Kluwer Patent Blog

Actual Decisions Regarding the Two Calculation Methods “Infringer’s Profit” and “License Analogy”

Thorsten Bausch (Hoffmann Eitle) · Friday, October 14th, 2011

As is known, damages for patent infringement may be calculated using one of three calculation methods, i.e. infringer’s profit, licence analogy and lost profit.

Two recent decisions, one by the Higher Regional Court Frankfurt regarding infringer’s profit and one by the Regional Court Munich regarding license analogy, are evidence of actual tendencies being taken by the German courts regarding the calculation methods. Both decisions are favourable for the patentees.

For decades, the calculation method “license analogy” was the most popular in Germany since the drawback of the “infringer’s profit” method was that the infringer was allowed to deduct all costs. The result of this was that most often his calculations showed a loss in the end. On the other hand, the calculation method “lost profit” has the detriment that a patentee has to disclose the secrets behind his calculation of profits and has to present evidence that he would have sold the number of products that the infringer or a third party sold.

The “Share of Overhead” decision that the Federal Court of Justice issued in 2000 (concerning design rights) made the calculation method “infringer’s profit” more popular since the Court decided that only the costs relating to the infringing product would be allowed to be deducted, and not the overhead expenses which are incurred irrespective of the product. As a result, in about three-fourths of the proceedings regarding damages, patentees now apply the “infringer’s profit” calculation method in an attempt to obtain a higher sum of damages than they would obtain with the “license analogy” calculation method (see Grabinski in GRUR 2009, at 262). In the “Share of Overhead” decision, the Court also assumed that only those infringer’s profits are to be surrendered that were earned owing to the infringement of the right. With regard to patents, courts in Germany have awarded between 15% and 60% of infringer’s profits as damages (see Grabinski in GRUR 2009, at 265). Recently, the Federal Court of Justice has again confirmed the principle that it must be assessed to what extent a purchaser bases his decision to acquire an infringer’s product on precisely the fact that the embodiment includes the features on which the copyright protection of the work used is based (see “Tripp-Trapp-Stuhl” decision, GRUR 2009, at 856, see also Higher Regional Court Duesseldorf of 2.6.2005 – Lifter (patent matter)). These principles can significantly limit the amount of damages awarded based on “infringer’s profit” (see Higher Regional Court Dusseldorf of 25 March 2010, I-2 U 61/08, 2 U 61/08 in a patent matter: 5% since customers made no use of the patented invention.)

(1) One of the most recent decisions on “infringer’s profit” is the decision issued by the Higher Regional Court Frankfurt on 31 March 2011 (6 U 136/10 – “Bottle-Carrier”). The patent concerned related to a cardboard folder to carry objects, for instance, bottles. The invention improved certain details of known cardboard folders, i.e. it provided a connecting link to glue the carrier at the side parts of the carrier enabling symmetrical outsides of the carrier on which the advertising can be easily applied. The Defendant argued that the invention was not the reason for customers to buy the cardboard folders and that customers bought the products due to their good reputation and the trademark.

To calculate infringer’s profit, the Court deducted from infringer’s turnover purchase prices as well as packaging and transportation costs. It then had to assess whether customers bought the products due to the invention. It decided that the effect of the invention, i.e. that breweries can print large advertisements on the carrier’s outsides, is important for the customer’s decision to buy the carrier. The main claim of the patent related to the entire product, but the invention was basically just a small improvement over existing prior art. As a consequence, the result of the assessment of infringer’s profit was that it amounted to 50% of infringer’s profits. The Court denied that the customers would buy the product due to Defendant’s good reputation and the use of its trademark. The amount which must be paid as “infringer’s profit” was verified by a check account since the “license analogy” calculation method would have resulted in a similar amount, assuming a license fee of 8% which is a common fee in the machine construction and tool industry.

(2) The decision of the Regional Court Munich of 25 March 2010 (7 O 17716/09) has shown the Court’s new disposition towards the “licence analogy” calculation method.

The patent at issue here was in regard to a liquid manure deploying device. The Court applied the basic principle of licence analogy, namely “that the infringing party owes that amount that reasonable parties to a fictitious license agreement would have agreed upon if they could have foreseen future developments and in particular the extent of the use of the patent.” (Federal Supreme Court of 30 May 1995 – Steuereinrichtung II)

The Court decided that for agricultural machines licence fees of between 3% and 5% are common.

In its considerations as to which factors would reduce or raise the licence fee, the Court decided that it would be justified to reduce the license fee since the patented invention was not a ground-breaking invention.

The Court stated that it considered the situation of parties negotiating a contract to be different to the situation of parties in infringement proceedings. In the latter situation, a reasonable patentee would have claimed a higher licence fee under the following considerations:

(1) the patent is in force since 10 years (i.e. there are no doubts as to the patent’s validity),
(2) products fall under the scope of the patent claims according to a court decision,
(3) the licensee is not reliable. If patentee had known that it will take years to obtain license fee payments by litigation, receiving unreliable information on sales and, that he has to bear a higher insolvency risk of its licensee since he will receive payment after many year compared to quarterly payments, licensee has to accept a much higher licence fee to compensate patentee’s risks.

As a result, the Court awarded a license fee amounting to 5% of the turnover earned with the liquid manure deploying device (and 2% with regard to the entire tank trucks equipped with the relevant liquid manure deploying device). According to the headnote of the case, the licence fee is 66%

higher as the fee reasonable parties would have agreed to without confirmation of the validity and the infringement of the patent and assuming prompt and correct information on sales and prompt payment.

It is interesting to note that the Court found that there were significant doubts as to the correctness of the infringer's sales data and that this was to be considered as evidence of "non-reliability". Also owing to this, a higher licence fee was to be awarded.

It remains to be seen whether this approach by the Regional Court Munich of awarding higher license fees than have hitherto been awarded will be adopted by other German courts.

Therefore, as of now a patentee will have to decide which calculation method he should choose and he will have to consider all of the specific circumstances of the case when doing this.

Anja Petersen-Padberg

To make sure you do not miss out on regular updates from the Kluwer Patent Blog, please subscribe here.

This entry was posted on Friday, October 14th, 2011 at 3:45 pm and is filed under Account of profits, Germany
You can follow any responses to this entry through the Comments (RSS) feed. Both comments and pings are currently closed.