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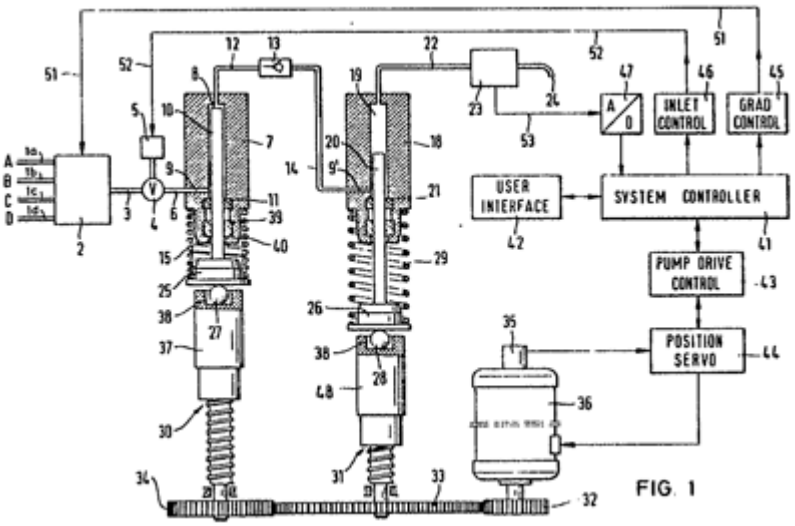
Calculation of patent infringement's damages Loss of profit, compensatory royalty, springboard effect

Pierre Véron (Véron & Associés) · Monday, December 19th, 2011



The German company Hewlett-Packard GmbH (hereinafter referred to as Hewlett-Packard) was granted on 31 March 1993 the European patent EP 0 309 596, entitled "*pumping apparatus for delivering liquid at high pressure*". Under an assignment contract dated 29 October 1999, registered in the French Patent Register on 21 August 2000, the German company Agilent Technologies Deutschland GmbH (hereinafter referred to as Agilent) became the holder of the French designation of the European patent.

Under an agreement between Hewlett-Packard and Agilent dated 17 January 2000, Agilent was entitled to keep for itself the damages for the patent infringement for the periods before and after the transfer of the patent ownership (29 October 1999).

Hewlett-Packard and Agilent accused the American company Waters Corporation and its French subsidiary Waters SAS of infringement acts.

The Waters companies having been held liable for infringement acts, then arose the question of the calculation of the damage suffered by Hewlett-Packard and Agilent due to the infringement.

By a decision dated 14 January 2009, the *Tribunal de Grande Instance* of Paris ordered Waters Corporation to pay the sum of €306,199 as compensation for the damage resulting from the infringement acts committed between 12 September 1997 and 28 September 1998, ordered jointly

and severally Waters Corporation and Waters SAS to pay the sum of €3,910,981 to Agilent as compensation for the damage resulting from the infringement acts committed between 29 September 1998 and 29 July 2002 (when the Waters companies replaced the infringing products by modified and non infringing products). The *Tribunal* also ordered jointly and severally Waters Corporation and Waters SAS to pay the sum of €100,000 to Agilent for the "*springboard effect*". However, the *Tribunal* dismissed the claim for compensation for financial damage.

The Waters companies then lodged an appeal against that decision. The *Cour d'Appel* of Paris, in its 5 October 2011 decision, affirms the judgment, dismissing the various claims of the Waters companies.

1) The Waters companies requested that the court hold Waters Corporation not liable for the apparatus sold by Waters SAS between 12 September 1997 and 28 September 1998.

They argued that Waters Corporation, the only one at issue for the period from 12 September 1997 to 28 September 1998, did not exploit the infringing apparatuses in France since these apparatuses were indeed manufactured by Waters Corporation but abroad and were only introduced in France by Waters SAS.

The *Cour d'Appel* dismisses this argument. According to what has been finally decided by the *Cour d'Appel* of Paris in a previous decision, and became res judicata, Waters Corporation, by supplying the infringing apparatuses to its French subsidiary Waters SAS, no matter that they transited through the Netherlands before being delivered in France to Waters SAS' customers, had then committed two infringement acts of the French designation of the patent, according to French patent law. It had firstly offered for sale the infringing apparatuses in France to Waters SAS and secondly taken part in the act of importing the infringing apparatuses into France.

2) The Waters companies also requested that the court exclude the apparatuses sold by Waters SAS between 29 October 1999 and 21 August 2000 from the infringing sales. Pursuant to Article L. 613-9 of the French Intellectual Property Code, Agilent cannot claim compensation for damage for the period from the date of the patent assignment (29 October 1999) to the date of the assignment registration in the French Patent Register (21 August 2000).

This argument relied on a French traditional case law according to which Article L. 613-9 IPC (which provides that all acts transferring or modifying the rights deriving from a patent application or a patent must, to be enforceable against third parties, be entered in a register, known as the National Patent Register kept by the National Institute of Industrial Property) is applicable not only to resolve the conflicts between successive assignees of the patent's rights but also with regard to infringers against which the patent assignment is enforceable only from its registration in the National Patent Register.

The *Cour d'Appel* distances itself from this traditional but questionable case law explaining that "*the rule of enforceability provided in the aforementioned article [L. 613-9 IPC] cannot have the effect of allowing an infringer to infringe a patent with impunity as long as the assignment has not been registered*". The court also underlines that, according to the 17 January 2000 agreement, it was provided that the assignee Agilent replaced the assignor Hewlett-Packard and could keep for itself the damages for the patent infringement for the periods before and after the transfer of the patent ownership.

