

INTELLECTUAL PROPERTY LITIGATION

Expert Analysis

Lost Profits Damages May Affect Other Issues in Patent Cases

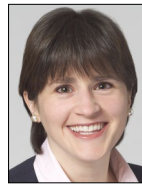
The Patent Act provides for damages “in no event less than a reasonable royalty.” 35 U.S.C. §284. In many patent cases, that royalty ends up being the measure of damages: a percentage of the infringer’s revenues from the infringing sales.

In some cases, however, the patent owner may instead seek to recover the profits that it lost as a result of the infringement. To recover lost profits, the patent owner must prove that its own products compete with the infringing products, that the infringer’s sales displaced sales that the patent owner otherwise would and could have made, and that there was no non-infringing alternative in the market to which consumers would have turned instead in the absence of the infringer’s sales.

In two recent decisions, the Federal Circuit and a Delaware district court took account of the underlying



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economic conditions that permit and prevent awards of lost profits, and looked at the implications of those conditions on otherwise unrelated areas of law. In September, the Federal Circuit ordered a transfer of a case from the Western District of Texas to the Northern District of California, holding that the longer time to trial in the transferee venue did not weigh against transfer because the plaintiff patent assertion entity could not seek lost profits. *In re Juniper Networks*, 14 F.4th 1313 (Fed. Cir. 2021). Last year, a Delaware district court granted a permanent injunction based in large part on the jury’s award of lost profits damages related to one of the infringing products, while denying injunctive relief as to the other infringing products that

were not the subject of the jury’s lost profits award. *f’real Foods v. Hamilton Beach Brands*, No. 16-41-CFC, 2020 WL 4015481 (D. Del. July 16, 2020).

We report here on these cases and provide guidance for practitioners regarding the influence of lost profits damages over other issues in patent cases.

These cases may signal a trend in which the availability (or lack thereof) of lost profits damages influences decisions about other legal, procedural, and equitable issues in that case.

Lost Profits

The Patent Act states that prevailing patent holders are entitled to “damages adequate to compensate for the infringement.” 35 U.S.C. §284. One type of compensatory damages available to patent holders is lost profits damages, which allows a patent holder to recover the profits it

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lost as a result of the infringement. *Mentor Graphics v. EVE-USA*, 851 F.3d 1275, 1284 (Fed. Cir. 2017). When a patent holder proves that “it would have made additional sales but for a defendant’s infringement,” the patent holder “is entitled to be made whole for the profits it proves it lost.” *Id.* at 1284.

Venue (‘In re Juniper Networks’)

Brazos, a “patent assertion entity,” filed seven complaints in the Western District of Texas alleging that Juniper, a Delaware corporation, infringed Brazos’s patents related to networking hardware. *Juniper*, 14 F.4th at 1315-16. Juniper moved to transfer the cases to the Northern District of California, arguing that “whatever ties Brazos has to this District appear to have been created for the purpose of its patent litigation activities in this District.” *Id.* at 1316. The district court denied the motion, holding that, among other factors, “the administrative difficulties flowing from court congestion” weighed against transfer because “the court in [the Western District of Texas] would be likely to reach trial more quickly than would the be case in the Northern District of California.” *Id.* at 1317-18.

Juniper petitioned for a writ of mandamus, which the Federal Circuit granted, holding that “in denying the motion to transfer the district court committed legal errors,” *id.* at 1315, and that “the center of gravity ... was clearly in the transferee

district[], not the Western District of Texas,” *id.* at 1323. As to the court-congestion factor, the Federal Circuit explained that “[t]he district court based its analysis on scheduled trial dates. But we have held that it is improper to assess the court congestion factor based on the fact that the Western District of Texas has employed an aggressive scheduling order for setting a trial date.” *Id.* at 1322.

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Notably, the Federal Circuit also found persuasive that Brazos could not seek lost profits damages and would instead be limited to reasonable royalty damages:

Brazos is not engaged in the manufacture or sale of products that practice the asserted patents. Instead, Brazos describes itself as a company that “help[s] inventors and patent owners maximize the full potential of their patents.” It does not suggest it is in need of a quick resolution because its position in the market is being threatened. Even if the district court’s projection of the likely time to trial in the two venues is accurate, the court did not point

to any reason that a more rapid disposition of the case that might be available in Texas is worthy of important weight.

