certain number of the sales that defendant had made.⁵⁶ The jury awarded plaintiff approximately \$36 million, which represented plaintiff's entire lost profit on its lost sales of emulators.⁵⁷

On appeal, defendant challenged the award on the ground that the district court failed to apportion plaintiff's lost profit. Notably the Federal Circuit acknowledged the Supreme Court's precedent on apportionment and agreed that apportionment applies to all patent damages awards.⁵⁸ However, the court affirmed the lost profits award on the ground that the apportionment requirement was satisfied by the court's use of the *Panduit* factors.⁵⁹

The obvious shortcoming in the court's holding was that if satisfying the *Panduit* test satisfies the apportionment requirement, there can be no role for apportionment: either the patentee will satisfy the test and receive its entire lost profits, or not satisfy the test and receive no lost profits. There would simply be no mechanism by which a patentee could recover lost profits, but only the portion of its lost profits that would have been attributable to the patented invention.

How the court reached its conclusion is telling. The key passages are discussed below.

"Under the statute, 'damages adequate to compensate' means 'full compensation for any damages [the patent owner] suffered as a result of the infringement.'" ⁶⁰
(quoting *Gen. Motors Corp. v. Devex Corp.*⁶¹)

The quoted language has no bearing on apportionment. *Gen. Motors* addressed prejudgment interest under the patent damages statute; it made no mention of apportionment. To the extent that it discussed "full compensation," it was merely making the point that an award of prejudgment interest is necessary to compensate a patentee for the delay between its loss from infringement and its recovery of a damages award.⁶² Even then, the Court made it clear that "any damages" means "any damages *the complainant can prove.*"⁶³ As the Court made abundantly clear when it did address apportionment issues, satisfying the apportionment requirement is part of a patentee's burden of proof.⁶⁴

56 2017 U.S. App. LEXIS 4595, at *17.

57 [2017 U.S. App. LEXIS 4595, at *27](#).

58 [2017 U.S. App. LEXIS 4595, at *11, n.3](#); see also *id.* at 21 ("We agree with Synopsys that apportionment is an important component of damages law generally, and we believe it is necessary in both reasonable royalty and lost profits analysis.").

59 [2017 U.S. App. LEXIS 4595, at **11, n.3](#), 21.

60 [2017 U.S. App. LEXIS 4595, at *10](#).

61 [461 U.S. 648, 654-55](#) (1983).

62 [461 U.S. at 655](#) ("[P]rejudgment interest should ordinarily be awarded. In the typical case an award of prejudgment interest is necessary to ensure that the patent owner is placed in as good a position as he would have been in had the infringer entered into a reasonable royalty agreement.").

63 [461 U.S. at 655](#) (quoting H. R. Rep. No. 1587, 79th Cong., 2d Sess., 1-2 (1946) (emphasis added)).

64 The court also—oddly, twice in the same paragraph—quoted the Supreme Court's statement in *Yale Lock* that damages constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." [2017 U.S. App. LEXIS 4595, at *11](#). However, as discussed above, the Court in *Yale Lock* affirmed the master's reduction of the patentee's price erosion damages to account for the value of a third party's patent, i.e.,

Moreover, it is not correct to say that in all cases a patentee is to be placed in the position it would have been in had no infringement occurred. To provide one significant example, a patentee cannot recover lost profits on ancillary sales of unpatented items (e.g., unpatented spare parts for a patented machine)⁶⁵ even though such sales are often an important—if not the primary—source of profit for the patentee.

“[C]ompensatory damages under the patent statute ... should be treated no differently than the compensatory damages in other fields of law. ... The goal of expectancy damages [in contract law] is to put the non-breaching party in the position it would have occupied but for the breach. ... Similarly, under tort law, injured parties receive damages sufficient to put them in the same position they would have occupied had the injury never occurred.”⁶⁶

There are several problems here. Given that patent damages law and, in particular, the rules respecting apportionment, are well developed, it should rarely be necessary for a court to look to other areas of law for guidance. Moreover, patents are solely a matter of federal statutory law and the Supreme Court has spoken extensively on damages issues. Accordingly, turning to state common law for guidance on patent damages issues would seem to be particularly inappropriate.⁶⁷

Lastly, the court misconstrued tort and contract law. Each has a limiting principle—comparative negligence in tort law⁶⁸ and the bar on damages for unforeseeable losses in contract law⁶⁹—that can operate to prevent a plaintiff from being compensated for all the harm that flowed from a defendant’s wrongdoing. That is, the notion that state law necessarily puts a plaintiff in the “same position” that it would have occupied but for a wrong is simply not true.

