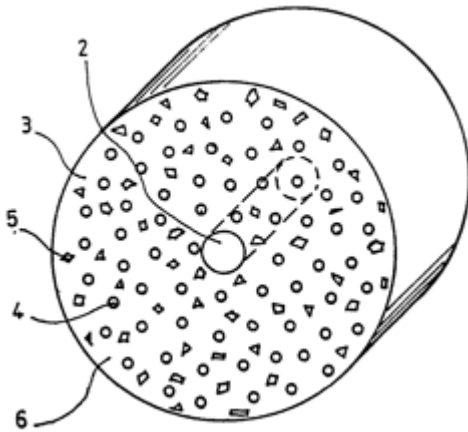


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Calculation of patent infringement's damages

Pierre Véron (Véron & Associés) · Tuesday, October 26th, 2010



After a procedure of twenty-odd years, various companies and a natural person were held liable for the infringement of French Patent No. 2 590 192 and European Patent No. 0 229 575 held by Technogenia which specialises in the manufacture of welding products to hardface metallic parts exposed to abrasion. These titles protected the composition of a coated welding rod with a metallic core and the method for manufacturing these rods. Technogenia used them for manufacturing and marketing welding rods and ropes under the trade names “*Technodur*” and “*Technosphère*”.

In its [25 June 2010 decision](#), the *Tribunal de Grande Instance* of Paris ruled on the calculation of Technogenia’s damages. The significance of this decision lies in the fact that it explains step by step the reasoning used to calculate the amount of damages awarded to the patentee victim of an infringement. The sums involved were far from negligible since the acts of infringement persisted owing to this long and complex procedure. The patentee claimed a minimum of €8,000,000 and a maximum of €19,000,000 while the defendants argued for a minimum of €1,400,000 and a maximum of about €1,700,000.

The court begins by reviewing the six heads of damage claimed by Technogenia: 1) the lost margin on the sales of rods and ropes, 2) the lost margin on the sales of tools and accessories, 3) the lost margin on the hardfacing work or, in the alternative, the lost compensatory royalty on this work, 4) the erosion in the price of the Technodur and Technosphère ropes attributable to the infringement, 5) the springboard effect resulting from the infringement and 6) the damage to Technogenia’s image. Essentially, the heads of damage claimed thus pertained to a loss of profit.

1) The lost margin on the sales of rods and ropes

Regarding the lost margin on the sales of rods and ropes, the subject matter of the patents, the court understood from the court's expert's report that, for the period 1990-2000, the total quantity of sold infringing ropes amounts to 157,050 kg, of which 4,651 kg for the 8510 reference, and 152,399 kg for the other references.

And, as a basis for the calculation, the court decided not to retain the weighted contribution margin of both types of ropes involved, but instead to distinguish the contribution margin for each of the two types of ropes because they were neither sold at the same price, nor over the same period (8510 ropes were sold between 1996 and 2000, while the other referenced ropes were sold between 1990 and 2000).

The choice of contribution margin was inevitable since it had been established that Technogenia had a production capacity sufficient to absorb the infringing sales (in the contrary case, the margin over direct costs would have been chosen). The fixed costs already incurred by Technogenia had given to that company a production capacity sufficient to meet also the demand that the defendants, by their infringement, had improperly diverted to their benefit. Technogenia would not have had to bear new fixed costs, which evolve in stages. It would have had to bear only new variable costs, which vary proportionately with the level of activity, which in this case are the variable costs tied to the manufacture and marketing of a mass of ropes equivalent to the mass diverted by the infringement. Since the parties to the dispute had agreed (to decide) that the margin to be taken into account was the contribution margin but disagreed on its amount, the court detailed its calculation of Technogenia's variable costs (variable costs, subtracted from the turnover, giving the contribution margin). The amount of variable costs included the costs of raw materials used to manufacture the ropes, the variable production costs (direct labour, electricity, depreciation of the machines), and the variable distribution costs (sales representatives' salaries, travelling expenses, promotion expenses...).

Regarding the costs of raw material, the court retained the figures given by Technogenia and decided by the court's expert considering that the defendants did not provide relevant elements of dispute.

Regarding the variable production costs, and firstly the variable overhead costs, Technogenia proposed, in the absence of analytical accountancy, to determine their proportion in reference to the ratio between the surface of the premises allocated to the rope manufacture and the surface of all Technogenia's premises (8.5%). The court chose to determine their proportion in reference to the portion of the rope turnover in Technogenia's total turnover (*i.e.* around 60-70%), thus following the opinion supported by the defendants and the court. Regarding the depreciation expense, the court likewise preferred to determine their proportion in reference to the portion of the rope turnover in Technogenia's total turnover, thus agreeing with the opinion supported by the defendants and the court's expert.

Regarding the variable commercial expenses, the court retained the calculation mode proposed by Technogenia and non-criticised by the defendants' expert: *i.e.* the analysis of Technogenia's commercial investment in ropes, which varied (within a range) from 50% to 25% of the total for the 1990-2000 period.

On that basis, the court approved the assessments of the court's expert evaluating the margin lost on the sales of ropes similar to those of Technodur at €3,002,279€ and the margin lost on sales of ropes similar to those of Technosphere at €132,702, *i.e.* a total amount of €3,134,981.

