



---

# Utah State Bar Association IP Section

---



January 15, 2009

Scott Hampton  
Campos & Stratis, LLC

# Causation

- ◆ “But for” the infringement, what would the patent owner have earned?

# Patent Damages

Under 35 U.S.C. Section 284:

*“... 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.”*

# Patent Damages

- Lost profit:
  - Lost sales
  - Price erosion
  - Cost increase
- Reasonable Royalty

# Published Studies...

## Innovativeness

### Average and Median Running Royalty - Licensing-In

	Average		Median	
	Low	High	Low	High
Revolutionary	<b>7%</b>	<b>13%</b>	<b>5%</b>	<b>10%</b>
Major Improvement	<b>4%</b>	<b>8%</b>	<b>3%</b>	<b>7%</b>
Minor Improvement	<b>2%</b>	<b>5%</b>	<b>1%</b>	<b>4%</b>

#### Notes

Revolutionary - Satisfies a long-felt need or creates a whole new industry.

Major Improvement - Significantly enhances quality or product superiority in an existing product.

Minor Improvement - Creates an incremental improvement in an existing product, process or service.



---

# *Type of Market*

---



- Multi-supplier market
- Two-supplier market

# *Panduit Corp. v. Stahlin Brothers*

- Demand for the patented product
- Absence of acceptable non-infringing substitutes
- Manufacturing and marketing capacity to exploit the demand
- The amount of profit patent owner would have made

# Demand for the Patented Product?

- Often supported by sales of the patented product
- Identify the subject market
- Different market segments (*BIC v. Windsurfing*)
- Demand at what price?

# Entire Market Value Rule

- Unpatented components
  - must function together with the patented component to produce a desired result
  - must be analogous to a single assembly or complete machine

# Is there Demand for the Patented Feature?

- Does demand arise from the patented feature?
- Patented feature not consequential to product demand.

# Absence of Non-Infringing Substitutes

- **Panduit/State Industries v. Mor-Flo Industries...**
  - Acceptable non-infringing substitutes must be on the market and have shown commercial success.
- **Grain Processing v. American Maize-Products Co....**
  - Acceptable non-infringing substitute need only be available during accounting period.

# Absence of Non-Infringing Substitutes...

- Substitutes are not acceptable if the patented product has substantial customer preference, or has advantages not found in substitutes.
- If available, an infringer will adopt an acceptable substitute, rather than leave the market entirely.

# Market Share Approach...

- State Industries, Inc. v. Mor-Flo Industries, 883 F.2d 1573, 1579, (Fed. Cir. 1989).
  - Competing non-infringing products exist
  - Market share approach
  - Lost profit on historic share of the market
  - Two-supplier and multi-supplier calculations
- BIC Leisure Products, Inc. v. Windsurfing International, Inc. 1 F.3d 1214 (Fed. Cir. 1993).
  - Segment market by price point and product characteristics

# Absence of Non-Infringing Substitutes...

## ➤ *Ebay v. MercExchange*

- Injunctive relief is not automatically available to a patent owner, even when an infringement has been found.

# Marketing and Manufacturing Capacity...

- Manufacturing
- Distribution
- Sales & marketing
- Working capital/investment capital

# Actual Amount of Profit...

- Must prove incremental profit:
  - Revenue
  - Variable costs – labor and materials
- Obstacles:
  - Lack of reporting
  - Multiple product lines
  - Large corporations with many divisions and products
  - Consolidated financial statements

# Document Discovery...

- ◆ Federal tax returns
- ◆ Income statements
- ◆ Balance sheets
- ◆ Sales summaries
- ◆ Cost accounting
- ◆ Invoices
- ◆ Market research
- ◆ Marketing & sales data
- ◆ General ledger
- ◆ Accountants' WP
- ◆ Banks' collateral records
- ◆ Payroll records
- ◆ Regulatory filings
- ◆ Cost of alternative design

**Five years of financial information**

# Reasonable Royalty Damages

Under U.S.C. 35 Section 284:

*“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 of the invention by the infringer...”*



# Hypothetical Negotiation

- Parties had been reasonably and voluntarily trying to reach an agreement
- Assumes a willing licensee and patentee
- Amount licensee would have been willing to pay for a license
- Amount patentee would have been willing to grant a license, and still make a reasonable profit

# Hypothetical Negotiation

- **Hypothetical negotiation at the time of first infringement.**
  - Patent issue?
  - Launch of product?
  - Patent marking?
  - Notice?
  - Date of complaint?

