UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

MAGNA ELECTRONICS, INC. , Plaintiff, -v- TRW AUTOMOTIVE HOLDINGS CORP., TRW AUTOMOTIVE US LLC, and TRW VEHICLE SAFETY SYSTEMS INC., Defendants.	No. 1:12-cv-654; 1:13-cv-324 HONORABLE PAUL L. MALONEY

OPINION AND ORDER DENYING DEFENDANTS' MOTIONS FOR PARTIAL SUMMARY JUDGMENT REGARDING DAMAGES

These matters are before the Court on two separate motions filed by TRW relating to damages. TRW's first motion (ECF No. 574) seeks to foreclose "post-expiration damages," while its second motion seeks to foreclose the recovery of "future damages" (ECF No. 576). Magna filed responses (ECF Nos. 602, 604), and TRW filed replies (ECF Nos. 649, 650).

Legal Framework: Summary Judgment

Summary judgment is appropriate only if the pleadings, depositions, answers to interrogatories and admissions, together with the affidavits, show there is no genuine issue of material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Tucker v. Tennessee*, 539 F.3d 526, 531 (6th Cir. 2008). The burden is on the moving party to show that no genuine issue of material fact exists, but that burden may be discharged by pointing out the absence of evidence to support the nonmoving party's case. *Bennett v. City of Eastpointe*, 410 F.3d 810, 817 (6th Cir. 2005) (quoting *Celotex*, 477 U.S. at 325).

The facts, and the inferences drawn from them, must be viewed in the light most favorable to the nonmoving party. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986) (quoting *Matsushita Elec. Indus. Co. v. Zenith Radio Corp*., 475 U.S. 574, 587 (1986)). Once the moving party has carried its burden, the nonmoving party must set forth specific facts, supported by evidence in the record, showing there is a genuine issue for trial. Fed. R. Civ. P. 56(e); *Matsushita*, 475 U.S. at 586. The question is "whether the evidence presents a sufficient disagreement to require submission to the jury or whether it is so one-sided that one party must prevail as a matter of law." *Anderson*, 477 U.S. at 251–252; *see Barrett v. Whirlpool Corp.*, 556 F.3d 502, 519 (6th Cir. 2009) (holding that "conclusory statements, subjective beliefs, or intuition cannot defeat" a summary judgment motion). The function of the district court "is not to weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial." *Resolution Trust Corp. v. Myers*, 9 F.3d 1548 (6th Cir. 1993) (citing *Anderson,* 477 U.S. at 249).

To defeat a motion for summary judgment, the non-movant "is required merely to point to an evidentiary conflict created on the record" as to any material fact. *Armco, Inc. v. Cyclops Corp.*, 791 F.2d 147, 149 (Fed. Cir. 1986).

<u>Legal Framework: Damages</u>

Magna seeks a host of damages related to sales of TRW's products from 2013 to 2023. The provision that defines direct infringement (35 U.S.C. § 271(a)), which is necessary to find even in cases of indirect infringement, "whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention *during the term of the patent therefor*, infringes the patent." *Id.*

The Federal Circuit has interpreted a "sale" under § 271(a) to mean a "transfer of property or title for a price" or the "agreement by which such transfer takes place." *NTP, Inc. v.*

Research in Motion, Ltd., 418 F.3d 1282, 1319 (Fed. Cir. 2005); *see also Halo Elec., Inc. v. Pulse Elec., Inc.*, 769 F.3d 1371, 1379 (Fed. Cir. 2014).

The Supreme Court has noted that "when the patent expires, the patentee's prerogative expires too, and the right to make or use the [patented] article, free from all restriction, passes to the public" and that "[b]y virtue of federal law, . . . an article on which the patent has expired . . . is in the public domain and may be made and sold by whoever chooses to do so." *Kimble v. Marvel Entm't, LLC*, 135 S. Ct. 2401, 2407 (2015) (internal quotations and citations omitted).

