

Nos. 2011-1363, -1364

In the
United States Court of Appeals
for the **Federal Circuit**

ROBERT BOSCH LLC,

Plaintiff-Appellant,

v.

PYLON MANUFACTURING CORP.,

Defendant-Cross-Appellant.

Appeals from the United States District Court
for the District of Delaware in Case No. 08-CV-0542.
The Honorable SUE L. ROBINSON, Judge Presiding.

Before RADER, *Chief Judge*, NEWMAN, LOURIE, BRYSON, LINN, DYK, PROST,
MOORE, O'MALLEY, REYNA, and WALLACH, *Circuit Judges*.

CORRECTED BRIEF OF AMICUS CURIAE
THE INTELLECTUAL PROPERTY LAW ASSOCIATION OF CHICAGO
SUPPORTING NEITHER PARTY

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October 11, 2012



CERTIFICATE OF INTEREST

Counsel for The Intellectual Property Law Association of Chicago as *amicus curiae* certifies the following:

1. The full name of every party or amicus represented by me is:

The Intellectual Property Law Association of Chicago

2. IPLAC submits this brief *amicus curiae* and has no interest in the outcome of the case.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court are:

Law firms

Banner & Witcoff, Ltd. and

Partners or Associates
of Banner & Witcoff, Ltd.

Charles W. Shifley

October 11, 2012


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INTEREST OF AMICUS CURIAE

Founded in 1884, the Intellectual Property Law Association of Chicago (“IPLAC”) is the oldest intellectual property law association in the nation. It has approximately 1,000 members, who represent a full spectrum of the intellectual property law profession ranging from law firm attorneys to sole practitioners, corporate attorneys, law school professors, and law students. IPLAC is centered in Chicago, a principal forum for patent litigation in this country. Every year, IPLAC’s members prosecute thousands of patent applications and litigate many patent lawsuits in Chicago and across the country.¹

IPLAC is a not-for-profit organization. A principal aim is to aid in the development and administration of intellectual property laws and the manner by which they are applied by the courts and by the United States Patent and Trademark Office. Its purposes include making “more definite, uniform and convenient the rules of practice in the courts” in relation to the patent law. IPLAC is also dedicated to maintaining a high standard of professional ethics in the practice of patent, trademark, copyright, trade secret, and associated fields of law, and further dedicated to providing a medium for the

¹ While over 30 federal judges are honorary members of IPLAC, none of them was consulted or participated in any way on this brief.

exchange of views on intellectual property law among those practicing in the field and to educating the public at large.

This case concerns “bifurcated appeals,” defined by IPLAC for this brief as appeals of liability issues before there are judgments on damages and willfulness, in patent cases. IPLAC does not take a position on the two issues of the Court’s Order of August 7, 2012, *i.e.*, whether bifurcated appeals are permitted by 28 U.S.C. §1292(c)(2).

IPLAC also does not take a position on whether bifurcated appeals contribute to the just, speedy and inexpensive resolution of patent infringement cases or not. Opinions within IPLAC differ on this point. Some IPLAC members hold the opinion that bifurcated appeals diminish the justice, speed and efficiency of patent cases. Other IPLAC members hold the opinion that bifurcated appeals contribute to justice, speed and efficiency.

IPLAC’s goal in this amicus heeds the words of Chief Judge Rader in the ABA Landslide interview in the March/April 2011 issue, to help the Court see the implications of its decision in this case long term, including the effect on the IP community and the market, and whether it would affect investment, ameliorate unintended consequences, and make the law more

predictable and more amenable to facilitate business decisions. Quoting

Chief Judge Rader:

The best amicus briefs try to help us see the implications of our cases long term, how this would affect a particular segment of the IP community or a particular part of the marketplace, how it would inhibit investment, and whether it would spur investment and cause more dedication to proper IP principles. That's the kind of thinking we need. We need something that looks long term and tries to predict with statistics and insights into how the court's cases would have some impact downstream in the marketplace. ...

[W]e recognize and must recognize that our cases have an impact beyond just the parties before us and again that's where the amicus process can inform us and help us to give a better decision. We can resolve the case before us in a responsible manner according to the law and at the same time ameliorate any unintended consequences if we understand them in advance. We can write the case in a way that narrowly decides the issue before the parties without having any impact beyond that case, or we can resolve it in a way that gives guidance for future cases and makes the law more predictable and more amenable to facilitate business decisions. But we need information before we can do that well.

