



Calculating Damages for Patent Infringement in Different Jurisdictions

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Introduction

By: Brendan Nugent, Michael Buck IP

A patent owner often enters patent litigation with the aim of preventing the infringing conduct of the defendant. However, they may also wish to obtain compensation for the damage already caused by the infringer. Patent litigation is often multi-jurisdictional, so the patent owner will very likely need to consider the amount of damages that might be awarded in a number of countries. This article provides guidance on calculating damages in several key jurisdictions.

United States

By: Grant Shackelford, Sughrue Mion, PLLC

Recovering patent damages

In the United States district court cases,¹ damages for patent infringement are awarded once a court has found that a patent is infringed, valid, and enforceable. In a jury trial, the jury will assess the amount of the damages; in a bench trial, the judge will make this determination. In either case, evidence in the form of expert testimony routinely plays an important role in assessing damages to be awarded.

Calculating damages

Damages for patent infringement are awarded under 35 U.S.C. § 284, which provides “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty[.]”² Damages are calculated in the form of the patent owner’s lost profits and/or a reasonable royalty.

For recovering lost profits, the patent owner must prove that but for the infringement it would have made certain profits. While several factors may contribute to a lost profits calculation, two commonly raised sources of lost profits are lost sales by the patent owner and/or price erosion resulting from the infringing activity. Courts apply a four-factor test when determining whether to award lost profits (the “*Panduit* factors”), requiring proof of (1) demand for the patented product; (2) absence of acceptable non-infringing substitutes; (3) patent owner’s manufacturing and marketing capacity to exploit the demand; and (4) the profit the patent owner would have made.³

¹ In enforcement proceedings before the International Trade Commission (ITC), the remedy is *in rem*, resulting in an exclusionary order that precludes importation into the United States of an infringing product.

² 35 U.S.C. § 289 provides an alternative measure of damages specific for infringement of design patents.

³ *Panduit Corp. v. Stahl Brothers Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978).

Reasonable royalty damages are calculated based on a hypothetical licensing negotiation between the patentee as a willing licensor and the accused infringer as a willing licensee, wherein the court attempts to ascertain the royalty payment scheme to which the willing parties would have agreed at the time the infringement began. In making this calculation, courts consider evidentiary factors, referred to as the *Georgia Pacific* factors, that take into account relevant and real world business considerations, such as the patentee's licensing history, value of the patented product to the parties, and market demand.⁴

Enhanced damages are also possible pursuant to 35 U.S.C. § 284, which provides that courts “may increase the damages up to three times the amount found or assessed.” Courts have discretion whether to award enhanced damages and reserve such measures for “egregious cases of misconduct,” such as willful infringement.⁵

Limitations to patent damages

The availability of patent damages in the United States is limited by statute and case law.

35 U.S.C. § 286 bars the recovery of damages for infringing activities that occurred more than six years prior to the filing a complaint or counterclaim for patent infringement. In the case where the patent owner practices the patented technology, 35 U.S.C. § 287(a) precludes recovery of damages prior to an accused infringer receiving notice of the patent. Such notice may be actual, through an affirmative charge of infringement,⁶ or constructive, by physically or virtually marking the patented article with the patent number. 35 U.S.C. § 287(b) limits the remedies for infringement, where a party imports, sells, offers to sell, or uses an unpatented product made by a patented process. 35 U.S.C. § 287(c) bars damages for infringement from a medical practitioner's performance of a medical activity that constitutes direct or induced patent infringement.

The defense of equitable estoppel can bar recovery of damages where a patentee through misleading conduct leads an accused infringer to reasonably infer that the patentee does not intend to assert its patent against the accused infringer, and the accused infringer reasonably relies on that conduct to its detriment.⁷ Double recovery of damages for the same infringing conduct is also barred.⁸

Recent developments regarding patent damages

Recent decisions from the United States Supreme Court have impacted the availability and scope of patent damages.

In *WesternGeco LLC v. ION Geophysical Corp.*,⁹ the Supreme Court held that a patentee can recover lost foreign profits for infringement of a U.S. patent under 35 U.S.C. § 271(f)(2), where the accused infringer supplies unpatented components of a patented invention from within the United States for assembly abroad, with knowledge that the components will be combined in a

⁴ *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F.Supp. 1116, 1121 (S.D.N.Y. 1970).

⁵ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923, 1935 (2016).

