CRA Insights: Intellectual Property

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CRA Insights: Intellectual Property is a periodic newsletter that provides summaries of notable developments in IP litigation. In this issue we look at a case involving the analysis of commercial success, a Section 337 investigation involving a "value-add" analysis, and a case addressing the "inexorable flow" theory of lost profits.

FOX Factory, Inc. v. SRAM, LLC, 2018-2024, 2018-2025 (CAFC)

On December 18, 2019, the US Court of Appeals for the Federal Circuit (CAFC) issued a decision in this case, vacating the decisions of the Patent Trial and Appeal Board (Board) in two inter partes reviews (IPRs), IPR2017-00118 and IPR2017-00472, and remanding the cases for further proceedings.

Background

The IPRs at issue involve US Patent No. 9,182,027 (the '027 patent), owned by SRAM, LLC (SRAM) and related to a bicycle chainring structure that improves chain retention. In 2016, FOX Factory, Inc. (FOX) filed two petitions requesting inter partes review of certain claims of the '027 patent.

In April 2018, the Board determined that SRAM was entitled to a presumption of nexus between the challenged claims and evidence pertaining to the commercial success of SRAM's "X-Sync" products. Based on its analysis of secondary considerations, the Board determined that FOX had not shown that the challenged claims would have been obvious.

In May 2018, FOX filed an appeal arguing that the Board applied the wrong standard for determining whether SRAM was entitled to a presumption of nexus between the challenged claims and SRAM's evidence of secondary considerations.

CAFC decision

In its December 2019 opinion, the CAFC agreed with FOX and vacated the Board's decisions in the IPRs at issue. The CAFC stated that "because there are one or more features not claimed by the '027 patent that materially impact the functionality of [SRAM's] products… nexus may not be presumed."

The CAFC also provided an analogy to a patent that includes claims to novel brake pads as well as claims directed to an automobile "in which the body of the claim recites little more than the novel brake pads." The CAFC stated that "[i]t is beyond dispute that the "brake pad" claims would not be entitled to a nexus presumption with any secondary considerations evidence tied to commercially sold automobiles containing those brake pads (e.g., commercial success or praise of the automobiles).

In SRAM and the Board's view, the "automobile" claims would be entitled to a nexus presumption with such secondary considerations evidence. They reach this view even though the automobiles sold contain hundreds if not thousands of different components beyond just the novel aspect of the claimed brake pads, and even though only minor variations in patent claim language (i.e., whether the word "automobile" is included in the claims) differentiate the "brake pad" claims and the "automobile" claims. Resting the coextensiveness inquiry on nothing more than minor variations in patent claim language would turn the inquiry into one of form over substance. We reject SRAM's attempt to reduce the coextensiveness requirement to an inquiry into whether the patent claims broadly cover the product that is the subject of the evidence of secondary considerations."

Certain Beverage Dispensing Systems and Components Thereof, Investigation No. 337-TA-1130

On September 5, 2019, Administrative Law Judge (ALJ) MaryJoan McNamara of the US International Trade Commission (ITC) issued an Initial Determination finding that the additional value of domestic activities added to imported beer dispensers and empty containers satisfied the economic prong of the domestic industry requirement.

Background

On August 2, 2018, Heineken International B.V., Heineken Supply Chain B.V., and Heineken USA Inc. (Heineken) filed a complaint with the ITC alleging that Anheuser-Busch InBev S.A., InBev Belgium N.V., and Anheuser-Busch, LLC (ABI) infringed Heineken's US Patent No. 7,188,751 (the '751 patent) which relates to beer dispensing technology used in combination with kegs to serve draught beer. Hopsy Inc. (Hopsy) is a licensee of the '751 patent and represented the domestic portion of Heineken's operations under review. Hopsy is a small, start-up company in the US craft-beer segment selling Heineken's beer dispensers direct to consumers through subscriptions.

Initial determination

Heineken argued that it satisfied the economic prong of the domestic industry through Hopsy's investments in plant and equipment as well as labor and capital. In addition to presenting evidence of Hopsy's expenditures, Heineken's economic expert presented a "value-add" analysis that showed the value that Hopsy's domestic activities added to the products relative to the value of imported components. The value-add analysis compared the cost of goods sold of manufacturing components abroad to the cost of Hopsy's domestic activities such as filling containers with beer and packaging and delivery costs. Heineken's economic expert calculated domestic value-add percentages for Hopsy's three product configurations of 20%, 85%, and 68%.