The contribution margin, that is, Technogenia's lost profits, being so determined, it remained to determine the "sales that Technogenia would have made but for the infringement". In other words, if the infringement had not occurred, would Technogenia have appropriated all of the infringing activity or only a part of it? Technogenia argued that it could have made all the sales of infringing products and that, accordingly, 100% or, in the alternative, 94% or, in the very alternative, 83% of the infringing sales should be taken into account. The defendants argued that Technogenia would only have made 40% of the infringing sales. The court agreed again in this respect with the court's expert's position. It had already noted that Technogenia had a production capacity sufficient to absorb the infringing sales. But considering that it was difficult to determine which products could replace the patented ropes in the absence of the infringing ropes and to assess Technogenia's market shares with respect to the other market players over the 1990-2000 period, the court finally relied on the rate of customers in common. Applying the 66% rate suggested by the court's expert (Technogenia recommended 75% and the defendants 58%), the court added 17% to it, considering that for 34% of customers not in common Technogenia had a fifty-fifty chance to gain these new customers, *i.e.*, 17%. So the court finally took into account 83% of the infringing sales. The lost profits for the Technodur product were of €2,491,885.76 ($€3,002,272 \times 83\%$) and for the Technosphère product of €110,142.66 ($€132,702 \times 83\%$) *i.e.* a total amount of €2,602,028.42.

The court also added to this sum a compensatory royalty of €66,671.79 (later, the court retained the figure of €66,771.79). Regarding the sales to the fraction of customers ($100\% - 83\% = 17\%$) which would definitely not have turned to Technogenia's products, Technogenia would still have granted the defendants a licence and therefore collected royalties. The court set the royalty rate at 7.5%, considering that if the court's expert rightly retained the rate of 5%, usual in the metallurgical industry, it was, however, necessary to take into account the compensatory nature of this royalty, *i.e.* not freely chosen and, furthermore, granted to a competitor.

2) The lost margin on the sales of tools and accessories

The court refused to take into account this head of damages on the ground that Technogenia did not prove that these products formed an indivisible entire market value so that the sale of the infringing ropes would have necessarily entailed the sale of the accessories (torches, nozzles, guns, powders and electrodes). On the contrary, the court considered that these accessories were not specifically intended to the infringing ropes since they are products which are used by any operator who wishes to perform welding with an oxyacetylene torch (torches, nozzles, guns) or products which can be used alone (powders and electrodes).

3) The lost margin on the hardfacing work or, in the alternative, the lost compensatory royalty on this work

The court also refused to take into account the lost margin on the hardfacing work, considering that there were insufficient information to state with certainty that hardfacing operations had been performed by Technogenia during this period and to know precisely how this work was divided between Technogenia and its subsidiary which was not a party to the proceedings. And the court also rejected the claim developed, in the alternative, by Technogenia, claiming that its damage should be assessed on the basis of a 13% compensatory royalty applied to the infringing quantities unlawfully used by a defendant for its own hardfacing work. The court held that such a request amounted to seek a double compensation for the same damage. In its opinion, through the compensation obtained on the basis of the lost sales of ropes (lost contribution margin and compensatory royalty) Technogenia had obtained compensation for the lost profits from the

manufacture and marketing of the infringing products by the defendants.

4) The erosion in the price of the Technodur and Technosphère ropes attributable to the infringement

The court held, following the court's expert's investigations, that there had been a reduction in the cost of Technogenia's products linked to the putting on the market of infringing products. Relying again on the findings of the court's expert to determine the year from which this negative impact of the infringement had been felt, the court assessed at €357,372 the damage resulting from the reduction in the price of Technodur's products and at €10,479 the damage resulting from the reduction in the price of Technosphere's products. Taking into account the presence of a plurality of infringers on the market who contributed to the erosion in the price, the court then related these sums to the defendants' market share (18%), and awarded again to Technogenia €66,213.18 in damages.

5) The springboard effect resulting from the infringement

Technogenia argued that thanks to the infringement, the defendants had illegally acquired through the development of customer loyalty to the infringing products, a competitive advantage, a favourable position in the market, which they still enjoyed even after the end of the infringing acts. The court rejected this claim. In its opinion, a springboard effect could only exist when the infringer keeps, after the patent expiry, the market share it had obtained by offering for sale the infringing products. And, in the present case, since patents were still in force in 2000, the time at which the infringement ended, the springboard effect could not be established.

6) The damage to Technogenia's image

Technogenia argued that the infringement had caused damage to its image which had been translated into a loss of value with respect to its trademark and business. The court did not accept this head of damage on the grounds, first, that Technogenia had not proved that its brand or business would have lost value due to the infringement acts and, secondly, that the damage to Technogenia's image had already been sufficiently compensated by measures of publication of two previous decisions rendered in the same case, namely a judgment of 29 June 2004 and a decision of 10 January 2007.

The overall damages awarded under the various heads of damage amounted therefore to €2,735,013.39, *i.e.* €2,602,028.42 (lost margin on sales of rods and ropes) + €66,771.79 (compensatory royalty) + €66,213.18 (erosion in the price). Technogenia requested the conversion to the present value of the compensation to compensate the monetary erosion and preserve the purchasing power of the sums at issue, but also the compensation for the financial damage caused by the absence of these sums in its treasury, on the basis of the legal interest rate, increased by a capitalisation. Noting that the defendants did not dispute the application of the legal interest rate with respect to the conversion of the compensation to the present value, but only its capitalisation, the court finally decided to convert the compensation granted to Technogenia by applying the legal interest rate, so as to take into account the monetary erosion over the considered period, without acceding to the claim for the capitalisation of the interests.

In concrete terms, the court thus decides that the amount of €2,602,028.42 (the lost margin on sales of rods and ropes) and €66,771.79 (the compensatory royalty) shall be, with respect to the damage's conversion to the present value, increased by the legal interest rate as of 1990 for each

year until the date of the judgment, and the sum of €66,213.18 (the erosion of price) as of 2000 until the date of the judgment.

Original French decision.

English translation.

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