The parties vigorously dispute whether the case law allows for Magna's "accelerated market entry" theory of damages and whether the evidence is sufficiently reliable regarding future damages.[1]

1. Lost Profits

A claimant must prove actual damages to establish entitlement to lost profits. *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 671 (Fed. Cir. 1988). To prove such actual damages, the patentee must prove that the "lost profits claimed were in fact caused by the infringing sales[.]" *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc). In other words, "the patentee must show a reasonable probability that, 'but for' the infringement,

[1] TRW also alleges that Magna is arguing that the requirements contracts entered during the terms of the patents constitute infringing sales or offers to sell in an effort to avoid the prohibition on post-expiration damages. One dispute, then, is whether the requirements contracts at issue are sales or offers to sell. The Court need not decide at this juncture whether individual requirement contracts at issue in this case constitute sales or offers to sell. Indeed, factual disputes abound that would preclude the Court from deciding those questions as a matter of law. (For example, one dispute is whether the requirements contracts awarded to TRW are for the life of the program.) Nonetheless, the definitions of "sale" and "offer to sell" require more nuance than TRW offers. *See, e.g., Transocean Offshore Deepwater Drilling, Inc. v. Maersk Contractors USA, Inc.*, 617 F.3d 1296, 1311 ("Our precedent establishes that a contract can constitute a sale to trigger infringement liability . . . A 'sale' is not limited to the transfer of tangible property; a sale may also be the agreement by which such a transfer takes place."); *see also* U.C.C. § 2-306 (requirement contracts). In fact, the Federal Circuit expressly recognized a "contract for sale" under U.C.C. § 2-106, which includes "a contract to sell goods at a future time," is a "sale" for purposes of § 271(a). *See Transocean*, 617 F.3d at 1310–11. TRW cites to no case law that holds a true requirements contract cannot constitute a "sale" or "offer for sale" under § 271(a). *See Halo Elec., Inc. v. Pulse Elec., Inc.*, 769 F.3d 1371, 1379 (Fed. Cir. 2014) (Construing a "general business agreement" that did not even "refer to . . . any specific product.").
Finally, as the Court will discuss, TRW ultimately reads *Kimble* much too broadly.

it would have made the sales that were made by the infringer." *Id.*

To meet the but-for causation standard required to recover lost profits, the patentee must prove: (1) demand for the patented product, (2) absence of acceptable non-infringing substitutes, (3) manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made. *Id.* (citing *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978)). To do so, a patentee necessarily must "reconstruct the market to show, hypothetically, 'likely outcomes with infringement factored out of the economic picture.'" *Crystal Semiconductor Corp. v. TriTech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1355 (Fed. Cir. 2001) (quoting *Grain Processing Corp. v. Am. Maize-Prods.*, 185 F.3d 1341, 1350 (1999)). This reconstruction of the market, although hypothetical, must be supported by sound economic proof. *Id.*; *Shockley v. Arcan, Inc.*, 248 F.3d 1349, 1362-63 (Fed. Cir. 2001). Extrapolated lost profit calculations resting on unsupported assumptions will not suffice. *Shockley*, 248 F.3d at 1363.

While it is possible for a patentee to "produce sufficient evidence to recover projected future losses . . . those projections must not be speculative." *Oiness v. Walgreen Co*., 88 F.3d 1025, 1031 (Fed. Cir. 1996); *see Shockley*, 248 F.3d at 1362 (to obtain an award of future lost profits, patentee must "supply adequate evidence to enable the fact-finder to responsibly estimate future losses based on sound economic models and evidence"). As the *Oiness* court explained:

> The burden of proving future injury is commensurately greater than that for damages already incurred, for the future always harbors unknowns. . . . While estimates of lost future profits may necessarily contain some speculative elements, . . . the factfinder must have before it such facts and circumstances to enable it to make an estimate of damage based upon judgment, not guesswork.

Oiness, 88 F.3d at 1031 (internal quotations and citations omitted); *see also Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1581 (Fed. Cir. 1992) (affirming rejection of speculative lost profits claim due to “uncertainties of future pricing, future competition, and future markets, in [a] fast-moving field”).

