

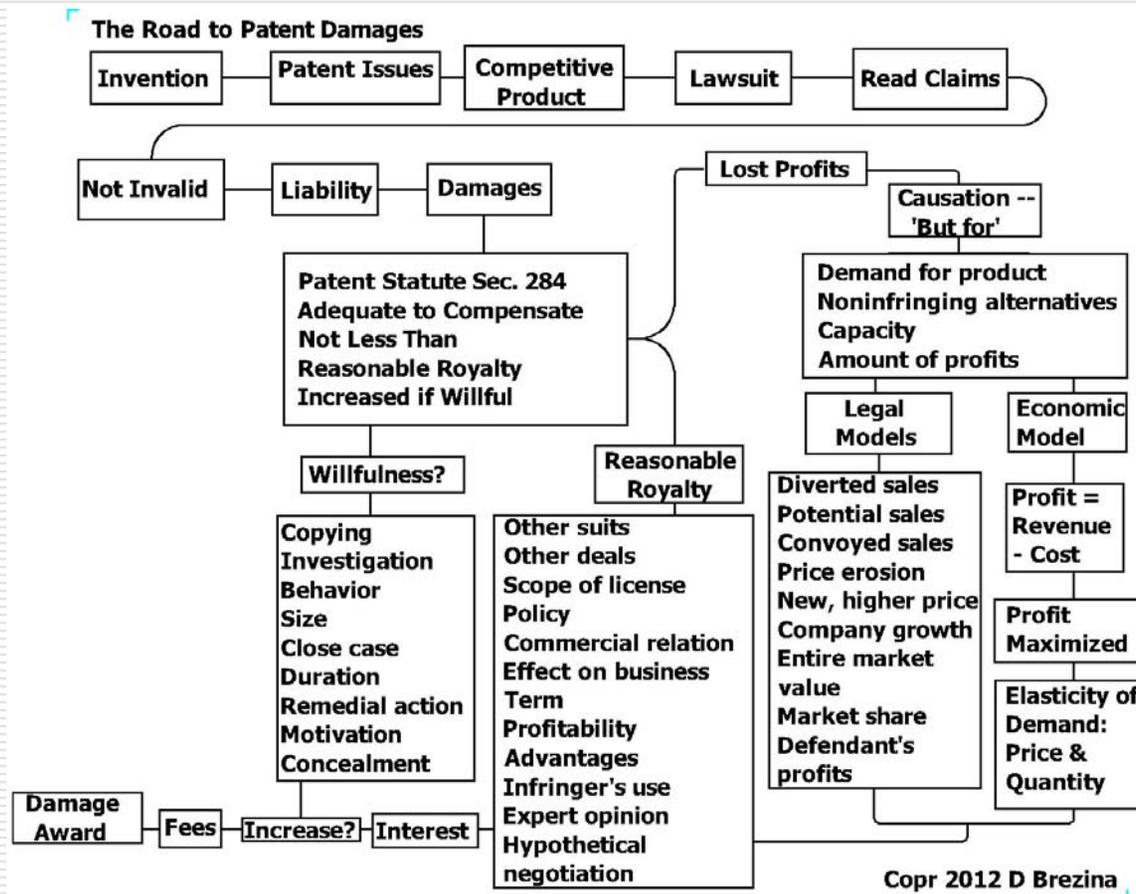
CBA Commercial Litigation Committee

CLE Seminar – October 30, 2012

Strategies and Trends in Intellectual
Property Law Damages

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Intellectual Property Damages



Intellectual Property Damages

- Statutory Damages
- Benefits of Hypothetical Bargains
- Defendant's Profits
- Actual/Compensatory Damages

Statutory Damages

- ❑ IP term of art: damages awardable at discretion of the court, without proof of an amount of actual damages.
- ❑ Originally a 1909 Copyright Remedy
- ❑ Where “actual damages” too hard to prove, too expensive to prove, provide a flexible remedy

How Much Money?

