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.

Arctic Cat Inc. v. Bombardier Recreational Products, Inc., et al. (Fed. Cir. 2020)

On February 19, 2020, the Court of Appeals for the Federal Circuit (CAFC) issued a decision in *Arctic Cat Inc. v. Bombardier Recreational Products, Inc., et al*. affirming the District Court's determination that Arctic Cat was not entitled to pre-suit damages due to Arctic Cat's failure to comply with the marking requirements of 35 U.S.C. § 287 (§ 287).

The case involves two Arctic Cat patents directed to thrust steering systems for personal watercrafts (PWCs), U.S. Patent Nos. 6,568,969 (the '969 patent) and 6,793,545 (the '545 patent). Arctic Cat sold PWCs, but discontinued their sales prior to the issuance of the '969 and '545 patents in 2003 and 2004, respectively. Honda sold PWCs under a license to certain Arctic Cat patents, including the '969 and '545 patents, beginning in 2002. Arctic Cat contends that Honda stopped selling licensed PWCs no later than September 2013, while Bombardier contends that Honda continued to sell PWCs under the Arctic Cat license as late as 2018. The Arctic Cat-Honda license explicitly stated that Honda had no obligation to mark its PWCs with Arctic Cat's patent numbers.

In October 2014, Arctic Cat sued Bombardier for infringement of the '969 and '545 patents in the US District Court for the Southern District of Florida. At trial, the jury found Arctic Cat's patents not invalid, awarded Arctic Cat a royalty to begin in October 2008—six years before Arctic Cat filed suit—and found that Bombardier had willfully infringed the asserted claims. After post-trial briefing, the District Court denied Bombardier's renewed motion for judgment as a matter of law on marking, holding that Bombardier had failed to meet its burden of proving that Honda's PWCs practiced the asserted claims.

On appeal, the CAFC remanded as to marking, holding that the District Court erred by placing the burden on Bombardier to prove that the Honda PWCs practiced the claimed invention.

On remand, Arctic Cat conceded that it could not prove that Honda's PWCs do not practice the patents-in-suit, but moved for summary judgment that it was entitled to pre-complaint damages. It first argued that § 287 did not apply for the period after the cessation of Honda's PWC sales, and it was therefore entitled to damages beginning in September 2013. Alternatively, it argued that it was entitled to damages beginning six years prior to the filing of the complaint as allowed under 35 U.S.C. § 286 because the jury's finding of willful infringement was sufficient notice under § 287. Bombardier moved for summary

judgment that Arctic Cat was not entitled to pre-suit damages because Arctic Cat failed to provide actual or constructive notice under § 287.

The District Court granted summary judgment in favor of Bombardier, and Arctic Cat appealed. In its February 2020 decision, the CAFC affirmed the District Court's decision.

With respect to Arctic Cat's argument that its marking requirement ceased after Honda stopped selling PWCs, the CAFC held that "[t]he cessation of sales of unmarked products certainly did not fulfill Arctic Cat's notice obligations under § 287, nor did it remove the notice requirement imposed by the statute." It explained that "even after a patentee ceases sales of unmarked products, nothing precludes the patentee from resuming sales or authorizing a licensee to do so. In the meantime, unmarked products remain on the market, incorrectly indicating to the public that there is no patent, while no corrective action has been taken by the patentee. Confusion and uncertainty may result. Thus, once a patentee begins making or selling a patented article, the notice requirement attaches, and the obligation imposed by § 287 is discharged only by providing actual or constructive notice."

With respect to Arctic Cat's argument that the jury's finding of willful infringement was sufficient notice under § 287, the CAFC reiterated its holdings from prior cases that willfulness, as an indication that an infringer knew of a patent and of its infringement, does not serve as actual notice as contemplated by § 287 because "[w]hile willfulness turns on the knowledge of an infringer, § 287 is directed to the conduct of the patentee." Thus, it explained, "[k]nowledge by the infringer is not enough. Actual notice under § 287 requires performance by the patentee."

Judge Lourie authored the opinion on behalf of himself, Judge Moore, and Judge Stoll.

