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Insights From Leaders In IP Law

Training Academy Session # 31

Patent Litigation Damages

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Session Overview

1. Patent Damages in General (Slides 3-4)
2. Reasonable Royalties (Slides 5-9)
3. Lost Profits (Slides 10-17)
4. Price Erosion (Slides 18-19)
5. Standard Essential Patents (SEPs) (Slides 20-24)
6. Expert Discovery (Slide 25)

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Damages in General

- 35 U.S. Code § 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.
  - "When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).
  - "The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances."

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Damages in General

- 35 U.S. Code § 286 – Time limitation on damages
  - "Except as otherwise provided by law, **no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint** or counterclaim for infringement in the action.
  - "In the case of claims against the United States Government for use of a patented invention, the period before bringing suit, up to six years, between the date of receipt of a written claim for compensation by the department or agency of the Government having authority to settle such claim, and the date of mailing by the Government of a notice to the claimant that his claim has been denied shall not be counted as part of the period referred to in the preceding paragraph."

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Reasonable Royalties

- Reasonable royalty is the floor, not the ceiling
- Court required to determine reasonable royalty
  - "0" only if the evidence absolutely supports (*e.g.*, patent has no value)
    - *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1328
- Can be running rate or lump sum

Reasonable Royalties

- *Georgia-Pacific* Factors
  - Patent Owner royalties from license of patent
  - Rates paid for use of similar patents
  - Nature and scope of license
  - Patent Owner policy on maintaining monopoly
  - Commercial relationship between parties
  - Effect of patented invention on promoting other sales
  - Duration of patent and term of license
  - Established profitability

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Reasonable Royalties

- *Georgia-Pacific* Factors con't
  - Utility and advantages of patented invention
  - Nature and character of patented invention
  - Value of the patent to the infringer
  - Customary profit/selling price in the business
  - Profit portion attributable to the patent
  - Qualified expert testimony
  - Hypothetical agreed royalty

Reasonable Royalties

- Determining the Royalty Base in Multi-Component Products
  - Apportionment
    - Royalty must reflect value attributable to infringing features "and no more"
      - *Ericsson, Inc. v. D-Link Sys., Inc.*, 773 F.3d 1201, 1226

Reasonable Royalties

- Determining the Royalty Base in Multi-Component Products
  - Entire Market Value Rule
    - Not enough that patented feature is "valuable, important, or even essential"
      - *LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 68
    - Patented feature "alone motivates consumers to purchase" the product
      - *Id.* at 69

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Lost Profits

- To recover lost profits damages, the patentee must show a reasonable probability that, **"but for" the infringement**, it would have made the sales that were made by the infringer.
  - *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545

Lost Profits

- "…And that question [is] primarily: **had the Infringer not infringed, what would Patent Holder-Licensee have made?"**
  - *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156

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Lost Profits

- To obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must prove:
  (1) demand for the patented product,
  (2) **absence of acceptable noninfringing substitutes**,
  (3) his manufacturing and marketing capability to exploit the demand, and
  (4) **the amount of the profit he would have made**.

  - *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 1156

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Lost Profits

- A patentee need not negate every possibility that the purchaser might not have purchased a product other than its own, absent the infringement. **The patentee need only show that there was a reasonable probability that the sales would have been made "but for" the infringement.**
  - *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545

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Lost Profits

- The *Panduit* test, however, operates under an inherent assumption, not appropriate in this case, that the patent owner and the infringer sell products sufficiently similar to compete against each other in the same market segment. **If the patentee's and the infringer's products are not substitutes in a competitive market, Panduit's first two factors do not meet the "but for" test -- a prerequisite for lost profits.**
  - *BIC Leisure Prods. v. Windsurfing Int'l*, 1 F.3d 1214, 1218

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Lost Profits

- It is well-settled that "[o]nly a patent owner or an exclusive licensee can have constitutional standing to bring an infringement suit; a non-exclusive licensee does not."
  - *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1317

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Lost Profits

- "If the party has not received an express or implied promise of exclusivity under the patent, i.e., the right to exclude others from making, using, or selling the patented invention," the party has only a "**bare license**"--and a "bare license to sell an invention in a specified territory, even if it is the only license granted by the patentee, does not provide standing without the grant of a right to exclude others."

