

**UNITED STATES:** Intellectual property**Darren M. Franklin**

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**The US Federal Trade Commission considers issues in patent damages awards**

With the median damages award in the millions of dollars, a patent infringement lawsuit in the US can be a boon for a patent owner or a headache for an accused infringer. In support of such awards, patent owners often argue that the value of patents, as measured by damages awards in US courts, bolsters incentives to innovate, to the benefit of consumers. Companies that tend to be on the receiving end of US patent infringement lawsuits often counter that patent owners are systematically overcompensated, leading to excessively high prices for patent licenses and actually hurting innovation.

These and other issues concerning remedies in US patent infringement cases were recently explored at a set of public hearings held by the US Federal Trade Commission in Washington, DC. The hearings addressed the legal standards governing patent infringement damages, the impact of damages awards on business activity, and the status of permanent injunctions in the wake of the US Supreme Court's decision in *eBay Inc. v. MercExchange*, (2006).

Generally, there are two main bases for patent infringement damages in the United States: lost profits and reasonable royalty. In determining whether to award lost profits, US courts look at whether the patent owner can show "but for" causation. In other words, but for the infringement, the patent owner would have made the additional profits enjoyed by the infringer. A patent owner may obtain lost profits for unpatented components sold in connection with a patented product, but only if the patent owner can show that the entire market value rule is satisfied. The entire market value rule permits recovery of damages where the unpatented components function together with the patented product "to produce a desired end product or result." *Rite-Hite Corp. v. Kelley Co* (1995). When lost profits cannot be proven, the patent owner is entitled to only a reasonable royalty. A patent owner may include sales of unpatented components in the royalty base only if the entire market value rule is satisfied.

In a presentation at the Federal Trade Commission hearings, Professor Paul M

Janicke of the University of Houston Law Center called the entire market value rule "a strange rule" as applied to reasonable royalty damages. Professor Janicke noted that a jury can essentially nullify the rule by using a higher royalty rate that takes unpatented collateral items into account. As an alternative, Professor Janicke suggested a so-called value-added rule, where the value of an infringing product would be apportioned between the value added by the patent and the value attributable to the infringer's contributions or to the public domain. The US Congress has considered amending the country's patent statutes to codify a value-added rule, but at the moment the entire market value rule remains in place.

Another controversy concerning US patent infringement damages has been the size of damages awards. In a presentation at the Federal Trade Commission hearings, Aron Levko of PricewaterhouseCoopers noted that median damages awards since 1995 have been fairly consistent. Awards have generally been higher in jury trials than in bench trials, and have been higher for non-practicing patent owners (sometimes called patent trolls) versus patent owners that actually practice the patent. Mr. Levko also noted that the disparity in damages awards between jury trials and bench trials has widened since 1995, and that the use of jury trials has increased during that period. Meanwhile, the reasonable royalty has become the predominant measure of damages awarded.

Until Congress changes the patent statutes, damages can generally be maximized by demanding a jury trial, choosing a venue regarded as patentee-friendly, and arguing for the inclusion of unpatented collateral items in the reasonable royalty base and in setting the royalty rate.

*More information about the Federal Trade Commission hearings can be found at <http://www.ftc.gov/bc/workshops/ipmarketplace>.*

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