“The first [Panduit] factor--demand for the patented product--considers demand for the product as a whole. The second factor--the absence of non-infringing alternatives--considers demand for particular limitations or features of the claimed invention. Together, requiring patentees to prove demand for the product as a whole and the absence of non-infringing alternatives ties lost profit damages to specific

because of apportionment, the patentee was not restored to “the condition would have been if the infringement had not occurred.”

⁶⁵ See generally Eric E. Bensen, *Understanding the Federal Circuit on Patent Damages for Unpatented Spare Parts*, [12 FED. CIR. B.J. 57](#) (2002).

⁶⁶ [2017 U.S. App. LEXIS 4595, at **11-12](#).

⁶⁷ Bizarrely, the court appeared to think the issue was at least to some extent *governed* by state law. See [2017 U.S. App. LEXIS 4595, at *19](#) (“Synopsis largely ignores these facts and seeks to have us depart from basic compensatory damages principles equally applied across many areas of law.”); see also *id.* at *13 (“In this regard, lost profit patent damages are no different than breach of contract or general tort damages.”).

⁶⁸ E.g., [N.Y. C.P.L.R. § 1411](#) (“In any action to recover damages for personal injury, injury to property, or wrongful death, ... the amount of damages otherwise recoverable shall be diminished in the proportion which the culpable conduct attributable to the claimant or decedent bears to the culpable conduct which caused the damages.”).

⁶⁹ E.g., *Restatement (Second) of Contracts* § 351(1) (1981) (“Damages are not recoverable for loss that the party in breach did not have reason to foresee as a probable result of the breach when the contract was made.”).

claim limitations and ensures that damages are commensurate with the value of the patented features.”⁷⁰

The third sentence does not follow from the first two. The *Panduit* test requires an absence of non-infringing alternatives (the second factor) because in the presence of a noninfringing alternative, the patentee cannot establish that it would have made defendant’s sales had the defendant not infringed (some of defendant’s sales would have presumably been made by the supplier of the noninfringing alternative).⁷¹ While it is no doubt true that the absence of a noninfringing alternative also indicates that the claimed invention had value, that absence says nothing about the value of the invention relative to the value of the patentee’s product as a whole. Thus, the absence of a noninfringing alternative does not satisfy the apportionment requirement.

The Federal Circuit appeared to believe that the second factor satisfied the apportionment requirement because in practice, the patentee’s failure to satisfy that factor with respect to all of a defendant’s sales often results in a patentee recovering lost profits based on some of defendant’s sales and a reasonable royalty based on the defendant’s other sales.⁷² However, that, if anything, would be an apportionment of the potential market, not of the plaintiff’s profits.

“We leave for another day whether a different theory of ‘but for’ damages adequately incorporates apportionment principles.”

Actually, the *Panduit* factors are not “a theory of ‘but for’ damages;” they are a framework for using circumstantial evidence to establish “but for” causation. There are variations of the *Panduit* factors,⁷³ but the only alternative to them is to offer *direct* evidence of “but for” causation. For example, a patentee could put a representative of a buyer on the stand to testify that in the absence of the defendant’s infringing product, the buyer would have purchased the patentee’s product.⁷⁴ One wonders, if plaintiff had sought to establish through the testimony of an Intel representative that it lost sales, would the court *then* have required plaintiff to actually apportion? It seems unlikely.

“[There is no] threat of ‘serial infringement claims.’”⁷⁵

70 [2017 U.S. App. LEXIS 4595, at *15](#); see also *id.* at *21 (“In this case, apportionment was properly incorporated into the lost profits analysis and in particular through the *Panduit* factors. *Panduit*’s requirement that patentees prove demand for the product as a whole and the absence of non-infringing alternatives ties lost profit damages to specific claim limitations and ensures that damages are commensurate with the value of the patented features.”).

71 4 *Patent Law Perspectives* § 5.2[2][a].

72 [2017 U.S. App. LEXIS 4595, at *16](#). Interestingly, under *Mentor Graphics*, where a patentee satisfies the *Panduit* factors for some of defendant’s sales, but not others, the apportioned value of the claimed invention for lost profits purposes and the apportioned value for reasonable royalty purposes would be different because in the latter, the patentee would have to engage in a true apportionment analysis. See, e.g., *LaserDynamics, Inc.*, [694 F.3d at 67](#) (requiring apportionment in the reasonable royalty context).

73 E.g., *Micro Chem., Inc. v. Lextron, Inc.*, [318 F.3d 1119, 1124](#) (Fed. Cir. 2003) (two supplier test); *State Industries, Inc. v. Mor-Flo Industries, Inc.*, [883 F.2d 1573, 1578](#) (Fed. Cir. 1989) (market share approach); see 4 *Patent law Perspectives* § 5.2[2].