Juno Therapeutics, Inc. and Sloan Kettering Institute for Cancer Research v. Kite Pharma, Inc., Case No. 2:17-cv-07639-SJO

On April 2, 2020, the US District Judge S. James Otero in the US District Court for the Central District of California (the Court) issued an order granting-in-part the Consolidated Post-Trial Motion (Motion) of Juno Therapeutics, Inc. (Juno) and Sloan Kettering Institute for Cancer Research (SKI) (collectively, Plaintiffs). The ruling (1) updates damages through December 12, 2019, the date of trial, awarded to Plaintiffs to $778,343,501; (2) awards prejudgment interest on only compensatory damages at the Treasury bill (T-bill) rate, compounded quarterly; (3) enhances the damages award by 50%; and (4) awards a 27.6% ongoing running royalty.

This matter involves US Patent No. 7,446,190 (the '190 patent) related to immunotherapy for cancer. Plaintiffs filed the lawsuit on October 18, 2017, accusing Kite Pharma, Inc. (Kite) of infringing the '190 patent with the sale of YESCARTA®, one of Kite's immunotherapy treatments. At trial, the jury unanimously found that Kite failed to prove its two arguments of invalidity by clear and convincing evidence, that Plaintiffs proved willful infringement by a preponderance of the evidence, and that Kite owed Plaintiffs a $585 million upfront payment with a 27.6% running royalty on YESCARTA® revenues through trial.

After trial, Kite did not respond to the request in Plaintiffs' Motion to update the royalty portion of damages through the date of trial and thus the Court granted the update resulting in $778,343,501 total compensatory damages.

Regarding enhancement of damages, the Court, referencing the Federal Circuits clarification of 35 U.S.C. § 284 (§ 284) in *SRI Int'l, Inc. v. Cisco Sys., Inc.* (Fed. Cir. 2019), first agreed with the jury and found that

Kite's behavior rose "to the level of wanton, malicious and bad-faith behavior required for willful infringement." Neither the Court nor the jury believed the testimony from the former CEO of Kite that in 2013 Kite did not seek a license to the '190 Patent. In fact, the Court viewed the following as undisputed: Kite "knew of the Sadelain backbone claimed in the '190 Patent at least as of 2013, attempted aggressively to license the '190 Patent, affirmatively attempted to invalidate the '190 Patent by filing an IPR, then when neither of those steps was successful, chose to accelerate YESCARTA® to market to its own advantage and to Plaintiffs' corresponding detriment, all while knowing that Plaintiffs' assertion of the '190 Patent in this litigation was, by [Kite]'s own admission, 'inevitable.'"

In their Motion, Plaintiffs asked the Court to double the finding of damages. Under § 284, the Court granted-in-part the enhancement, ruling that a 50% enhancement was appropriate as it balanced the weight of Kite's "wanton and bad-faith behavior" with "the fact that [Kite]'s actions have resulted in a life-saving treatment for thousands of terminal cancer patients." As a supplement, the Court analyzed the 50% enhancement through consideration of the Read factors from *Read Corp. v. Portec, Inc.* (Fed. Cir. 1992) and determined that it is further supported as seven of the nine factors weighed in favor of enhancement. Specifically, the Court found the following evidence supported enhancement: Kite "does not deny that it deliberately copied the work of" the inventor on the '190 Patent, and correspondingly Kite's "misconduct was of lasting duration;" Kite did not present any fact testimony to show that it "investigated the patent and formed a good-faith belief when it learned of the '190 Patent;" Kite's parent company, Gilead, has "total assets of nearly $60 billion, and $9 billion in cash and cash equivalents;" Kite failed "to prevail on a single issue" before the jury which "returned a verdict the morning after beginning deliberation," including on damages described by Docket Navigator as "the seventh-largest patent jury award ever;" and that "even though Plaintiffs have not yet [joined] the market, [Kite]'s unfair head start was designed to impede Plaintiffs' progress when they do so."

The Court next addressed Plaintiff's request for an ongoing royalty of at least 33.1% (20% higher than the jury's rate) on Kite's continued infringement and ruled to grant-in-part at the rate awarded by the jury of 27.6% in a balance of factors that changed in the post-trial hypothetical negotiation. Plaintiffs were correct in claiming the jury verdict that the '190 Patent was valid and infringed, strengthened their position. On the other hand, "[n]either party disputes that revenues for YESCARTA® have been lower than originally estimated at the time of the hypothetical negotiation in 2017." Furthermore, the Court considered that "although at the original hypothetical negotiation, the parties expected Plaintiffs to have already entered the market, Plaintiffs have yet to do so. Given the limited term of the patent, Plaintiffs will face competition for a comparatively shorter time than anticipated in 2017." Thus, the Court declined to increase the royalty rate. Ongoing royalties were not subject to enhancement.

