



## **Navigating Patent Damages**

**Intellectual Property**

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## Cheat Sheet:

- **Understand remedies early — it shapes strategy.** Patent cases involve two main remedies: injunctive relief (rare) or monetary damages (common). Identifying which applies early helps assess exposure and plan your response.
- **In-house counsel must quickly map the risk landscape.** Identify the plaintiff, assess whether they compete, determine all accused products, and begin collecting financial data.
- **Alternatives matter — redesigns can cut off damages entirely.** Non-infringing alternatives reduce royalty value and can eliminate ongoing damages. Assess redesign feasibility early.
- **Prepare early for expert involvement.** Damages experts are essential and expensive. Engaging one early helps shape strategy, avoid rushed costs, and ensure accurate data collection.

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Your company has been sued for patent infringement. It is a stressful moment, with swirling

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questions: What is the patent? Who are the plaintiffs? What product? How could that product infringe that patent? What do we do next?

The often overlooked question: What does the plaintiff seek as a remedy?

Understanding the remedies available for patent infringement and identification of the monetary and business risks to the company should be addressed early, which allows for a plan as to what your company should do to minimize the risks arising from remedies when a patent infringement suit is brought against your company.

## What remedies are available in patent cases?

A patent represents the government's grant of the right to stop others from using an invention for a finite period in exchange for disclosure of the useful invention to the world. Consequently, remedies for patent infringement arise in two general forms: injunctive relief to stop the use, or, more commonly, monetary compensation for any "unauthorized" use of the invention.

The first form of remedy — injunctive relief — is less common. A plaintiff seeking injunctive relief usually must be in the same industry, offering a directly competing product covered by the patent, and demonstrate special circumstances wherein monetary relief is insufficient to compensate for any loss. Many patent lawsuits are brought by parties not directly competing in the relevant market, i.e., do not make a competing product, and injunctive relief is not available for such plaintiffs. See *Stanford NPE Litigation Database*, Stanford Law School (available at <https://npe.law.stanford.edu/>)

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The more common form of relief is monetary compensation; therefore, the body of case law for patent remedies is focused on the calculation — and minimization — of such compensation. Within monetary compensation are two forms: "reasonable royalties" and lost profits. The less common form, lost profits, arise from direct competition; a plaintiff sells a directly competing product wherein they claim they could have made the infringer's sales (and reaped the profits of said sales) **but for** the infringement. Considering the specific circumstances required to establish such lost profits, this remedy is not commonly sought by plaintiffs.

The more common form, reasonable royalty, is the default remedy under the relevant statute:

*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 . . .*

35 U.S.C. § 284.

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## What is a reasonable royalty?

A “reasonable royalty” represents a calculation of the fair market value of a license an alleged infringer could have obtained at the time of first infringement. In other words, if the alleged infringer and the patent holder sat down for a hypothetical negotiation at the time the alleged infringer first used the invention, the royalty represents the price the parties would have agreed to for permission to use the invention.

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The relevant case law revolves around this “hypothetical negotiation.” Following the seminal decision in *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), federal courts at all levels have grappled with the issue of how to define this negotiation. For example, if the negotiation is to take place “at the time of first infringement,” what information can be said to be reasonably available to the parties when they “meet,” such as actual success of a product allegedly infringing a patent; other licenses entered into by the patent owner even if those licenses are after the date of “first infringement;” and other future input.

Courts have also had to address the heavy role of experts in determining the reasonable royalty. Parties in litigation typically hire experts to explain the hypothetical negotiation to juries, determine which inputs the expert believes are relevant to the negotiation (or not relevant), and to assign the weight to those inputs to reach a “royalty rate,” typically a \$/per unit amount that in turn is multiplied against the number of products or uses of the patented invention.

## The hypothetical negotiation inputs

The *Georgia-Pacific* case identified 15 factors for consideration in defining the outcome of this hypothetical negotiation. The first set of factors seek to identify an appropriate “comparable” in the market for value of the patent — think of this as the housing market where one would look at the prices for houses sold in the same area and of a similar style and size. For a patent, the parties look to licenses already entered into for the patent in question, licenses for patents similar to the patent in question, or other economic indicators for value of the patent.

Upon identification of a comparable (or a competing comparable), the question turns to various factors that would increase or decrease the patent’s value. For example, if the licensee could achieve the same result without infringing the patent (a “non-infringing alternative”), the license fee is lower. On the other hand, if the alleged infringer’s product has had tremendous success in the market, such success would point to a higher value for the patent. The *Georgia-Pacific* factors guide courts, experts, and juries in defining the value of the asserted patent.

After all, monetary damages are fact issues generally resolved by a jury.

## Other considerations for the hypothetical negotiation

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Beyond the 15 factors, there other key considerations applicable to the hypothetical negotiation.