No party's counsel authored the brief in whole or in part; no party or a party's counsel contributed money that was intended to fund preparing or submitting the brief; no person other than the amicus curiae, its members or its counsel, contributed money that was intended to fund preparing or submitting the brief. The Intellectual Property Law Association of Chicago

has authority to file this amicus curiae brief pursuant to an order entered August 7, 2012.

ARGUMENT

I. Damages Law in Patent Cases is Trending Toward Ever More Exactness in Damages Presentations

Damages law in patent cases is trending toward ever more exactness in damages presentations. Recently this Court admonished that damages presentations must be based on sound economic and factual predicates. *See, LaserDynamics, Inc. v. Quanta Computer, Inc.*, No. 2011-1440, slip op. at 24 (Fed. Cir. August 30, 2012), citing *Riles v. Shell Exploration & Prod. Co.*, 298 F.3d 1302, 1311 (Fed. Cir. 2002). And, some long-standing damages theories appear to be losing favor.

As a first specific example, the entire market value rule, with evidence demonstrating that patented inventions embodied in complex products are valuable, important and essential to the products, appears to have fallen in disfavor. For example, in *LaserDynamics*, concerning a disc discrimination method for computers, the Court stated that “LaserDynamics’ use of the entire market value rule was impermissible” and it was not enough to merely show that the method was “viewed as valuable, important, or even essential to the use of a laptop computer,” or that “a laptop computer without an [optical disc drive] practicing method would be commercially unviable.” *Id.* at 25-6. Further, market studies and consumer studies may be required. *Id.*

(proof required that the presence of the method is what motivated consumers to buy a laptop computer) ; *compare i4i Ltd. Partnership v. Microsoft Corp.*, 598 F.3d 831, 856 (Fed.Cir. 2010)(expert use of survey approved).

As a second example, theories that rely on rules, principles, baselines or apportionments developed from experience, such as the Goldscheider rule, are also losing favor. In *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1291, 1315 (Fed.Cir. 2011), for example, this Court held “as a matter of Federal Circuit law that the 25 percent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation,” and “[e]vidence relying on the 25 percent rule of thumb is thus inadmissible under *Daubert* and the Federal Rules of Evidence.” Similarly, in *LaserDynamics*, the Court stated that a “one-third apportionment ... appears to have been plucked out of thin air,” and “[t]his complete lack of economic analysis to quantitatively support the one-third apportionment echoes the kind of arbitrariness of the ‘25% Rule’ that we recently and emphatically rejected from damages experts” Slip op. at 27.

As a third example, presentations that do not delve into the depths and the details of markets may also not be permissible. For example, in *BIC Leisure Products v. Windsurfing Intern.*, 1 F.3d 1214 (Fed.Cir. 1993), a lost

profits award was reversed for lack of showing that the infringer's customers would have purchased from the patent owner, because the record demonstrated that product demand was elastic and the market's entry level in which the infringer competed was particularly price sensitive. *Id.*; see also *Crystal Semiconductor v. Tritech Microelectronics*, 246 F.3d 1336, 1357 (Fed.Cir. 2001)("The Supreme Court opened the door for price erosion damages... [I]n a credible economic analysis, the patentee cannot show entitlement to a higher price divorced from the effect of that higher price on demand for the product. In other words, the patentee must also present evidence of the (presumably reduced) amount of product the patentee would have sold at the higher price. Thus, ... the patentee's price erosion theory must account for the nature, or definition, of the market, similarities between any benchmark market and the market in which price erosion is alleged, and the effect of the hypothetically increased price on the likely number of sales at that price in that market.")

As a fourth example, the pool of past licenses available for reasonable royalty presentations has been shrinking. For example, in *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed.Cir. 2010), this Court rejected a damages theory based on past licenses because the expert used licenses with no

relationship to the claimed invention to drive the royalty rate up to unjustified double-digit levels, and did not provide any link between the licenses and the first factor of the *Georgia-Pacific* analysis. The Court held that “[w]ithout that link, as this court explained in *Lucent*: ‘We ... cannot understand how the [fact finder] could have adequately evaluated the probative value of [the] agreements.’ [citation omitted].” *Id.* at 871.

The situation has reached the level that one prominent 7th Circuit jurist recently terminated in full a district court patent infringement case proceeding, in the belief that Fortune 500 corporations represented by capable counsel and experts could not satisfy *Daubert (infra)* with their damages presentations. *Apple, Inc. v. Motorola, Inc.*, No. 1:111-cv-08540 (N.D.II. May 22, 2012)(Posner, Circuit Judge, sitting by designation).