Regarding prejudgment interest, Kite argued in its Opposition to Plaintiffs' Post-Trial Motion (Opposition) that the Treasury bill rate would compensate Plaintiffs for the time value of money without additional compensation for investment risk the Plaintiffs did not bear. The Court ruled in favor of Kite reasoning that, despite Plaintiff's argument that the prime rate more accurately reflected the rate a bank would charge to lend to a large corporation, Plaintiff's never argued that they actually borrowed at a rate above the Treasury bill rate or that they needed to because of an absence of reasonable royalty payments. Additionally, the Court did not view Plaintiffs reference to a penalty interest rate for late payments from one of their licenses as an example of rate at which Plaintiffs could borrow. On April 8, 2020, Final Judgment was entered. The Court updated damages with prejudgment interest bringing the total to $1,200,322,552 (including $778,343,501 on the jury verdict, $32,807,300 of prejudgment interest, and the 50% enhancement of $389,171,750.50).

Romag Fasteners, Inc., Petitioner v. Fossil, Inc., et. al., Case No. 18-1233 (Supreme Court)

On April 23, 2020, the US Supreme Court issued a decision in this case in favor of Romag. It ruled that a plaintiff in a trademark infringement suit is not required to show that a defendant willfully infringed the plaintiff's trademark as a precondition to a profit disgorgement award. The Supreme Court vacated the judgment of the Court of Appeals and remanded the case for further proceedings.

Romag Fasteners, Inc. (Romag) sells magnetic snap fasteners for use in leather goods. Fossil, Inc., (Fossil) designs, markets, and distributes a wide range of fashion accessories. Romag and Fossil signed an agreement to use Romag's fasteners in Fossil's leather goods. Romag eventually discovered that factories in China making Fossil products were using counterfeit Romag fasteners, and Fossil was doing little to guard against the practice. Romag sued Fossil and certain retailers of Fossil products for trademark infringement in district court, alleging that Fossil had infringed its trademark rights and falsely represented that its fasteners came from Romag.

Romag sought to disgorge Fossil's profits earned in connection with the trademark infringement. Although the District Court jury sided with Romag, it found that Fossil had acted "in callous disregard" of Romag's rights while rejecting the accusation that Fossil had acted willfully. The District Court denied Romag's request to disgorge Fossil's profits because Romag had not proven that Fossil had infringed the trademarks willfully. The case was appealed to the Supreme Court.

Lower courts had previously split on the role of "willfulness" in deciding whether to award defendant's profits. The central question before the Supreme Court was whether willfulness was a precondition to profit disgorgement awards under the Lanham Act.

In its April 2020 opinion, the Supreme Court unanimously agreed with Romag that a plaintiff in a trademark infringement suit is not required to show that a defendant willfully infringed the plaintiff's trademark as a precondition to a profit disgorgement award.

The Supreme Court ruled that there was little support for a strict willfulness requirement in the Lanham Act "statute's language, structure, and history." However, the Supreme Court ruled that willfulness was still an important factor for courts to consider when weighing an award of profits. Justice Gorsuch wrote "[w]e do not doubt that a trademark defendant's mental state is a highly important consideration in determining whether an award of profits is appropriate. But acknowledging that much is a far cry from insisting on the inflexible precondition to recovery Fossil advances."

All nine justices agreed on the ultimate outcome, and eight signed the majority opinion. Justice Sotomayor did not sign the majority opinion, criticizing the majority for staying "agnostic" about whether profits can be granted in cases of "innocent infringement."

Editors

Kimberly Schenk has nearly 20 years of experience in intellectual property damages analysis. She has testified in more than a dozen cases involving damages for infringement of patents, trademarks, and copyrights; trade secret misappropriation; Lanham Act issues; breach of contract; and other commercial disputes. Her experience includes matters in a variety of industries, including telecommunications, software, pharmaceuticals, medical devices, consumer products, and many others.

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