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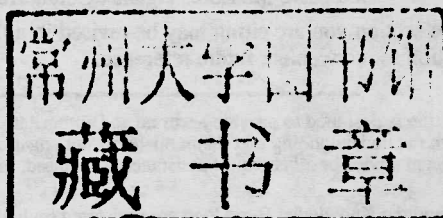
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LESTER HORWITZ

ETHAN HORWITZ

General Editors

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Valri Nesbit, J.D. at 1-800-424-0651 (ext. 3343)

Email: Valri.nesbit@lexisnexus.com

Neil Myers, J.D. at 1-800-424-0651 (ext. 3247)

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Editorial Offices
121 Channon Rd., New Providence, NJ 07974 (908) 464-6800
201 Mission St., San Francisco, CA 94105-1831 (415) 908-3200
www.lexisnexus.com

MATTHEW  BENDER

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CHAPTER 104 RESERVED

Compensation in Patent Infringement Cases.

SCOPE NOTE

This chapter provides a detailed discussion of the major changes regarding patent infringement awards since the inception of the Federal Circuit in 1982. There have been many and varied damage awards and many of those substantial in compensation. In the last quarter century the Federal Circuit has accorded substantial meaning to the term "presumption of validity for patents," affecting a complete turnaround in the judicial system as to the validity of patents. Yet in the last 10 years, signaling a pendulum swing against the patentees, the Federal Circuit has adopted strict construction rules for claim interpretation favoring defendants, i.e. infringers, and making significant inroads against the patent holders' rights and privileges. This has substantially been done by the use of Markman hearings to eliminate juries and summary judgment motions for alleged infringers with a much greater than 50% affirmance rate for non-infringement holdings under summary judgment. Yet if the patentees' position is sound and his damage proofs are coherent he can succeed.

§ 90.02 discusses the burden of proof standards in patent infringement suits, how the Federal Circuit is forcing the parties to their proofs before accepting lower court results yet recognizing a willingness to affirm high damage awards.

§ 90.03 provides an overview on patent damages awards in the United States Court of Claims, the predecessor the Federal Circuit, which are largely ignored by the Federal Circuit but which offer a significant historical perspective on judicial trends in this area of law. The Federal Circuit hardly ever cites these scholarly opinions in its cases.

§ 90.04 sets forth the elements necessary to regain lost profits in patent infringement suits. Lost profit awards usually result in much larger reimbursements than the average royalty award.

§ 90.05 describes multiple significant cases to illustrate the Georgia Pacific factors used in the determination of a reasonable royalty. The Federal Circuit has not shied away from granting very high royal rate awards where appropriate.

§ 90.06 sets forth the history of willfulness determinations, including the recent substantial change in the law regarding affirmative duty of care on the part of alleged infringers, i.e., under *Knorr-Bremse*, the lack of need to make an attorney client waiver to support a nonwillful finding. It is still true that unless the alleged infringer proceeds carefully, he risks enhancement of damages up to 3 times the amount awarded.

* This chapter was prepared by Maxim H. Waldbaum, a member of Schiff Hardin, LLP, New York City.

§ 90.07 sets forth a number of comments on attorney's fees, which have become an increasingly common aspect of patent infringement awards, not mandated but available, especially in cases where willfulness has been found.

§ 90.08 analyzes pre-judgment interest decisions which have become a standard part of compensation for patent infringement.

§ 90.09 describes the rocky road for patent owners, where prior to 1994 they appeared to have been granted substantial rights, since that time there have been heavy inroads affecting the value of their patents.

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§ 90.01 Introduction

This section gives the statutory bases for compensatory awards in patent infringement cases and the methods to be used in determining actual damages. Such methods include the "but for" and the "four factor" tests. Where these simple tests are not available the courts may implement a more complex analysis and grant a reasonable royalty award using the *Georgia Pacific* factors.¹

[1]—Statutory Basis

Compensatory awards in patent damage cases are claimed under 35 U.S.C. § 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 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.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances. 35 U.S.C. § 284.