“The measure of damages is an amount which will compensate the patent owner for the pecuniary loss sustained because of the infringement. . . . But the floor for a damage award is no less than a reasonable royalty . . . and the award may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder.” *State Indus., Inc. v. Mor-Flo Industries, Inc.*, 883 F.2d 1573, 1577 (Fed. Cir. 1989).

The Federal Circuit has also held that “trial courts, with this court’s approval, consistently permit patentees to present market reconstruction theories showing all of the ways in which they would have been better off in the ‘but for world,’ and accordingly to recover lost profits in a wide variety of forms.” *Grain Processing Corp*, 185 F.3d at 1350.

2. Reasonable Royalties

A common approach to calculate a reasonable royalty, called the hypothetical negotiation, attempts to ascertain the royalty upon which the parties would have agreed had they successfully negotiated an agreement just before infringement began. *See Georgia–Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y.1970); *see also Rite–Hite*, 56 F.3d at 1554 n. 13; *Panduit*, 575 F.2d at 1159. The hypothetical negotiation assumes that the asserted patent claims are valid and infringed. *Lucent Tech., Inc. v. Gateway, Inc.*, 580 F.3d 1301, 1325 (Fed. Cir. 2009). However, any royalties after expiration would have to stem from a pre-expiration figure. *See Kimble*, 135 U.S. 2401.

Analysis

As TRW notes, *Kimble* is instructive with regard to the general unavailability of post-expiration royalty payments. However, *Kimble* also recognized the following:

> The *Brulotte* rule, like others making contract provisions unenforceable, prevents some parties from entering into deals they desire. As compared to lump-sum fees, royalty plans both draw out payments over time and tie those payments, in each month or year covered, to a product's commercial success. And sometimes, for some parties, the longer the arrangement lasts, the better—not just up to but beyond a patent term's end. A more extended payment period, coupled (as it presumably would be) with a lower rate, may bring the price the patent holder seeks within the range of a cash-strapped licensee. (Anyone who has bought a product on installment can relate.) See Brief for Memorial Sloan Kettering Cancer Center et al. as *Amici Curiae* 17. Or such an extended term may better allocate the risks and rewards associated with commercializing inventions—most notably, when years of development work stand between licensing a patent and bringing a product to market. See, *e.g.,* 3 R. Milgrim & E. Bensen, Milgrim on Licensing § 18.05, p. 18–9 (2013). As to either goal, *Brulotte* may pose an obstacle.5678
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> Yet parties can often find ways around *Brulotte,* enabling them to achieve those same ends. To start, *Brulotte* allows a licensee to defer payments for pre-expiration use of a patent into the post-expiration period; all the decision bars are royalties for using an invention after it has moved into the public domain. See 379 U.S., at 31, 85 S.Ct. 176; *Zenith Radio Corp. v. Hazeltine Research, Inc.,* 395 U.S. 100, 136, 89 S.Ct. 1562, 23 L.Ed.2d 129 (1969). A licensee could agree, for example, to pay the licensor a sum equal to 10% of sales during the 20–year patent term, but to amortize that amount over 40 years. That arrangement would at least bring down early outlays, even if it would not do everything the parties might want to allocate risk over a long timeframe. And parties have still more options when a licensing agreement covers either multiple patents or additional non-patent rights. Under *Brulotte,* royalties may run until the latest-running patent covered in the parties' agreement expires. See 379 U.S., at 30, 85 S.Ct. 176. Too, post-expiration royalties are allowable so long as tied to a non-patent right—even when closely related to a patent. See, *e.g.,* 3 Milgrim on Licensing § 18.07, at 18–16 to 18–17. That means, for example, that a license involving both a patent and a trade secret can set a 5% royalty during the patent period (as compensation for the two combined) and a 4% royalty afterward (as payment for the trade secret alone). Finally and most broadly, *Brulotte* poses no bar to business arrangements other than royalties—all kinds of joint ventures, for example—that enable parties to share the risks and rewards of commercializing an invention.

