



Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

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Patent Infringement Damages – A U.S. Perspective

presented by
Barry W. Graham

The question:

“Does the U.S. Patent System currently deliver appropriate protection for the owner of a U.S. patent?”

- **Covered**/Not Covered
 - **Utility patent infringement** (35 U.S.C. § 284); not post-publication/pre-issuance damages (35 U.S.C. § 154(d)); not design (35 U.S.C. § 289) or plant patent infringement (35 U.S.C. § 161)
 - **Disputed matter** (infringement litigation); not negotiated business licensing arrangement
 - **U.S. District Court**; not U.S. Court of Federal Claims or U.S. International Trade Commission

- **Covered**/Not Covered (cont'd)
 - **Monetary awards and permanent injunctions** (35 U.S.C. § 283); not temporary restraining orders or preliminary injunctions; not strength of patent, scope of claims, or specific type of technology
 - **Monetary awards** (lost profits, established royalty, reasonable royalty); not damage limitations based on six-year rule (35 U.S.C. § 286), marking/notice issues (35 U.S.C. § 287), increased damages (35 U.S.C. § 284) and attorneys' fees (35 U.S.C. § 285) for “exceptional case” (35 U.S.C. § 285), pre- and post-judgment interest or costs (35 U.S.C. §284)
 - **Nuts & Bolts**/not theory

With that focus, the question again:

“Does the U.S. Patent System currently deliver appropriate protection for the owner of a U.S. patent?”

- Audience: Yes, No, Don't Know, Depends

The answer: “It depends on whom you are asking.”

- Patent owners: Practicing Entities (“PEs”) or Non-Practicing Entities (“NPEs”)
- Potential infringement targets: for PEs – competitors, for NPEs – all businesses from manufacturers to consumers

The answer (cont'd) –

- Individual juries and individual jurors within each jury in U.S. District Court patent infringement litigation
- Individual U.S. District Court judges, Federal Circuit judges, and U.S. Supreme Court justices
- U.S. Congressmen and Congresswomen
- Patent attorneys, patent licensing experts, economists, ...
- Persons on the street

35 U.S.C. § 284 Damages –

“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”

What Is “adequate” compensation?

- Lost Profits
- Reasonable Royalties

Lost Profits –

- Patent owner's, not infringer's profit
- “But for” the infringement, the patentee reasonably would have made the profits enjoyed by the infringer
- Diverted sales resulting from the infringement
- Economic/market analysis – totality of the circumstances
- Price erosion resulting from the infringement

Lost Profits (cont'd) –

- Incremental income (profit – variable cost)
 - variable costs only – those that vary with increased production – deducted. Fixed costs not deducted.

Reasonable Royalty –

- “but in no event less than a reasonable royalty”
- Damage award (US\$) = royalty base (US\$) x royalty rate (%)
- Royalty base: determined by entire market value rule
- Royalty rate:
 - established royalty rate
 - if not, hypothetical negotiation: 15 *Georgia-Pacific* factors plus other economic/market factors to determine reasonable royalty

Reasonable Royalty (cont'd) –

- The royalty amount which would have been set in a hypothetical negotiation between a willing patent owner and a willing potential user
 - The type of license negotiated is fact dependent
 - The date of the hypothetical negotiation is when infringement begins
 - Infringement assumed

***Georgia-Pacific* Factors –**

- Prior and existing licenses under the patent
- Industry custom
- Patentee's licensing policies
- Infringer's anticipated profits
- Comparative utility

Georgia-Pacific Corp. v. U.S. Plywood Corp.,
318 F. Supp. 1116 (S.D.N.Y. 1970)

***Georgia-Pacific* Factors (cont'd) –**

- Collateral benefits
- Relationship between claimed feature and infringer's commercial product
- State of development – commercial success of the product/process covered by the patent
- Number of years left on the patent

Entire Market Value Rule –

- Damages calculated based on value of entire apparatus containing both infringing and noninfringing elements
- Only applies when the infringing element is the basis for customer demand of the entire apparatus

25% Rule of Thumb –

- Used by patent owner’s damage experts to support a licensee paying a royalty rate equivalent to 25% of its expected profits for the product that incorporates the invention claimed in the patent at issue
- Denounced by Federal Circuit as “a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation.” *Uniloc USA, Inc. v. Microsoft Corp.* (Fed. Cir. 2011).