Id. at 1322 (citations omitted).

The Federal Circuit thus vacated the district court’s denial of Juniper’s motion and ordered the district court to transfer the cases to the Northern District of California.

Injunctive Relief (‘f’real Foods v. Hamilton Beach’)

f’real Foods accused Hamilton Beach Brands and Hershey Creamery of infringing patents related to high-performance blenders. *f’real Foods*, 2020 WL 4015481, at *1. A jury found certain of the asserted patents infringed and not invalid. *Id.* The jury awarded a \$245,000 reasonable royalty and approximately \$3 million in lost profits damages, which were reduced to \$2 million as a result of plaintiffs’ acceptance of the court’s remittitur. *Id.* at *3 n.1.

f’real moved for a permanent injunction. To obtain a permanent injunction a patent holder must show “(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.” *Id.* at *1. The court denied

f'real's motion as to three of the accused products, including Hamilton Beach's BIC2000 blender, but granted the motion as to Hamilton Beach's MIC2000 blender. As to the BIC2000 blender, the court denied the motion based in part on f'real's failure to present any evidence of lost sales: "Plaintiffs appear to be arguing that their irreparable injury is lost sales of the LT blender. Plaintiffs, however, adduced no evidence of lost sales of the LT blender." *Id.* at *2.

With respect to the MIC2000 blender, however, the court found that "[a]ll four *eBay* factors favor granting" a permanent injunction. *Id.* at *3. As to the irreparable injury factor—which requires the patent holder to show "(1) that absent an injunction it will suffer irreparable injury and (2) that a sufficiently strong causal nexus relates the injury to the infringement," *id.* at *1—the district court found that "plaintiffs have demonstrated that they have been and will continue to be irreparably injured due to being forced to compete with the MIC2000 blenders," *id.* at *3. The court explained that plaintiffs' damages expert limited his lost profits analysis to the MIC2000, and the jury found the defendants liable for lost profits due to the MIC2000 blenders. *Id.*

According to the court, when a jury awards lost profits, it "necessarily" finds that the infringer's action resulted in lost sales for the patent holder and that there exists the type of competition that supports a find-

ing of irreparable injury:

When a patentee is "forced to compete against products that incorporate and infringe its own patented inventions[,] the patentee suffers a harm that is often irreparable. And when a jury awards a patentee lost profits, the jury necessarily finds both this kind of competition and that the defendant's action caused the patentee to lose sales. Thus, an award of lost profits "squarely supports a finding of irreparable harm." It may seem odd that a monetary award supports a finding of irreparable injury. But a finding of lost profits demonstrates that a plaintiff was deprived of market share and business opportunities in addition to lost profits. A lost profits award does not compensate a plaintiff for those first two harms; and money damages alone cannot fully compensate a plaintiff for those harms.

Id. at *4 (citations omitted). Thus, the court "infer[red] from the jury's award of lost profits that plaintiffs have suffered an irreparable injury due to the MIC2000 blenders." *Id.*

Next, and again relying on the jury's award of lost profits, the court found that the second *eBay* factor supported injunctive relief because "monetary damages are inadequate to compensate plaintiffs' injuries. The Federal Circuit has held that 'loss of market share' and other injuries like plaintiffs' are 'particularly

difficult to quantify.'" *Id.* Likewise, as to the balance of the hardships factor, the court found that "[i]t follows from a finding of lost profits that as long as defendants are permitted to continue infringing plaintiffs' patents, plaintiffs will continue to lose profits, lose business opportunities, and be deprived of market share." *Id.*

Guidance for Practitioners

These cases may signal a trend in which the availability (or lack thereof) of lost profits damages influences decisions about other legal, procedural, and equitable issues in that case. While we await further developments on this issue, patent owners should consider the interplay between seeking only a reasonable royalty and seeking injunctive relief, and should consider the time-to-trial and venue implications of seeking only a reasonable royalty.