II. Damages Presentation Expenses Are Already High and Rising

Damages expert fees in patent cases often already run to the high hundreds of thousands of dollars and beyond. IPLAC members have reported examples of damages experts charging two hundred fifty thousand dollars, three hundred thousand dollars, and eight hundred thousand dollars, among other amounts. Moreover, lawyer expenses to work with damages experts are additional charges. The expenses are trending higher as the law

trends to more exactness, for example, by the challenges raised by such cases as *Daubert v. Merrel Dow Pharmaceuticals, Inc.*, 509 U.S. 579 (1993), and *Kumho Tire Co. v. Carmichael*, 526 U.S. 137 (1999). Lawyers recognize that patent damages recoveries are *entirely* dependent on expert testimony in almost all cases and they risk having damages testimony barred if it fails *Daubert* challenges.

The expenses of damages presentations are exacerbated if liability issues change after damages have been tried and if they must be re-tried. *LaserDynamics* exemplifies such an exacerbation of expenses. There, two damages trials were held, then an appellate decision determined some of the accused products were protected by an implied license, and the case was remanded for yet a third damages trial.

III. Some Cases Might Benefit From Bifurcated Appeals, Others Might Not

Some cases might benefit from having certain liability issues resolved on appeal before the damages trials occur, for example, those involving issues reviewed *de novo* such as claim interpretation, eligible subject matter for patenting, and infringement and validity in emerging technologies, which can significantly affect the need, nature and scope for and of damages trials, and the fortunes of the parties apart from damages. As Judge Newman aptly

noted, “The unpredictability of patent litigation remains notorious.” *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d at 880 (J. Newman, dissent). For example, the unpredictability as to eligible subject matter has been increased as the courts grapple with the application of *Bilski v. Kappos*, 130 S.Ct. 3218 (2010) to various subject matter. *See, e.g.*, M. Delulio, Courts Left With Little Guidance Following the Supreme Court’s Decision In *Bilski v. Kappos*, 13 Tul.J.Tech. & Intell.Prop. 285 (2010)(The decision ... will confound future courts’ decisions ...”).

Appellate decisions on liability issues also may dramatically affect the parties. For example, in *Amgen, Inc. v. Chugai Pharmaceutical Co., Ltd.*, 927 F.2d 1200 (Fed.Cir. 1991), the stock valuations of the parties changed in total one and one half billion dollars within days of this Court’s liability decision. More patent owners and alleged infringers in cases with issues affected by the unpredictability of decisions on patent eligibility, the extreme novelty of their technologies, or the numerosity of their patents could potentially have greater access to the justice of final liability decisions and more efficient damages proceedings with bifurcated appeals.

If the traditional understanding of the law is changed to deny liability appeals in the absence of damages trials, efficient justice for those with

fewer resources might be seriously inhibited. High patent case costs likely cause some deserving potential litigants to turn away from the enforcement of their rights. District courts would also be burdened with potentially unnecessary damages trial and pretrial efforts, which are especially difficult for the district courts as they involve assessments, through the use of the principles and practices of economics and accounting, of corporate revenues, profits, costs and accounting practices. Even as to royalty matters, “[d]etermining a fair and reasonable royalty is often ... a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge.” *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir.1988).

In other situations, it might be beneficial to have appeal decisions on liability after damages trials occur. Industries and cases that do not face the same current levels of game-changing *de novo* issues likely would not face significant effects on the nature and scope of damages trials if bifurcated appeals of their cases did not occur. In some technologies and industries, patent owners and alleged infringers might enjoy greater efficiency in their cases without bifurcated appeals. Situations might be avoided to the benefit of the parties and the system, such as in *Grain Processing Corp. v. American*

Maize-Products, 185 F.3d 1341 (Fed. Cir. 1999), where the Court noted the case had at the time of decision lasted eighteen years and had nine judicial decisions, four by this Court. 185 F.3d at 1343.

As well, in some instances, parties have expended enormous efforts on liability issues and little on damages issues. But if their efforts were forced by rule of law to be directed to damages issues early in their cases, the parties might learn that their cases concern amounts that are insufficient to justify their enormous efforts on liability issues. They could then benefit themselves, their industries, their customers and the courts with earlier settlements and more streamlined handling of pretrial issues, especially discovery. See, e.g., <http://www.patentlyo.com/patent/2011/07/reverse-bifurcation-1.html> and its cited law review article and motion.