74 E.g., *GNB Battery Technologies v. Exide Corp.*, [886 F. Supp. 420, 425-430](#), (D. Del. 1995).

75 [2017 U.S. App. LEXIS 4595, at *23](#).

As noted above, one of the concerns underlying the apportionment requirement is that in the absence of apportionment, an infringer could be called upon to pay over as damages an amount greater than its profit on the infringing article. Defendant raised that concern, but the Federal Circuit correctly pointed out that a single sale by an infringer would result in only a single lost sale for the patentee such that the infringer would not be liable for multiple lost profit awards.⁷⁶ However, that does not eliminate the threat of serial infringement claims because while a sale of the multi-component article may result in only one lost profit award, it can additionally result in many *reasonable royalty* awards.⁷⁷ By requiring apportionment in all cases, courts can ensure that the sum total of such awards reflects only the actual value of what was taken by the infringer.⁷⁸

Conclusion

It is no doubt counterintuitive to suggest that a patentee that has lost a sale due to infringement cannot necessarily recover the entire profit that it would have made on the sale: after all, should not the patentee be made whole? The answer to that question is well illustrated by a hypothetical provided by a district court in a case that eventually reached the Supreme Court and resulted in an early, landmark apportionment decision:⁷⁹

Suppose, in further illustration of this view of the subject, it be a railroad car, the cost of which is thousands of dollars, and some little invention is made in regard to the interior structure of the car, or in its ornamentation, which is patentable under the act of 1861; yet the slight, the simple thing is such as to strike the public taste and judgment, and have such an effect in the commercial world that nobody will buy the article without that invention; yet it would seem to be a pretty hard measure of justice in a court of equity, to say that the entire profits made on that large article should go into the pockets of the inventor and patentee of this small thing, which had been used without license or authority in connection with it.⁸⁰

As it happens, the court had in mind the recovery of infringer's profits, but the logic applies equally to a lost profits award. That is, whether the infringer had paid over an amount equal to profits on its railroad car or an amount equal to the profits on the patentee's railroad car, the amount paid would be "a pretty hard measure of justice" considering the small value contributed by the invention.⁸¹

This is not to say that the invention at issue in *Mentor Graphics* was trivial. But, because it was not the only component of the emulators at issue, the question should have been whether the

76 2017 U.S. App. LEXIS 4595, at *23.

77 Bensen, [Apportionment of Lost Profits at 29](#) n.209.

78 Dobson, [114 U.S. at 444](#) ("The carpet with the infringing design may be made on an infringing loom, and various infringing processes or mechanisms for carding, spinning, or dyeing may be used in making it, and, if the entire profit in making and selling it is necessarily to be attributed to the pattern, so it may as well, on principle, be attributed to each of the other infringements, and a defendant might be called on to respond many times over for the same amount. There is but one safe rule: to require the actual damages or profits to be established by trustworthy legal proof.").

79 Mowry v. Whitney, [81 U.S. 620](#) (1872); see Bensen, [Apportionment of Lost Profits at 8](#) (discussing the significance of *Mowry*).

80 Mowry v. Whitney, [29 F. Cas. 1102, 1104](#) (S.D. Ohio 1868).

81 See, e.g., *Seymour*, [57 U.S. at 489](#) ("[O]ne who invents some improvement in the machinery of a mill could not claim that the profits of the whole mill should be the measure of damages for the use of his improvement.").

patentee had satisfied the requirements of the entire market value rule such that it was entitled to recover its entire lost profits. Remarkably, *Mentor Graphics* never mentions the rule. There is no way to know the court's precise reason for that omission, but one thing is certain: had the court discussed the entire market value rule in a meaningful way, it would have been plain from the four corners of the decision that the requirements of the rule had *not* been met in the court below.⁸² That, in turn, would have made it clear that apportionment was required.

The *Mentor Graphics*' holding that satisfying the *Panduit* test satisfies the apportionment requirement for lost profits simply disregards the Supreme Court's precedent on the apportionment requirement for lost profit awards. That is a surprising and disappointing result from a court that in recent years has shown an increased sensitivity to that precedent.

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82 Evidence offered at trial indicated that the emulators had "many valuable and important features" apart from the patented feature. [2017 U.S. App. LEXIS 4595, at **18-19](#). Moreover, the emulators could function without the patented improvement; emulators with the patented improvement merely displaced unimproved emulators in the market. [2017 U.S. App. LEXIS 4595, at *22](#) ("Synopsis could have made its emulator system minus the two infringing features--that would have been an alternative to the 'Synopsis infringing emulation system.' However, the jury concluded, and Synopsis does not dispute on appeal the jury's *Panduit* fact findings, that there was no such non-infringing alternative that Intel would have purchased."). As discussed above, such displacement does not satisfy the entire market value rule.