  - *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.*, 620 F.3d 1305, 1317

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Lost Profits – Convoyed Sales

- **"convoyed sale"** refers to the relationship between the sale of a patented product and a functionally associated non-patented product. A patentee may **recover lost profits on unpatented components sold with a patented item**, a convoyed sale, if both the patented and unpatented products "together were considered to be components of a single assembly or parts of a complete machine, or they together constituted a functional unit."
  - *Am. Seating Co. v. USSC Group, Inc.,* 514 F.3d 1262, 1268; see also, Juicy Whip, Inc. v. Orange Bang, Inc., 382 F.3d 1367, 1371

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Price Erosion

- Because the patentee is entitled to what she would have made "had the Infringer not infringed," Aro, 377 U.S. at 507, damages for infringement may account for both lost sales and **reduction of prices due to infringing competition**, *see Yale Lock Mfg. Co. v. Sargent*, 117 U.S. 536, 551…(1886) ("**Reduction of prices, and consequent loss of profits, enforced by infringing competition, is a proper ground for awarding damages**."). We thus recognize the economic principle of "price erosion" in calculating compensatory damages for patent infringement.
  - *Power Integrations, Inc. v. Fairchild Semiconductor Int'l, Inc.*, 711 F.3d 1348, 1378

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Price Erosion

- This court has since explained that "the question as to the character and sufficiency of the evidence" **places the burden on the patentee to show that "but for" infringement, it would have sold its product at higher prices.**
  - *Crystal Semiconductor Corp. v. Tritech Microelectronics Int'l, Inc.*, 246 F.3d 1336, 1357

Standards Essential Patents (SEPs)

- Declared
  - Patentee registers with standard-setting organization (SSO)
  - Contractually obligated to FRAND licensing/royalty rate
- Undeclared
  - FRAND rates not contractually required
  - Damages/royalties at discretion of the court

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SEPs (cont'd)

- When do SEPs get into court?
  - Disputes over whether good-faith observance of FRAND terms (by either party)
    - Includes determination of FRAND licensing terms
      - Potential licensor believes not offered
      - Potential licensee believes offered but not accepted
  - When they're undeclared SEPs
    - FRAND terms not required, so normal patent infringement matter

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SEP Royalty/Damages Determination

- For declared patents, FRAND applies; otherwise, not subject to FRAND
- Approaches used
  - Review of agreements with other licensees
  - Value of SEP relative to product
  - Some approaches/arguments:
    - Look at related licensing agreements
    - Determine damages/royalties as percentage of value of product
      - Top-down approach
        - Attempt to estimate value of SEP contribution as percentage of total product value
      - Bottom-up approach
        - Attempt to estimate value of SEP contribution to smallest salable unit (SSU) implementing the SEP

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SEP Royalty/Damages Determination (cont'd)

- Importance of SEP features to overall value of product
  - Essential to functionality?
  - Minor feature having low importance

    Example: Recited in standard, but product can function without it (e.g., one operating mode out of a number of operating modes that need not all be implemented for compliance with standard)

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Expert Discovery

- Expert Reports
  - Liability
  - Damages – economist/accountant
- Rebuttal Reports
- Expert Depositions

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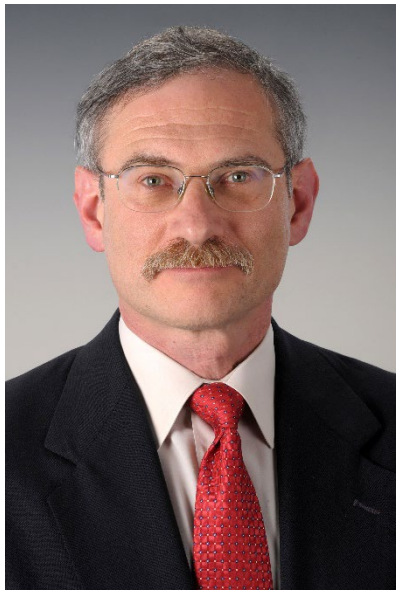
Speakers



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