⁶ *Amsted Indus. Inc. v. Buckeye Steel Castings Co.*, 24 F.3d 178, 186-187 (Fed. Cir. 1994).

⁷ *High Point SARL v. Sprint Nextel Corp.*, 817 F.3d 1325, 1331 (Fed. Cir. 2016).

⁸ *Texas Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304, 1328 (Fed. Cir. 2018).

⁹ *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 2129 (2018).

manner that would infringe if the combination occurred within the United States, and the components lack substantial non-infringing uses.

In *SCA Hygiene Prods. AB v. First Quality Baby Prods. LLC*,¹⁰ the Supreme Court held that the defense of laches, where a patent owner unreasonably delays in bringing suit, is no longer a defense to pre-suit damages.

In *Halo Electronics, Inc. v. Pulse Electronics, Inc.*,¹¹ the Supreme Court reduced the evidentiary requirements for a plaintiff to recover enhanced damages under 35 U.S.C. § 284, holding that “subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless.”¹²

Germany

By: *Felix Klopmeier, Lang & Rahmann*

In Europe, the so-called Enforcement Directive¹³ harmonized several aspects of the enforcement of intellectual property rights. Art. 13 of the Directive addresses damages and provides for aspects the judicial authorities should consider when setting damages. Recital 26 of the Directive expressly states that member states are not obliged to introduce punitive damages. Germany amended § 139 of the Patent Code to transfer the Directive into national law.

Recovering patent damages

In order to claim damages, a patent owner would start by sending a warning letter to the alleged infringer to give the infringer a chance to accept the claim. Otherwise, the patent owner might have to bear the costs of the proceedings. If the infringer doesn't accept liability, the patent owner would initiate court proceedings in which they would demand that the infringer accepts (general) liability for damages and provides information about the extent of the infringement. The first instance proceedings usually last for 9 to 18 months, appeal proceedings can last another 12 to 18 months. After that, the patent owner can decide which method of damage calculation is most favorable and calculate the damages accordingly. At this stage, parties usually settle but, if they don't, the patent owner would start new court proceedings, this time claiming payment of the calculated damage amount. These proceedings tend to be faster as the infringement at this stage is an established fact between the parties and binding.

The validity of a patent can't be challenged in infringement proceedings and, usually, infringement proceedings will not be stayed to wait for the outcome of an invalidity action pending at the Federal patent court.

Calculating damages

There are three methods used to calculate damages, namely 1) lost profits, 2) infringer's profits and 3) adequate license fee.

¹⁰ *SCA Hygiene Prod. Aktiebolag v. First Quality Baby Prod., LLC*, 137 S. Ct. 954 (2017).

¹¹ *Halo Elecs., Inc. v. Pulse Elecs., Inc.*, 136 S. Ct. 1923 (2016).

¹² *Id.* at 1933.

¹³ Directive 2004/48/EC.

In practice, hardly anyone claims lost profits as this would require the patent owner to explain and prove how much profit he would have made by exploiting the patent.

The “adequate license fee” method, which is widely regarded as the minimum damages (cf. Art. 13 (1) (b) “at least the amount of royalties”), was favored in the past. An adequate license fee would be the fee two parties would agree on when negotiating a license agreement in the regular course of business. Although the costs awarded were sometimes relatively low, this method was favored over the “infringer’s profit” method since the infringer’s balance sheet can sometimes understate profits from infringing acts or products. This changed when the Federal High Court rendered a landmark decision¹⁴, which raised the bar for deducting costs from the proceeds of patent infringements. Since then, the infringer needs to be able to show and prove how costs are specifically attributed to the production of the product covered by the patent. The infringer often finds it difficult to establish the necessary connection, so awards of damages are often larger since that decision. Claiming infringer’s profits is the favored method nowadays for the calculation of damages, although it involves quite a bit of effort as the patent owner must review the financial records of the infringer in order to calculate the amount.

Please note that even after the claim for damages becomes time-barred (see below), a patent owner can claim compensation (not damages) for the unlawful use of the patent for a period of up to 10 years after the infringement started (§ 141 Patent Code, § 852 Civil Code). However, in this case only an adequate license fee or the infringer’s profit can be claimed (very recent landmark decision of the Federal High Court¹⁵). Also, the infringer can claim that he is no longer enriched by the infringement.

