

Patent Damages

An Overview of Patent Infringement Damages

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Outline

- What patent damages are available, and how are they calculated?
- When are patent damages awarded?
- What can be done to minimize or maximize patent damages?

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Infringement Triggers

- Literal Infringement
- Infringement under the Doctrine of Equivalents
- Willful Infringement
- Inducement
- Contributory Infringement

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Patent Damages

■ Overview – Variety of Remedies Available (alone or in combination)

- Lost Profits
- Reasonable Royalties
- Up to treble damages for Willful Infringement
- Attorney Fees
- Injunctive Relief – Not covered here, but an important remedy.

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Lost Profits

- Statutory Basis – 35 USC Section 284
- Premise – Attempts to place the patent holder in a position as if the infringement had not occurred
- What Lost Profits Damages are NOT – Generally, an infringer’s profits per se are not recoverable. → Efficient Breach?
- Variety of Considerations
 - Fair Market Value Determination
 - Market Share Apportionment
 - Patented Components – Apportionment/Entire Market Value Approaches

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Lost Profits – Fair Market Value Determination

- Most straight forward of damages calculation. See *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 US 476 at 507 (1964).
- Formula: $P_{ph} - C_{ph} = PR$, and $PR \times SI = LP$
 - P_{ph} = Price of Patent Holder's patented product
 - C_{ph} = Patent Holder's applicable costs
 - PR = Profit Realized per individual sale
 - SI = Number of Sales by the Infringer
 - LP = Actual Lost Profits (Base Damage Award)

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Factors that may affect the Fair Market Value Profit Realized.

- Demand for the patented product
- Absence of acceptable non-infringing substitutes
- Failure of patent holder to make and sell the patented product (e.g., patent trolls)
- Failure to Provide Evidence of Lost Profits can ruin an otherwise successful case – See *Panduit Corp. v. Stahlin Bros. Fibre Works*, 375 F. 2d 1152 (6th Cir. 1978).

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Market Share Apportionment

- Premise - Where acceptable non-infringing substitutes are available how are lost profits calculated?
- Patent Holder Receives Market Share Worth of Lost Profits – The lost profits award determined according to the Fair Market Value Calculation (described before) is adjusted according to the patent holder's market share during the infringing period.
- Example – Microsoft, Infringer X, and Competitors Y and Z.
 - Microsoft 40% market share
 - Infringer X 20% market share
 - Competitors Y and Z 40% combined Market Share
 - Result – Microsoft gets 40% of the lost profits value of Infringer X

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Patented Components, Apportionment and Entire Market Value Approaches

- Premise - How should lost profits (or reasonable royalties) be modified if the patented product is actually a part of a larger product?
- Apportionment – The patentee’s recovery is limited to the economic value added by the patented device to the overall product. See *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.*, 235 U.S. 641, 644-47 (1915) (quoting *Westinghouse Elec. & Mfg.*, at 615).
- Evidential Showing - The patent holder must prove how to apportion the lost profits between the patented and unpatented items.
- Failure to apportion can ruin a damages award. See *Riles v. Shell Exploration and Prod. Co.*, 298 F.3d 1302 (Fed. Cir. 2002)

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Whole Market Value

- Premise - The inverse of patented component apportionment. Permits recovery of damages based on the value of an entire apparatus containing several unpatented components when the patent-related feature is the “*basis for customer demand*”. *State Indus. v. Mor-Flo Indus., Inc.*, 883 F.2d 1573, 1580 (Fed. Cir. 1989).
- Evidential Showing - The patent holder must prove that all the components together (patented and unpatented) must function together to achieve one result and each component *could not have effectively been used independently of another component*. *Rite-Hite Corp. v. Kelley Co., Inc.*, 56 F. 3d 1538 (Fed. Cir. 1995).
- Benefit - Lost profits (or a reasonable royalty) are adjusted upward based on the value of a device containing the patented component.

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Reasonable Royalties

- Statutory Basis – 35 U.S.C. § 284
- Premise – “A reasonable royalty is an amount [a party] . . . would be willing to pay as a royalty and yet be able to make and sell the patented article, in the market at a reasonable profit.” See *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978) quoting *Goodyear Tire and Rubber Co. v. Overman Cushion Tire Co.*, 95 F.2d 978 at 984 (6th Cir. 1937). See also Chisum on Patents, Vol. 7, § 20.03[3][a], Reasonable royalties are a legal fiction. A reasonable royalty is the royalty willing parties would have agreed to had a license been negotiated.
- Floor for Damages – Reasonable royalties generally provide a floor for damages and are awarded where the patent holder can not provide a reasonable approximation of lost profits.
- In Combination with Lost Profits – Optionally, reasonable royalties are sometimes awarded in combination with lost profits, especially where prospective sales by the infringer are difficult to ascertain.

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Reasonable Royalties – A fact based determination

- Established Royalty – Prior Licenses may assist in the determination of a reasonable royalty. Factors considered:
 - Evidence of prior royalties before infringement.
 - Substantial number of industry participants.
 - The infringed technology is the same or similar to the technology that was the subject of the prior royalties.
 - Prior royalties were not secured under threat of litigation (i.e., freely negotiated).

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Reasonable Royalties – A fact based determination, cont.