The only other form of statutory compensation is provided under 35 U.S.C. § 285 for an award of reasonable attorneys' fees to a prevailing party "in exceptional cases" which may be awarded in the discretion of the District Court.² These four short paragraphs of Sections 284 and 285 have formed the basis of awards as high as hundreds of millions of dollars and at least two awards hovering at or over \$1 billion. Section 284 allows for adequate compensation to a patent owner who has convinced a lower court that there is liability for patent infringement. Section 284 damages include an award of lost profits and/or a reasonable royalty or both, each for certain time periods depending on available proofs. The reasonable royalty is a floor figure; compensation may not be less than this amount. In contrast, there is no ceiling to patent damages under the patent statutes. Although § 284 allows for enhancement of damages by three times the damage award, the language gives no direction under the statute as to the proper circumstances for which enhancement is appropriate. That is, willfulness need not be proven.³

¹ *Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 318 F.Supp 1116 (S.D.N.Y. 1970), modified, 446 F.2d 295 (2d Cir. 1971); See also *Mobile Oil Corp. v. Amoco Chemicals Corp.*, 915 F.Supp. 1333 (D. Del. 1995) (applying *Georgia Pacific* factors).

² See also Chapter 94 *infra*, discussing attorneys' fees in frivolous claim situations.

³ There is presently before Congress the Patent Reform Bill (HR 2795) that will substantially change § 284.

[2]—Burden of Proof

Where lost profits are requested, the burden of proof on the patent holder is that of a preponderance of the evidence.⁴ While there are a few tests for lost profits, the Federal Circuit has been very flexible in accepting proofs under any reasonable economic approach. Two such tests are among those most frequently employed:

[a]—“But For” Test. But for the infringer, the patent owner would have made all of the sales in issue and is entitled to its lost profits based upon the infringer’s sales.

[b]—“Four Factor” Test. The Four Factor Test is an alternate statement of the But For test that has also been adopted by the Court of Appeals for the Federal Circuit in *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*⁵ in a decision written by then Chief Judge Markey of the Federal Circuit, sitting by designation. The Four Factor Test requires:

- a market demand for the product has to be shown;
- the patent owner has to show that he would have had the ability to meet that market demand in the relevant time period;
- the patent owner must prove that there are no acceptable non-infringing alternates or substitutes; and
- the patent owner must come forward with detailed computations on lost profits.

This is essentially a But For examination of proof. Both the But For and Four Factor tests are intended to make the patent owner “whole.”⁶ Under law, the standard is (or should be) a high one for the patent owner to prove. In practice, however, the standard can be surprisingly low. Courts will typically accept a preponderance of the evidence by the patent owner with respect to any such test. Moreover, the courts are likely to award lost profits upon a showing that the patent owner is a competitive force in the industry. However, it is fairly clear that a patent owner who does not have the facilities to manufacture and does not directly compete in the manufacture, sale or use of the product, will not be able to obtain lost profits.⁷

⁴ There is presently before Congress the Patent Reform Bill (HR 2795) that will substantially change § 284.

⁵ 575 F.2d 1152, 197 U.S.P.Q. 726 (6th Cir. 1978).

⁶ *Panduit Corp. v. Stahlin Bros. Fibre Works*, 575 F.2d 1152, 197 U.S.P.Q. 726 (6th Cir. 1978).

⁷ See *Water Techs. Corp. v. Calco, Ltd.*, 850 F.2d 660, 673 (1988) (reversing award of lost profit damages where one plaintiff had no facilities to manufacture the product commercially, and a second plaintiff had ceased manufacture upon its license being revoked for non-payment of royalties).

[3]—Reasonable Royalty as Alternative Award

Where damages adequate to compensate for infringement may not be derived as a lost profit for failure to meet the above test criteria, a reasonable royalty is the alternative award. The determination of the reasonable royalty percentage is not a simple one. First attempts to determine whether there is an established royalty figure for the industry. Typically, there is none. One then looks to comparative royalty figures in the same industry on similar products. Absent actual comparative royalty rates for similar products, one must go to a hypothetical negotiation between a willing buyer (licensee) and a willing seller (licensor) who are assumed to be negotiating at the time infringement occurred. Under this approach all evidence is weighed to try to reach a reasonable solution on a royalty from the issues presented in the case.

The factors that go into this hypothetical negotiation are known as the *Georgia Pacific* factors. These are factors that the Federal Circuit has looked to in adopting its criteria.⁸ These fifteen factors, set forth later in detail,⁹ determine a reasonable royalty with as much precision as is possible in any lawsuit. The factors generally relate to the industry in general, the position of the parties in the industry, and the characteristics of the product for sale.

The above generally sets forth the boundaries for making monetary determinations in patent infringement cases. The specifics, of course, are numerous. The analysis necessary to determine a proper lost profit or reasonable royalty are similar in scope to analysis done in antitrust investigations: i.e., complex, extensive, and all encompassing. However, a long history of case determinations¹⁰ have made it worth the patentee's while to pursue a monetary reward to judgment.