Limitations to patent damages

There are no limitations on the amounts that could be claimed as long as they have been objectively calculated with one of the methods mentioned above; the actual amount will be determined by the court. However, there are no punitive damages. It can be considered part of Germany’s *ordre public* that damages should only be a compensation for actual losses, without any punishing element. This also means that foreign decisions awarding punitive damages may not be enforceable in Germany.

A patent is deemed to be known by the infringer one month after its publication, so the patent owner can’t claim damages for acts that were undertaken before this date.

The claim to damages becomes time-barred three years after the infringement started if the patent owner knew about it or was grossly negligent in failing to become aware of the infringement (i.e. the patent owner ignorantly refused to become aware of the infringement - here the infringer has the burden of proof). The period starts at the end of the year in which the infringement started.

The claim to damages will be time-barred absolutely ten years after the infringement started and caused damage or 30 years after the infringement started but (unlikely as it may be) didn’t cause damage (§ 199 Civil Code).

¹⁴ Gemeinkostenanteil, I ZR 246/98.

¹⁵ Spannungsversorgungsvorrichtung, X ZR 109/16.

Recent developments regarding patent damages

The most important decision recently is the Federal High Court's decision in *Spannungsversorgungsvorrichtung (supra)*, which found that a claim for unlawful enrichment can also be based on the infringer's profit.

In addition, a view is becoming established that an adequate license fee should consider factors, such as the intent of the infringer, the loss of control of the patent owner over his patent, etc. The aim is to increase the compensation awarded using that method to get results closer to the infringer's actual profit. The argument is that both methods should lead to similar results as they are methods to calculate the compensation for the same damage, so that patent owners and courts need to do less work to reach the same outcome.

Japan

By: Tomoyuki Serizawa, Shin-Ei Patent Firm, P.C.

Recovering patent damages

In Japan, the Tokyo District Court, or the Osaka District Court, has exclusive jurisdiction over patent infringement cases. The court in which the matter is heard will consider damages for patent infringement if it finds infringement. The court may order the defendant to submit documents needed for calculating damages and may order an expert witness to give an expert opinion on issues necessary for damage calculation.

Calculating damages

A claim for damages for patent infringement is legally based on the following provision defined under the Civil Code:

“A person who has infringed any right or legally protected interest of others by intent or negligence shall be liable to compensate damages caused by the infringement.” (Art. 709 of the Civil Code)

In principle, plaintiffs need to demonstrate the amount of damage caused by the infringement. However, in patent infringement cases, it is often difficult for plaintiffs (patent owners or exclusive licensees) to do so. Accordingly, the Patent Act provides three standards for calculating damages for patent infringement:

- 1) The first standard (Art. 102(1)): “Damages” = “sales quantity of infringing products” times “marginal profit per unit of products sold by plaintiff”
- 2) The second standard (Art. 102(2)): “Damages” = “marginal profit earned by the infringer¹⁶”
- 3) The third standard (Art. 102(3)): “Damages” = “amount of money equivalent to license fees”

The amount of damages generally decreases in the order of the first to third standards (i.e., “first standard” > “second standard” > “third standard”). A plaintiff tends to demand damages based

¹⁶ IP High Court (en banc), Case 2018 (ne) No. 10063 (June 7, 2019).

on the second and/or third standard because the first standard requires the plaintiff to disclose its own marginal profit.

The calculation of damages based on these standards is rebuttable.

Limitations to patent damages

The amount of damages based on the first standard cannot exceed the amount of money according to the production capacity of a plaintiff, and may be reduced in accordance with circumstances such as sales effort of an infringer, brand power¹⁷, existence of competing products¹⁸ other than the infringing products, etc. The amount of damages based on the second standard may possibly be reduced by the above circumstances.

Furthermore, damages based on the first to third standards can be greatly reduced depending on the contribution of the patented invention to the infringing products (“the contribution ratio”).

In Japanese patent infringement cases the amount of damages tends to be significantly reduced by the above circumstances and contribution ratio. In one instance¹⁹, damages of 3.6B JPY (about 33M USD) claimed based on the first standard have been reduced to 11M JPY (about 0.1M USD) as a result of the consideration of the above circumstances and contribution ratio (99.7% reduction) by the court.

In a case where a patent owner or licensee has not implemented the patented invention, usually no damages (lost profits) based on the first and second standard are given to the patent owner. In such a case, the patent owner can demand damages based on only the third standard. However, there has been one instance²⁰ where damages based on the second standard were awarded when the patent owner had not implemented the patented invention.