IV. If The Law Were to Change, and Bifurcated Appeals Be Disallowed Under 28 U.S.C. §1292(c)(2), Litigants and District Courts Would Likely Seek Bifurcated Appeals By Means Other Than 28 U.S.C. §1292(c)(2) Which This Court Would Likely Be Obligated to Accept or Remiss Not to Accept

This Court should also consider potential unintended consequences. The Court should perceive that if this case were to result in change to the traditional view of the law, *i.e.*, that bifurcated appeals are allowed, and if this case were to result in bifurcated appeals being disallowed, litigants and

district courts would likely seek bifurcated appeals by means other than 28 U.S.C. §1292(c)(2). This Court would likely be obligated to accept such appeals, or remiss to refuse them.

Appeals of district court judgments in patent cases are permitted under 28 U.S.C. §1292(c)(2), but they are also permitted under 28 U.S.C. §1292(c)(1). That other avenue for appeal states that appeals are appropriate to the Federal Circuit from interlocutory orders or decrees described in subsection (a) or (b) of 28 U.S.C. §1292. Such orders and decrees in patent cases are (a) those that grant, continue, modify, refuse or dissolve injunctions, or refuse to dissolve injunctions, and (b) those in which district judges state that they are of the opinion that their orders involve controlling questions of law as to which there is substantial ground for difference of opinion, and immediate appeals may materially advance the ultimate termination of the litigation.

If the law were in the future to be that bifurcated appeals could not be taken under 28 U.S.C. §1292(c)(2), bifurcated appeals would likely be attempted with greater frequency under 28 U.S.C. §1292(c)(1). Litigants could attempt to gain the entry of final injunctions against infringement, which would trigger jurisdiction in the Federal Circuit that the Federal

Circuit could not refuse. Litigants could also attempt to gain the entry of “28 U.S.C. §1292(b) orders,” which would trigger jurisdiction in the Federal Circuit over which the Court would have discretion. See *Nystrom v. TREX Co., Inc.*, 339 F.3d 1347 (Fed.Cir. 2003)(“Acceptance of such appeal is also subject to the absolute discretion of this court, “which may refuse to entertain such an appeal [even when certified by the district court ...”])

District Courts could also utilize the footnote of *Nystrom*, as their clue to effect finality in judgments of noninfringement which are not final because of invalidity counterclaims. Referencing *Cardinal Chemical Co. v. Morton International, Inc.*, 508 U.S. 83, 113 S.Ct. 1967, 124 L.Ed.2d 1 (1993), the footnote of *Nystrom* stated that while as an intermediate court this Court was prohibited from vacating a judgment of invalidity when it concluded that a patent is not infringed, district courts were not precluded from discretionary action in dismissing invalidity counterclaims without prejudice when they conclude that patents are not infringed.

This Court reiterated firmly in this very case, *Bosch v. Pylon*, that appeal of an express grant or denial of an injunction does not require the appellant to demonstrate that the order has serious or irreparable

consequences or that immediate appeal is necessary. *Robert Bosch LLC v. Pylon Mfg. Corp.*, 659 F.3d 1142 (Fed.Cir. 2011).

Thus, if the law were to change, this Court would likely face an increase in appeals of interlocutory orders in patent cases under provisions of the law other than 28 U.S.C. §1292(c)(2). Especially as to appeals of orders granting or denying injunctions, this Court could not refuse the appeals.

V. Conclusion and Statement of Relief Sought

In conclusion, the Court should be aware that damages law in damages cases is trending toward ever more exactness in damages presentations, damages presentation expenses are already high and rising, some cases might benefit from bifurcated appeals while other might not, and if the law were to change, litigants and district courts would likely seek bifurcated appeals by other means. The Court should provide relief consistent with this awareness.

Respectfully submitted,

October 11, 2012



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CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B). The brief contains 2,960 words, excluding parts exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii). This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6). The brief has been prepared in proportionally spaced typeface using Microsoft Office Word 2003 with 14 point Times New Roman type style.

Dated: October 11, 2012


Charles W. Shifley

CERTIFICATE OF SERVICE

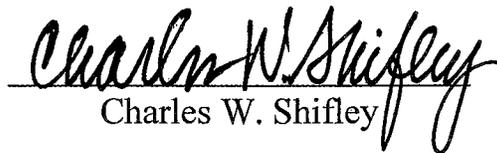
I hereby certify that on October 11, 2012, the original and 30 copies of the Corrected Brief of Amicus Curiae, The Intellectual Property Law Association of Chicago Supporting Neither Party, were served on the Clerk of the Court for the United States Court of Appeals for the Federal Circuit via prepaid Federal Express overnight delivery and that two copies of same were served via prepaid Federal Express overnight delivery on the following attorneys.

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