# 15 *Georgia-Pacific* Factors

1. Royalties received by the licensor for the patent
2. Royalties paid by the licensee for other patents
3. Nature and scope of license – exclusive/non-exclusive or restricted/non-restricted
4. Licensor's established licensing policy
5. Commercial relationship between licensor and licensee
6. Effect of selling the patented product in promoting the sales of other products
7. Duration of patent/term of the license
8. Established profitability of product, its commercial success and its current popularity
9. Utility and advantage of the patent over previous devices
10. Nature of the patented invention
11. Extent to which infringer has used the invention
12. Portion of profit or selling price that is customary in the business
13. Portion of profit that should be credited to the invention
14. Opinions and testimony of experts
15. Amount that the licensor and licensee would have agreed upon at the time the infringement began if both had been reasonably and voluntarily trying to reach an agreement

# The Royalty Calculation...

- Starting Point
  - ◆ Established rates paid by patentee or infringer
  - ◆ Other comparable industry licenses
  - ◆ Twenty-five percent rule
  - ◆ Industry margins
  - ◆ Analytical approach
  
- Adjust the rate up or down using the *Georgia-Pacific* Factors.

# 15 *Georgia-Pacific* Factors

1. Royalties received by the licensor for the patent
2. Royalties paid by the licensee for other patents
3. Nature and scope of license – exclusive/non-exclusive or restricted/non-restricted
4. Licensor's established licensing policy
5. Commercial relationship between licensor and licensee
6. Effect of selling the patented product in promoting the sales of other products
7. Duration of patent/term of the license
8. Established profitability of product, its commercial success and its current popularity
9. Utility and advantage of the patent over previous devices
10. Nature of the patented invention
11. Extent to which infringer has used the invention
12. Portion of profit or selling price that is customary in the business
13. Portion of profit that should be credited to the invention
14. Opinions and testimony of experts
15. Amount that the licensor and licensee would have agreed upon at the time the infringement began if both had been reasonably and voluntarily trying to reach an agreement

# 15 *Georgia-Pacific* Factors

- Prior licensing of the patentee and licensee
- Nature and scope of the license
- Commercial relationship of the parties
- Nature and scope of the invention
- Nature and profitability of the patented product
- Rates paid by others for comparable technologies
- Contribution of unpatented components

# Patent Damages Evolution...

## Case

- ◆ Georgia-Pacific (1970)
- ◆ Panduit (1978)
- ◆ State Ind.v. Mor-Flo (1989)
- ◆ BIC v. WSI (1993)
- ◆ Rite-Hite (1995)
- ◆ Grain Processing (1999)

## Impact

- Hypothetical Negotiations
- 4-Part “But-for” Test
- Market Share Approach
- Market Segmentation
- Forseeability
- “Available” Substitutes

# Important Cases...

## ➤ *Grain Processing v. American Maize*

- Consider the course of action the *Infringer* would have taken but for the infringement.
- Alternative product was available even though it had not been developed at the time of infringement.
- Price difference between patented product and non-infringing alternative “capped” royalty damages.

# Important Cases...

## ➤ *Mars, Inc. v. Coin Acceptors, Inc.*

- Cost of implementing an acceptable alternative is not necessarily a cap on a reasonable royalty damage.
- Royalty rate of intra-company license agreement can be different from royalty rate for a competitor license.
- Reasonable royalty may result in an infringer operating at a loss.

## ➤ *Ebay v. MercExchange*

- Injunctive relief is not automatically available to a patent owner, even when an infringement has been found.