First, the parties are presumed by law as willing to negotiate — the patent holder is willing to allow use of their patented invention, and the alleged infringer is willing to pay for the privilege of use. Coextensive with that presumption of willingness is the presumption the product or use in question does infringe a valid patent. These presumptions can create a quandary for an accused infringer — while simultaneously arguing to a jury the patent in question is either not infringed, invalid, or both, the party must also present evidence of what it thinks the patent is worth and what it would have been willing to pay within the structure of the hypothetical negotiation.

Second, the parties are presumed to reach agreement. There can be no “hold outs” or “hold ups” that prevent an agreement in the hypothetical structure. As with above, the accused infringer is again placed in a potentially awkward situation of presenting a definitive statement that “this dollar amount” is what we would have paid for the patent, while saying “we should not have to pay since we do not infringe.”

Third, there is an expectation of “reasonable knowledge and expectations.” This expectation allows for consideration of events that happen in the future (such as the commercial success or failure of a product, the comparable licenses, and other evidence) to help define the patent’s value.

Finally, there is a requirement that the value be apportioned, which means that if the patent is directed to a small feature of an overall product (such as the sensor that triggers deployment of the air bag in a passenger car), the value is attributed to the specific value of the sensor, not the overall car. This principle avoids overcompensating the patent holder for an invention that contributes only a portion of the overall value of a final product.

Applying the fifteen factors outlined in *Georgia-Pacific*, in view of the need for two willing parties to reach agreement on the value of a valid and infringed patent, properly apportioned to reflect the specific value of the patented feature, allows the parties, the courts, and juries to arrive at a “reasonable royalty.”

## **But what about those profits?**

In the less common circumstances where the patent holder and alleged infringer’s products compete in a market, lost profits can be awarded. The patent holder carries the burden to show that “but for” the infringement, the patent holder would have made the same sales that the alleged infringer did, and thus should be compensated for the profits the patent holder would have made.

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In establishing “but for” the infringement, courts look to a four-factor test, outlined by another 1970s era case: *Panduit Corp. v. Stahl Bros. Fibre Works*, 575 F.2d 1152 (6th Cir. 1978).

These factors are:

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- (1) **demand** for patented product;
  - (2) **absence** of acceptable non-infringing alternatives;
  - (3) manufacturing and marketing **capability** to exploit the demand;
  - (4) **amount of profit** patent holder would have made.

For each, the patent holder carries the burden of proof — in other words, the patent must show the demand, the lack of alternatives, and their own capabilities to make the products. They also must establish their profit margins, because lost profits is about compensation, not disgorgement of an alleged infringers profits.

There is one sub-category of damages where that is flipped and a patent holder can seek disgorgement of an alleged infringers profits made from infringement: design patents. A specific provision of the patent law (35 U.S.C § 289) allows a holder of a design patent to seek “total profits” made by the alleged infringer for copying the patented design.

## **What should corporate counsel consider in assessing patent remedies?**

Returning to the first moment, when your company has been sued for patent infringement — what should corporate counsel consider in understanding the remedies sought and the risks associated with those remedies.

*First*, understand and evaluate the party suing your company and what they are suing over.

- Is this a direct competitor in the market?
  - If not (or the party does not appear to make any products), then it is likely that they will be seeking a reasonable royalty.
  - If so, then they may be asking for immediate injunctive relief (through a motion for a preliminary injunction) and are likely going to be seeking lost profits.
- What are they accusing of infringement?
  - Identify the products, systems, and manufacturing methods listed in the complaint, and begin to understand what else does the company make or do that is similar in function or scope.
  - Courts do not limit a plaintiff to the accused instrumentalities listed in the complaint, so prepare to understand the full scope of what is being accused.
  - Begin collection of financial information related to those accused products/systems and similar. Corporate counsel needs to understand early the scope of what will be the damages demand to help determine strategy for budgeting for litigation and potential settlement.
  - Understand patent damages can include “past damages”— generally, this is

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damages that extend back six years from the filing of the complaint; so be prepared to collect or access old financial data, including data that may have been archived.

*Second*, begin to understand what alternatives there are for the company.

- Is the plaintiff accusing a product/system/process that could be re-designed to perform or be built in a different way?
- Are there alternatives on the market and how do they operate in comparison to our own products?
- Redesigns have the potential to cut off damages. If an accused infringer changes to a non-infringing version, then there is no potential for on-going damages. Alternatives on the market, or alternatives that could be readily implemented, that do not infringe can be used to minimize the value of the patent in question.

*Finally*, if the case proceeds to litigation, budget early for the costs related to an expert.

- Expert analysis and testimony has grown into a high-cost vector in litigation, but it is also a vital aspect of cases, as expert testimony on the calculation of a reasonable royalty or determination of lost profits (and, often more importantly, the rebuttable of the plaintiff's expert) is vital to minimizing risks associated with patent remedies.
- Early engagement of an expert has the potential to spread out this cost vector over time, and to assist in the collection of the right information. Costs can grow if an expert is engaged late in the process and must expend considerable hours in a tight period to analyze damages.

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