⁸ *Georgia Pacific Corp. v. U.S. Plywood-Champion Papers, Inc.*, 446 F.2d 295, 170 U.S.P.Q. 369 (2d Cir. 1971), modifying 318 F.Supp. 1116, 1120, 166 U.S.P.Q. 235 (S.D.N.Y. 1970).

⁹ § 90.05 [1] *infra*.

¹⁰ See discussion *infra*_____

§ 90.02 Significant Decisions/Recent Trends in Compensatory Awards

Before October 1982 the courts, including even the Supreme Court, provided very little protection against patent infringers, setting burden of proof standards that were almost impossible for patent owners to meet. Such is no longer the case as the Federal Circuit has made clear that it will give the full protection of the law against infringers and will affirm high damage awards.

The developed law in compensatory awards is best studied through the major interpretations of the laws on lost profits and reasonable royalty (and the necessary adjuncts on prejudgment interest, willful infringement and reasonable attorneys' fees) as developed by the Federal Circuit since its inception on October 1, 1982. Before that time, it was unusual for there to be a large financial award to a patentee. Over several decades preceding 1982, the patent system frustrated many patentees as the Supreme Court of the United States and many circuit courts of appeal applied burdensome standards to patentees for patentability, validity, infringement and compensation.

[1]—The View of the Federal Circuit

Since the Federal Circuit began its work and published its first opinions, there has been a complete turnaround in the meaning of patents and their place in industry in the United States. The positive changes for patentees through the mid-1990s have not been subtle. They were direct and derived from the following positions dictated by the Federal Circuit:

[a]—Presumption of Validity. The Federal Circuit has stated there is a presumption of validity for patents issued from the United States Patent and Trademark Office,¹ not be set aside unless there is clear and convincing evidence to the contrary. From a reading of the statute (35 U.S.C. § 282), you would assume there was always a presumption of validity. However, court decisions prior to the creation of the Federal Circuit had indicated although there is a presumption of validity under statute, that presumption was weak and could be overcome by a preponderance of the evidence. In fact, the burden could be shifted on the presumption from the infringer to the patentee. The Federal Circuit has now made it quite clear that the presumption is a strong one; that the Patent and Trademark Office is composed of experts in their fields, and their conclusions should be given great respect; that the burden of proof on the presumption of validity always resides with the infringer and cannot be shifted to the patentee or patent owner; that there is no such thing as a weak presumption of validity.

¹ Any type of patented subject matter, even business method patents See *Merexchange, LLC v. eBay, Inc.*, 403 F.3d 1323, 1339 (Fed. Cir. 2005) (rejecting argument that introduction of legislation to eliminate the presumption of validity for business method patents warranted denial of a permanent injunction).

ADVICE

Stated simply, under the meaning given the presumption of validity by the Federal Circuit, an infringer comes to court on the issue of validity with close to two strikes against him and that hasn't changed even though infringers have created other procedures accepted by the Federal Circuit to strengthen their cases. His proofs must almost approach a criminal standard (beyond a reasonable doubt) by its clear and convincing nature. This is true even if the infringer comes before the court with prior art which has never been cited or seen by the Patent and Trademark Office during the prosecution of the patent in question.

[b]—Clearly Erroneous Standard. The Federal Circuit has taken a strict construction of the standard of review of cases from the district courts which, for practical purposes, means that it will enforce to the letter the clearly erroneous standard of Rule 52 of the Federal Rules of Civil Procedure and will not reverse many validity findings. This strict construction by the Federal Circuit of the appellate review standard has made it difficult for counsel to overturn an award of compensatory damages given below except if the attack by the infringer is on claim construction which is, since 1994, a matter of law and subject to a *de novo* review with no recognition of the lower court's expertise,² prosecution history estoppel, a pro-infringer view of the doctrine of equivalents, or simply non-infringement argument by a preponderance of the evidence. In most of the published opinions on compensatory damages from the Federal Circuit, only a few have been reversed on accounting rationale, and the published affirmances indicate a strong trend toward unwillingness to analyze the record below to determine the accuracy of the award given.

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The Federal Circuit continues to paint its opinions with a broad brush on compensation, i.e., actual dollar amounts, giving the parties concerned and future litigants fair warning that they must develop their case completely at the District Court level. If they do not and the award at the District Court level is unfavorable, it will most likely remain unfavorable at the appellate level.

[c]—Clear and Convincing Evidence Test. The burden of proof to prove invalidity of claims of a patent at the District Court level is the standard of clear

² See, *Cybor Corp. v. FAS Technologies, Inc.*, 138 F.3d 1448, 1456 (Fed. Cir. 1998); *Phillips v. AWH Corp.*, 415 F.3d 1303, 1328 (Fed. Cir. 2005).