- ❑ \$750 - \$30,000 per infringement, up to \$150,000 willful; \$250 if innocent infringement (17 USC § 504)
- ❑ Traps:
 - ❑ Timely Registration (Before infringement or within 3 Months of Publication)
 - ❑ Don't Count on Windfall
 - ❑ Often Treble a License Fee
 - ❑ 1909 Act Notice, Now No Notice

Statutory Damages for Other Intellectual Property or Complementary Rights

- Design Patent, Only, Not Less Than \$250 (35 U.S.C. 289)
 - Trademark law only provides Statutory Damages against
 - (a) counterfeit marks (\$1,000 to \$200,000 per counterfeit mark 15 U.S.C. § 1117 (c)) and
 - (b) cybersquatters (\$1,000 to \$100,000, 15 U.S.C. § 1117 (d)).
 - Cable Television Statutory Damages
 - (a) Unauthorized reception of cable service (\$250 to \$10,000, 47 USC § 553)
 - (b) Unauthorized publication or use of communications (\$1,000 to \$10,000, 47 USC § 605)
 - Indian Arts and Crafts Act Statutory Damages
 - Misrepresenting non-Native American art as Native American art
 - \$1,000 per day of sale or display, 25 USC § 305e
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Statutory Damages for Consumer Protection, Privacy Violations

Federal

- Fair Debt Collection Practices: \$1,000 per violation, 15 U.S.C. §§ 1692
- Fair Credit Reporting Act, 15 U.S.C. § 1681n(a): \$100 to \$1,000
- Unauthorized Faxes (and robocalling) -- Telephone Consumer Protection Act 47 U.S.C. § 227: \$500 per violation
- Truth In Lending 15 U.S.C. § 1640: \$100 to \$4000, depending on particular transactions may be state equivalents
- Privacy/wiretap violations Electronic Communications Privacy Act, 18 USC 2520: \$100 per day, to \$10000

State

- (1) Withheld Sales Commission: Illinois Sales Representative Act Treble damages and attorneys fees 820 ILCS 120
- (2) Vexatious and unreasonable delay paying insurance claims \$25,000 (Illinois Insurance Code 215 ILCS 5/155(1))
- (3) Assignment of wages -- improper notice Illinois Wage Assignment Act 740 ILCS 170: \$500
- (4) Motor Vehicle Lemon Laws
 - a) Illinois 815 ILCS 505/2L: Percentage of Repairs; Replacement Vehicle; Refund
 - b) Indiana IC 24-5-13.5-13: Treble Damages, Attorneys Fees
- (5) Consumer Fraud Act: "actual economic damages or any other relief which the court deems proper" 815 ILCS 505/10a
- (6) Tenant/landlord, including security deposits; Fees and costs (710 ILCS 765) see also Chicago Municipal Code 5-12-080(f))

Damages Under Statute – Liability First: IP Damages, In Addition To “Statutory Damages” Formulations

- ❑ **Patents (35 U.S.C. 1 – 376, damages 35 U.S.C. § 284)**
 - ❑ **Technology & Useful Items**
 - ❑ **Infringement of Claims**
 - ❑ **Strict Liability -- Independent Development Not a Defense**
- ❑ **Trademark (15 U.S.C. 1051 – 1127, damages 15 U.S.C. 1117)**
 - ❑ **Brand Identity (Misleading Advertising)**
 - ❑ **Infringement By Likely Confusion**
 - ❑ **Strict Liability -- Independent Development Not a Defense**
- ❑ **Copyright (17 U.S.C. 101 - 1332, damages 17 U.S.C. 504)**
 - ❑ **Art, Literature, Particular Forms of Expression**
 - ❑ **Infringement by Copying – but Copying May Be Inferred**
 - ❑ **Independent Creation a Defense, If It Beats Inference**

Damages Under Statute

-- Defendant's Profits =
Statutory Unjust Enrichment

1) Copyright

- a) Burden shifting
- b) Plaintiff Only Has To Prove Total Sales Attributable To Infringement
- c) Defendant To Prove Costs, Deducted From Sales, To Give Profits

2) Trademark, False Designation of Origin

- a) Burden Shifting
 - i. Plaintiff Only Has To Prove Total Sales
 - ii. Defendant To Prove Alternative Causes Of Revenue, Costs, Deducted From Sales, To Give Profits
- b) Subject To Equity, Exemplary But Not Punitive, Adjust
- c) Defendants Profits Up Or Down (Only Adjust Lost Profits Up)
- d) Some Case Law Requiring Wilfulness

3) Design Patent, Only (35 U.S.C. 289)

- Defendant's Total Profits

Remedies for Patent Infringement

35 U.S.C. 284

- 1) Compensatory damages
 - a) Typically Lost Profits
 - b) Reasonable Royalty as a floor
- 2) Increased damages -- can treble actual damages where there is willful infringement
- 3) Attorneys fees in exceptional cases only
- 4) Injunction meeting *eBay* requirements
- 5) Design Patent Only 35 U.S.C. 289