In response to the value-add analysis, ABI argued that Hopsy was a mere importer since it did not design or manufacture its relevant beer dispensers in the US. The ALJ disagreed with ABI referencing Commission precedent that "a value-added analysis is a useful tool for evaluating whether a domestic industry exists," citing an investigation in which only 30% and 40% domestic value-add percentages helped satisfy the domestic industry requirement.

Regarding Hopsy's investments in plant and equipment as well as labor and capital, ABI's economic expert argued that the investments needed to be compared to benchmarks like Heineken and ABI's budgets for capital expenditures instead of viewing them only in context of Hopsy's small stature as a start-up. The ALJ disagreed, stating that such a comparison was less than meaningful given that it was contrasting Hopsy's domestic expenditures to the disproportionately larger expenditures of two multibillion-dollar, worldwide operations that included much more than just the craft-beer segment.

The ALJ further stated that “ABI did not evaluate all of Hopsy’s qualifying domestic investments as a start-up in the context of the emerging home-draft industry in the United States. Instead, without legal justification, ABI compared only certain of Hopsy’s domestic investments (particularly, capital expenditures) to the worldwide capital investments that Heineken has made in its DI Products and against the investments ABI made in its Accused Products.” Thus, Heineken was found to have satisfied the economic prong of the domestic industry requirement.

Copperhead Industrial, Inc., v. Changer & Dresser, Inc., Case No. 1:18-cv-01228-ACA

On January 28, 2020, US District Judge Annemarie Carney Axon, in the US District Court for the Northern District of Alabama (the Court), issued an order granting Changer & Dresser’s (C&D) motion for partial summary judgment on damages. The Court determined that, because Copperhead Industrial, Inc. (Copperhead) does not sell any products covered by the patents-in-suit, it may not recover lost profits or the lost profits of any company selling the patented products in this matter.

Background

Copperhead is a Canadian company that distributes a variety of automotive manufacturing industry products. On January 6, 2015, Copperhead filed suit against C&D, alleging infringement of its US Patent Nos. 8,742,281; 9,168,609; 9,393,639; and 9,757,814 (the patents-in-suit).

Copperhead does not manufacture or sell the products covered by the patents-in-suit. Another company, JEC Distributors, Inc. (JEC) sells the patented products under a license from Copperhead. JEC, which is owned by the same individual that owns Copperhead, was an original party plaintiff, but the Court dismissed JEC’s claims and it is no longer a party to the lawsuit.

Summary judgment motion and decision

On October 7, 2019, C&D filed a motion for summary judgment arguing that if Copperhead prevails on its patent infringement claims against C&D, it cannot recover lost profits as a matter of law and that, as a matter of law, Copperhead’s recovery, if any, should be limited to a reasonable royalty.

Copperhead argued that it may recover profits that otherwise belong to JEC under an “inexorable flow” theory. According to Copperhead, the Federal Circuit’s decision in *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359 (Fed. Cir. 2008) left open the possibility of recovering the lost profits of a related company if the profits from that related company flow inexorably to the patent holder.

The Court disagreed with Copperhead, citing cases in which the Federal Circuit reiterated its position that a patent owner cannot recover lost profits from a related company where the patent owner itself does not sell any of the patented products. The Court also ruled that C&D’s argument that Copperhead’s damages must be limited to a reasonable royalty is too extreme of a position and is unsupported by law. Thus, the Court ruled that: 1) Copperhead may not recover lost profits or the lost profits of any company selling the patented products in this matter, and 2) Copperhead “may request and recover some measure of damages above a reasonable royalty but less than lost profits.”

About the editors

Dr. Sean Sheridan is a principal in the Intellectual Property Practice at CRA. He provides economic analyses and expert testimony in the context of intellectual property litigation. His experience includes the determination of lost profits, unjust enrichment, and reasonable royalties, and the analysis of commercial success, the economic impact of injunctions, and the economic prong of the domestic industry requirement in Section 337 ITC matters. Outside of litigation, he has performed intellectual property valuations for a variety of business purposes and has negotiated numerous licenses and other agreements with companies ranging from Fortune 500 firms to start-ups. Dr. Sheridan was named to the *IAM Patent 1000: The World's Leading Patent Professionals* (economic experts) in 2019.

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