Kimble, 135 S. Ct. at 2408. Ultimately, Magna is correct. "While the Supreme Court, in its recent decision in *Kimble* . . ., upheld its 50 year old opinion in *Brulotte* . . . holding that post-expiration running royalties were not recoverable. . . *Kimble* does not expressly prohibit the recovery of all damages after the expiration of a patent and does not even speak to lost profit damages, instead being limited to whether running royalties can be paid after a patent expires. *Kimble* does not bar a claim for lost profits damages." (ECF No. 604 at PageID.22686.)

With respect to royalty damages, *Kimble* expressly recognized that there are means by which parties can enter into royalty agreements which avoid the restrictions of *Kimble* and *Brulotte*. *Kimble* at 2408. The hypothetical negotiation leading to a license agreement is not limited to a running royalty requiring the payment of royalties on sales made after the patent expired which may run afoul of *Kimble. Kimble* explicitly allows other business arrangements other than a post-expiration running royalty. In this case, in the hypothetical negotiation, Magna and TRW could have agreed to enter into a lump sum royalty paid before patent expiration. And here the parties do not disagree.

Thus, Magna notes that while the parties disagree on the amount, both parties' experts agree that a lump sum royalty payment could very well have been arranged. (ECF No. 604 at PageID.22687.) At first blush, however, TRW advances a fairly persuasive back-up argument:

> Even if Magna could seek lost profits or reasonable royalty damages for post-expiration estimated sales, summary judgment on Magna's claim for these damages is proper because the claim is speculative. Even where projected future sales are based on TRW's own business records, the actual sales figures have varied substantially from those projections, and the agreements may be terminated by the buyers. In response, Magna first argues that the claimed future damages are not speculative because they are based on TRW's own projections. Resp. at 21. However, Magna misses the point. TRW's projections change and are updated quarterly. Resp. Ex. 8, p. 314:9-25. The actual sales numbers can and do vary significantly from TRW's projections. Magna cannot dispute that TRW's actual sales of the camera units for 2013 and 2014 for certain programs were collectively only about 44.5% of the sales that TRW had predicted for these programs.

> The damages are also speculative because the buyers may terminate the requirements contracts. *See* TRW's brief at 21-22. Magna does not dispute an OEM's ability to terminate the agreements or that there are examples of an OEM terminating the agreements. Rather, Magna responds that it is unlikely an agreement will be cancelled after production commences. However, Magna's attempt to distinguish pre- and post-production cancellation is a red-herring. If, as Magna claims (and TRW disputes), the requirements contracts constitute the infringing act, then there is no question that programs have been cancelled subsequent to the infringing act.

(ECF No. 649 at PageID.27640–41.) The Court, however, finds that TRW's arguments should go to the weight of the evidence at trial over damages rather than the Court's determination that Magna cannot recover at all given the evidence.[2] The Court cannot say that there is not a genuine factual dispute whether TRW's estimates of future sales are sufficiently reliable to use them as a basis to claim future damages.[3]

However, Magna has shown that other courts in the country have allowed an "accelerated market entry" theory to go forward to the jury, and the Court finds that theory appropriate here.

Most important to this court, the Federal Circuit cited approvingly to *BIC Leisure Products, Inc. v. Windsurfing Int'l, Inc.*, 687 F. Supp. 134 (S.D.N.Y. 1988), *rev'd in part on other grounds*, 1 F.3d 1214 (Fed. Cir. 1993), stating that "trial courts, with this court's approval, consistently permit patentees to present market reconstruction theories showing all of the ways in which they would have been better off in the 'but for world,' and accordingly to recover lost profits in a wide variety of forms." The Court then cited approvingly in a parenthetical, "permitting recovery for . . . accelerated market reentry by the infringer." *Grain Processing*

[2] The Court also finds it slightly ironic that TRW uses its own allegedly poor projections as the basis to run away from possible damages. Any doubt about the reliability of TRW's own projections where TRW as the accused infringer bears the risk of uncertainty is best left for the jury.