- Without an established royalty – The Federal Circuit has favored the 14 factors provided in *Unidisplay S.A. v. American Electronic Sign Co.*, 69 F.3d 512 (Fed. Cir. 1995) citing *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D. N.Y. 1970).
- The 14 Georgia-Pacific Factors (some are duplicative of those considered for an established royalty). Not all of the factors are produced below, here are the highlights:
 - The rates paid by the licensee for the use of other patents comparable to the patent in suit.
 - The licensor's established policy to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.
 - The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business.
 - The duration of the patent and the term of the license.
 - The established profitability of the product made under the patent; its commercial success; and its current popularity.
 - The character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.
 - The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements.
 - The opinion testimony of qualified experts.

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Pre-Grant Royalties

- Statutory Basis - 35 U.S.C. § 154(d)
- Premise - Where infringing activity began before the issuance of a patent, pre-grant royalties may be available as supplemental damages award to compensate for pre-issuance damages occurring during prosecution.
- Gateway Elements Needed for Pre-Grant Royalties (after a finding of infringement):
 - Actual Notice
 - Substantial Claim Identity

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Enhanced Damages

- Statutory Basis - 35 U.S.C. § 284
- Premise – Where an infringing party’s conduct is found to be reckless in nature or litigation is carried on in bad faith, a court has the right to assess additional punitive damages.
- Remedies Available:
 - Willful Infringement
 - Attorney Fees

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Willful Infringement

■ Standards Old and New:

- *Original* - A subjective standard. See *Underwater Device, Inc. v. Morrison-Knudsen Col, Inc.*, 717 F.2d 1380 (Fed. Cir. 1983).
- *Now* - Willful infringement occurs where the infringing parties infringing activities are seen as *objectively* reckless. See *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007). *Underwater Device, Inc.* was overruled by the Federal Circuit in an en banc hearing

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Willful Infringement, cont: The Objectively Reckless Standard according to *In re Seagate*

- Infringer Acted Despite an Objectively High Likelihood It Was Infringing – The patent holder must provide *clear and convincing* evidence that the infringer acted despite an *objectively* high likelihood that its actions constituted infringement of a valid patent.
- Infringer Knew or Should Have Known of the Objectively Defined Risk – “If this threshold objective standard is satisfied, the patentee must also demonstrate that this objectively-defined risk was either known or so obvious that it should have been known to the accused infringer.” See *In re Seagate* at 1371.
- The end of a safe harbor of ignorance.

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Willful Infringement, cont: Calculating Damages

- Premise – Generally, damages for willful infringement should be awarded with a goal of deterring and punishing the willful infringer. See Chisum on Patents Vol. 7, § 20.03[4][b][vi]. According to statute 35 U.S.C. Section 284, damages for willful infringement may not exceed treble damages. *But* a court has discretion to award less than treble damages.
- Calculation – No set formula for determining what multiple of damage should be applied. However, *Read v. Portec, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992) provides some guidance on factors to consider:
 - Deliberately copying of the ideas or design of another.
 - Upon notice of the patent, did the infringer investigate the scope of the patent and form a good-faith belief that it was invalid or that it was not infringed.
 - The infringer's behavior as a party to the litigation.
 - Defendant's size and financial condition.
 - Whether the decision of willfulness was a close call.
 - Duration of the infringer's misconduct.
 - Remedial action by the infringer.
 - Infringer's motivation for harm.
 - Whether the infringer attempted to conceal its misconduct.
- Subjective Factors? – While *In re Seagate* has changed the standard for determining whether infringement is willful to an objective standard, the standard for assessing the amount of such willful damages does not appear to have changed.

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Attorney Fees

- Premise – Where the losing party engages in bad faith litigation, willful infringement or inequitable conduct attorney fees may be awarded to the prevailing party to compensate the prevailing party for the groundless basis for litigation. The award of attorney fees is designed to deter prospective groundless litigation. See Chisum on Patents Vol. 7 § 20.03[4][c].
- Statutory Basis - According to 35 U.S.C. § 285, “The court in exceptional cases may award reasonable attorney fees to the prevailing party.”
- Threshold for an Exceptional Case – See *Mahurkar v. C.R. Bard, Inc.*, “bad faith litigation, willful infringement, or inequitable conduct are among the circumstances which may make a case exceptional.” *Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1580 (Fed. Cir. 1996).
- Calculation - Where attorneys fees are awarded, the trial court has discretion in setting the amount. *Molins PLC v. Textron Inc.*, 48 F.3d 1172 (Fed. Cir. 1995).
 - The trial court must take into account the nature and extent of the particular misconduct involved to determine the appropriate award. *Id.*
 - As with willful infringement, a court may set the amount of attorney fees based on a number of factors (e.g., the *Read v. Portec, Inc.* factors).

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Conclusion

- Variety of damages are available alone or in combination:
 - Lost Profits
 - Reasonable Royalties
 - Up to Treble Damages for Willful Infringement
 - Attorney Fees

- Considerations to Maximize and Minimize Damages?

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Minimizing Damages

- Opinions of counsel – Can assist with claim construction (hopefully avoiding an infringement decision). If willful infringement is found, may minimize the enhanced damages.
- Design Around – Forces the patent holder to make arguments that stretch the bounds of their claims (creating issues of enablement, support, and can result in invalidity if art is available against the broader interpretation) or forces a difficult construction of the claims under the Doctrine of Equivalents.

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Maximizing Damages

- Multiple applications covering a concept with varying degrees of scope.
- Multiple independent claims in a single application to the infringed invention and a variety of dependent claims to create additional grounds for infringement and corresponding avenues for additional damages.
- Preserve pendency and claim your invention as shown by both your original disclosure and in the alleged infringer's device, method, etc.

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Questions?



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Intellectual Property Attorneys

PATENT PROTECTION FOR HIGH TECHNOLOGY

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