According to Art. 724 of the civil code, a claim for damages will lapse if it is not exercised within three years from when the patent infringement becomes known to the patent owner. The claim also expires 20 years after patent infringement occurs.

Recent developments regarding patent damages

An amendment to the Patent Act was published on May 17, 2019.

According to the amended provisions (Art. 102(1), first paragraph), even when the amount of product sold by an infringer exceeds the production capacity of a patent owner, the patent owner can demand damages for a portion of the sold products exceeding the production capacity. In this case, damages for the portion of the sold products will be calculated based on license fees for the sold products. Damages equivalent to license fees will be determined in consideration of the

¹⁷ IP High Court, Case 2013 (ne) No. 10051 (Nov. 19, 2015).

¹⁸ Tokyo High Court, 1697 Hanji 96 (June 15, 1999).

¹⁹ IP High Court (Case 2005 (ne) No. 10047) (Sep. 25, 2006).

²⁰ IP High Court (en banc), Case 2012 (ne) No. 10015 (Feb. 1, 2013)

possible amount of money to be agreed through a negotiation given that patent infringement is found (Art. 102(4)).

China

By: Xin Hong, Insight IP Attorneys

Recovering patent damages

There are two relief approaches to recovery of damages in patent cases. The first approach is the Judicial Remedy, and the second is the Administration Remedy.

The first approach is a civil action against a suspected patent infringer for judgment of infringement and recovering patent damages. The right holder can file a complaint with *prima facie* evidence of infringement before a competent Court authorized by the China Supreme People's Court. The Court will arrange at least one hearing for cross-examination and debate on the facts of infringement and the damages. Since January 1, 2019, the Intellectual Property Court/Tribunal of Supreme People's Court (IPTSPC) has taken over the jurisdiction over all appeals in patent infringement litigation. Although the decision of the IPTSPC is the final, parties can file a request for retrial of the case before the Supreme People's Court where they are not satisfied with the decision.

The second approach is the Administration Remedy. The right holder can file a request for handling a patent infringement dispute before a local administrative authority if a lawsuit has not already been filed before the Court for the same patent infringement dispute. The Administrative authority may hold a hearing before making a decision. The Administrative Authority cannot decide the damages but can mediate the compensation of the parties upon request of the parties. If the mediation fails, any of the parties can file a lawsuit before a competent Court according to Civil Procedure Law of China.

Calculating damages

The standard for calculating damages in China is similar to other jurisdictions and is essentially harmonized with international standards. In brief, damages in China are calculated based on the following four standards:

- i. The actual losses of the right holder because of infringement
- ii. The profits earned by the infringer because of infringement
- iii. Appropriate multiple of exploitation fee of the patent (royalty)
- iv. Statutory compensation for damages

The standard of the calculation shall be alternatively selected in the above listed order.

Limitations to patent damages

The limitation of action for patent right infringement is two years, commencing from the date on which the patentee or any other interested party became, or should have become aware of, the infringement. Where a right holder files a lawsuit after the two-year limitation, the amount of

damages shall be calculated over a period of two years, counting backwards from the date on which the patentee lodged the lawsuit with court.

Recent developments regarding patent damages

In recent years, China has made judicial reforms to improve the patent litigation. Three IP courts (Beijing, Shanghai and Guangzhou IP Courts), 20 IP tribunals in the Intermediate Courts, and the IP Court/Tribunal of Supreme Court have been established. The aim of the establishment of the IP Court of Supreme Court, which takes over all appeals, is to unify the principles applicable in IP litigation, and improve the trial quality. In a recent case²¹, the Supreme Court increased the award of damages from the statutory amount of CNY1,000,000 to CNY9,437,867 with a calculation of the losses following the formula: infringer's sale income X profit rate X contribution rate of the patent to the product (50% for this case), plus a statutory compensation for other losses of the right holder.

Authors:

Brendan Nugent Michael Buck IP brendan@mbip.com.au

Grant Shackelford Sughrue Mion, PLLC gshackelford@sughrue.com

Felix Klopmeier Lang & Rahmann felix.klopmeier@lang-rahmann.de

Tomoyuki Serizawa Shin-Ei Patent Firm, P.C. tomoyuki.serizawa@shin-ei-patent.gr.jp

Xin Hong Insight IP Attorneys hongx@insightip.com

²¹ (2018) ZGFM No.111