Reasonable Royalty Damages – a Patent Damages Floor

- A “hypothetical negotiation, occurring between the parties at the time that infringement began”
- Posner closes Daubert gate *Apple v Motorola*:
So again imagine this imaginary conversation between Napper and Motorola, which I’ll pretend hired Napper to advise on how at lowest cost to duplicate the patent’s functionality without infringement:
Motorola: “What will it cost us to invent around, for that will place a ceiling on the royalty we’ll pay Apple?”
Napper: “Brace yourself: \$35 million greenbacks.”
Motorola: “That sounds high; where did you get the figure?”
Napper: “I asked an engineer who works for Apple.”
Motorola: “Dummkopf! You’re fired.”
- Rates vary from fractions of percents, to high percentages
- Basic science licensed from 1 or 2% up to about 6 or 7%

Reasonable Royalty Damages

-- Major Factors

- ❑ Other royalties actually received in licenses for the patent in suit
- ❑ Other royalties actually received for comparable licenses
- ❑ Portion of profit customarily allowed in the particular business for the use of the invention or similar inventions
- ❑ Effect of patented feature on customer demand for product

Reasonable Royalty Damages

– More Factors

- How Exclusive (or Nonexclusive) the License?
- Does Licensor have any established policy to not license – to profit based on sales?
- What is the commercial relationship between the licensor and licensee?
- Would sales of the patented product promote sales of other products?
- What is the duration of the patent and the term of the license?
- How profitable is the product made under the patent in terms of commercial success and current popularity?
- What are the utility and advantages of the patent over the old modes or devices?
- How does the patent relate to the actual commercial embodiment sold, including benefits to users?
- Whether and how much the infringer has used the invention and the value of that use
- Apply an analysis to the hypothetical negotiation
 - What if Licensor and Infringer had reasonably and voluntarily tried to reach an agreement?
 - How much would a prudent licensee have been willing to pay as a royalty and still make a reasonable profit?
 - What would a prudent patentee, willing to grant a license, accept?

Damages as Patent Owner's Lost Profits on Lost Sales

- 1) Demand for patented invention
- 2) Absence of acceptable non-infringing alternatives
- 3) Manufacturing and marketing capacity to exploit demand
- 4) Ability to quantify the amount of lost profits
- 5) "But for" the infringement, the patent owner would have made those profits

Damages as Patent Owner's Lost Profits – Other Causes, Proofs

- 1) Potential sales lost
- 2) Convoyed sales – one stop shopping
- 3) Price erosion – made sale, lower price
- 4) New, higher price hindered
- 5) Company growth limited
- 6) Entire market value rule – invention drives demand for whole product
- 7) Market share decrease
- 8) Defendant's profits as a yardstick for Plaintiff's

Patent Damages Trends

- “Patent trolls” (Nonpracticing entities)
 - **demanding license fees based on a percentage of total sales**
 - **Suing end users, customers**
- *Monsanto v DuPont*: \$1 Billion or so; *Apple v. Samsung*, about the same
- Entire Market Value
 - **25% rule: “25% to 33 1/3% of the saving of a new process, or of the profits of a new product should go to the licensor” should no longer be used in Court**
 - **Current case law requires proof that the improvement taught by the patent be directly connected to the amount of royalty**
 - **Small percentage does not save misapplication of entire market value**

Other Statutorily Provided Money Remedies

- 1) Fee Shifting
 - a) Copyright: to Plaintiff, if Timely Registered, to Defendant, discretionary, consistent with purpose of Copyright Act
 - b) Trademark & Patent: in "Exceptional cases" to prevailing party
- 2) Increased Damages
 - a) Copyright: if Willful, to \$150,000, if Timely Registered
 - b) Patent: Treble Damages for Willfulness or Litigation Misconduct
 - c) Trademark: Treble Damages "according to the circumstances of the case"

IP Damages -- Anomalies

- 1) Design Patent – only Defendant Profits remedy under Patent
- 2) Copyright plaintiff proves attribution, Trademark, defendant, to show all deductions
- 3) Lanham Act treble damages are not punitive
- 4) Copyright fee shifting to defense under case law -- level playing field or tilted
- 5) Copyright Attorneys Fees = Costs, Remember in your Bill of Costs!
- 6) Computer Fraud and Abuse Act 18 USC 1030
“damage” means impaired computer functionality,
while “loss” is the economic injury

Intellectual Property Damages

- ❑ Statutory Damages in Certain Cases Only, Formalities, Cause of Action Material
- ❑ Hypothetical Bargains Permit and Require Analysis of Real World Business
- ❑ Defendant's Profits Can Be a Powerful Remedy, Especially Where Burden Shifting
- ❑ Actual/Compensatory Damages: Consider the Context of the Sale of Real Products

Any questions?

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