Compensatory Awards

Examples of royalty rates regarded as reasonable in specific market fields (e.g., pharmaceuticals, computers, automotive, general mechanics,...) –

- Not possible to give typical examples!
- 0.1% to 50% or more?

Compensatory Awards

Examples of royalty rates (cont'd) –

- But there are sources providing results in various cases:
 - Licensing Royalty Rates by Battersby and Grimes (Aspen Publishers 2011) available on CCH database and in book form
 - “Licensing Update” by Battersby and Grimes (Wolters Kluwer 2011) available on CCH database
 - Royalty Rates for Technology (4th ed. IPRA, Inc. 2008)
 - Patent Infringement Compensation and Damages (Law Journal Press 2008)
 - Royalty Rates for Licensing Intellectual Property (J. Wiley & Sons 2007)

Damages Theories Must Be “Reliable” –

- Rule 702 of the Federal Rules of Evidence
 - A qualified expert may testify in the form of an opinion if:
 - (1) The testimony is based upon sufficient facts or data,
 - (2) The testimony is the product of reliable principles and methods, and
 - (3) The witness has applied the principles and methods reliably to the facts of the case

Damages Theories Must Be “Reliable” (cont’d) –

- “The inquiry envisioned by Rule 702 is . . . a flexible one. Its overarching subject is the scientific validity and thus the evidentiary relevance and reliability of the principles that underlie a proposed submission. The focus, of course, must be solely on principles and methodology, not on the conclusions that they generate.”

– *Daubert v. Merrel Dow* (U.S. 1993)

Damages Theories Must Be “Reliable” (cont’d) –

- A jury’s damages award “must be upheld unless the amount is grossly excessive or monstrous, clearly not supported by the evidence, or based only on speculation or guesswork.”

Monsanto Co. v. Ralph (Fed. Cir. 2004)

35 U.S.C. § 284 Injunction –

“The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any rights secured by patent, on such terms as the court deems reasonable.”

- Patent infringement injunctions can only enjoin further infringement by the infringer/defendant
- Traditional four-factor test for permanent injunctions require the patent owner to show that:
 - it has suffered irreparable injury
 - Remedies at law are inadequate to compensate for the injury
 - the balance of hardships warrants a remedy for the patent owner
 - the public's interest is not disserved by a permanent injunction

Scope of Injunctions –

- 35 U.S.C. § 283: “to prevent the violation of any right secured by patent”
- “The only acts the injunction may prohibit are infringement of the patent by the adjudicated devices and infringement by devices not more than colorably different from the adjudicated devices.” (*Int’l. Rectifier Corp. v. IXYS Corp.* (Fed. Cir. 2004))
- 35 U.S.C. § 283: “on such terms as the court deems reasonable.”
- Scope defined by the wording of the injunction, is heavily fact-oriented, and cannot be easily summarized or categorized
- But it is clear that only future acts of infringement by the infringer/defendant can be enjoined.

America Invents Act –

- The long history of the U.S. Congress's efforts to pass patent reform legislation dealt in part with the concerns over the amount of damage awards in patent infringement cases and pushed for patent damage evidentiary gate-keeping responsibilities of trial courts with the goal of ensuring a reasonable royalty is awarded only for the economic value stemming from the patent's contributions to the product
- As enacted, however, those provisions were left out.

- Royalty rates are continuing to increase
- Patent damages law by U.S. District Court decisions and Federal Circuit decisions continuing to evolve to achieve closeness in compensatory damages awards and the value of the actual patented invention
- Compensatory damage awards continue to increase
- Effect of America Invents Act unknown

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Thank You

Barry W. Graham, Partner
Finnegan, Henderson, Farabow, Garrett & Dunner, LLP
901 New York Avenue, N.W.
Washington, DC 20001-4413

202-408-4017 (direct)
barry.graham@finnegan.com
www.finnegan.com