[3] TRW also argues that there are no disputed issues of material fact because "the express and unequivocal terms of the agreements show they can be terminated." That does not preclude Magna from arguing at trial, though, that the contracts would have been fulfilled as typical industry practice dictates. Magna is correct to note that "[a]t the very least there is an inference that the programs will continue for the full contract period."

Corp., 185 F.3d at 1350. The *BIC Leisure* case held that *Brulotte* did not preclude accelerated market entry damages, and indeed, *Kimble* itself notes that there are instances in which post-expiration damages are available as a matter of law.

Thus, the Court **DENIES** TRW's motion (ECF No. 574) to the extent it seeks to foreclose Magna's ability to recover under an accelerated market entry theory (and lost profit damages from that theory).

The Court will note, however, that Magna faces a steep climb under this theory. TRW points to another case where a district court allowed an accelerated market entry theory to go forward with the following reservations:

> Should this damages approach become nothing more than plaintiff alleging lost sales in another form, in that plaintiff fails to differentiate based on the evidence between (a) its damages based upon its lost profits because Pro entered the market on the day after the patent expired in an enhanced position at a level accelerated by its earlier infringement with an already established customer base, and (b) its regular lost profits or reasonable royalty for such sales, no recovery will be had.

TP Orthodontics Inc. v. Prof'l Positioners Inc., No. 72-C-697, 1990 WL 268846, *10 (E.D. Wis. 1990) *order vacated in part*, No. 72-C-0697, 1991 WL 187189 (E.D. Wis. 1991). The Court can entertain another motion if the damages issue becomes ripe after trial.

In addition, to the extent that Magna can show at trial that it would have entered into a lump sum reasonable royalty arrangement with TRW, and recognizing that *Kimble* has not foreclosed a lump sum arrangement, the Court **DENIES** TRW's motion (ECF No. 574) on those grounds.

Finally, factual disputes abound over whether Magna's estimates of future sales are sufficiently reliable to use them as a basis to claim future damages. There are further disputes over whether the contracts were likely to be terminated early. While TRW appropriately cites to

Oiness, 88 F.3d at 1025 for the proposition that evidence of lost profits cannot be purely speculative, even that case was allowed to go to the jury first. TRW argues that "Magna cites no authority that would justify resolving uncertainty in the number of future estimated sales against TRW. . . . [and] it is Magna's burden to prove future lost profits, and that burden is commensurately greater than that for damages already incurred." However true that might be given the record that the *jury* considered in *Oiness*, TRW's *motion for summary judgment* demands that all facts *and reasonable inferences from those facts* be viewed in the light most favorable to Magna. The Court will note that a small degree of speculation is inherent to any theory regarding lost profits. Indeed, the Federal Circuit has noted that "[r]econstructing the market [is] by definition a hypothetical enterprise." *Grain Processing Corp.*, 185 F.3d at 1350.

Again, the procedural posture of *this* motion is different than that in *Oiness*, where the Federal Circuit, reviewing the entire record established at trial, noted that the factfinder did not have "facts and circumstances to enable it to make an estimate of damage based upon judgment, [and] not guesswork." 88 F.3d at 1031. Here, the Court, when reviewing the facts and inferences in the light most favorable to Magna, finds that its claim for future losses does not only depend on "guesswork." *Id.* Of course, TRW is entitled to vigorously contest the reliability of Magna's estimates at trial. Thus, the Court **DENIES** TRW's motion for summary judgment with respect to future damages (ECF No. 576).

ORDER

For the reasons contained in the accompanying opinion, the Court **DENIES** TRW's motions for partial summary judgment with regard to damages in all respects (ECF No. 574 *in* 1:12-cv-654; ECF No. 512 *in* 1:13-cv-324; ECF No. 576 *in* 1:12-cv-654; ECF No. 513 *in* 1:13-cv-324).

IT IS SO ORDERED.

Date: December 31, 2015

/s/ Paul L. Maloney
Paul L. Maloney
United States District Judge