3) The Waters companies also requested that the court set the damages due to Agilent

– on the basis of a 3% compensatory royalty (€416,669 before conversion to current value),

– alternatively on the basis of a 5% compensatory royalty (€694,448 before conversion to current value),

– quite alternatively, on the basis of the loss of profit for 12% of the apparatuses and of a 3% compensatory royalty for 88% of the apparatuses (€624,870 before conversion to current value),

– and even more alternatively, on the basis of the loss of profit for 12% of the apparatuses and of a 5% compensatory royalty for 88% of the apparatuses (€869,316)

The Waters companies were above all aiming at a calculation of the Agilent's damage on the basis of a compensatory royalty. As a matter of principle the damage caused by the infringement shall be assessed in terms of the loss of profit on the lost sales when the patentee exploits the invention (and consequently was in the position to make the sales that the infringer made) and in terms of lost royalties when the patentee does not itself exploit the protected invention. And the argument of the Waters companies was that, in the present case, the German company Agilent did not exploit directly its patent in France since it manufactured in Germany the patented apparatuses which were then sold in France by its French subsidiary, Agilent Technologies France. In other words, the Waters companies considered that only a manufacturing in France (and not abroad) of the patented product could be an exploitation in France of the patent giving rise to a calculation of the damage on the basis of the loss of profit.

The *Cour d'Appel* answers very clearly recalling the basic principle according to which "*the damage compensation should be intented to re-establish the patentee in the situation in which it would have been but for the infringement*". So that, in the present case, "*the fact that the patentee manufactures the apparatuses implementing the invention abroad should not prevent its damage from being assessed on the basis of the loss of profit, provided that it demonstrates that the products, whose sale was lost for its distributors en France, would have been purchased from it*". And it was precisely established in the present case that the German company Agilent, if it manufactured in Germany the apparatuses equipped with the patented device, sold these products directly to its French subsidiary which, in turn, marketed them in France, so that Agilent directly suffered the consequence of the sales lost in France by its French subsidiary because of the infringement committed on this territory by the Waters companies.

Agilent was therefore entitled to obtain compensation for its damage due to the infringement, at least for the period after the 29 October 1999, date of the patent assignment by Hewlett-Packard to Agilent. For the period before that date, Agilent was not in a position to produce the cost prices of the patented products, which were borne at that time by Hewlett-Packard, the patent holder. Consequently, for the period from 12 September 1997 to 29 October 1999, only the method of calculation of the damage based on a compensatory royalty was conceivable.

a) Compensatory royalty for the period from 12 September 1997 to 29 October 1999:

The *Cour d'Appel* affirms the analysis of the *Tribunal, i.e.* the invention has not had a limited and accessory part in the commercial success of the Waters infringing apparatuses since these companies themselves had "*strongly advertised the very innovative concept that the infringing apparatuses implemented and the performances they ensured in matters of chromatographic measurement*". And, consequently, one should take into account the important commercial advantage that resulted from the implementation of the patented device and from the fact that

Waters would have necessarily lost market shares if Agilent alone had implemented the protected device, in order to set at 12% the royalty rate.

b) Compensation of the loss of profit for the period after 29 October 1999:

The *Cour d'Appel* also affirms the analysis of the *Tribunal* by accepting the incremental profit margins calculated by the expert and setting at 50% the drift of sales for the chromatography apparatuses and the ancillary products sold concomitantly (because, on the top-of-the-range chromatography market, numerous elements intervene in the choice of an apparatus and in particular the faithfullness to a manufacturer) and at 20% the drift of sales for the spare parts market (because the ancillary products are not necessarily purchased from the manufacturer during the lifetime of the apparatus, as the spare parts market is distinct, so that Agilent sells maintenance kits for Waters apparatuses and, consequently, the purchaser of an infringing apparatus from Waters could then purchase spare parts from Agilent).

The court therefore affirms the appealed judgment and orders jointly and severally the Waters companies to pay a global total sum of €3,910,981, *i.e.* €4,799,070 after conversion to current value (*i.e.*, one of the most important compensations in France for patent infringement).

The court also follows the *Tribunal* by admitting the damage resulting from the "*springboard effect*" and setting it at €100,000. The court states that "*"the springboard effect" is intended to take into account, in the compensation for the global damage suffered, the consequences of the infringement acts*". And, in the present case, it led to take into account the circumstance, according to which the Waters companies would not have sold as many modified products, marketed as of 29 July 2002, it they had not sold the infringing products beforehand.

This point of the decision must be underlined because it is one of the few French decisions awarding damages on the basis of the springboard effect. It also gives a definition of the springboard effect which is larger than in a previous decision of the *Tribunal de Grande Instance* of Paris dated 25 June 2010, subject matter of a previous post (where the springboard effect covered only the circumstance where the infringer kept, after the patent expiry, the market share it had obtained by offering for sale the infringing products; and in that previous case, since the infringement had ended before the patent expiry, the springboard effect could not be established).

The *Cour d'Appel* approves the *Tribunal* to have pointed out that "*in any case, Agilent would have seen its market share increase considering the technical progress implemented by its apparatuses if Waters had not committed infingement acts and that, consequently, the stability of the market shares noted in 2002 and 2003, put forward by Waters, [was] not likely to exclude "the springboard effect""*. And the court adds that the "*clientele's faithfulness to a supplier in matters of chromatography apparatuses is a circumstance that gives credence to the existence of the "springboard effect", from which Waters could benefit after 29 July 2002 when it replaced the infringing products by modified products, marketed with the same references as those previously withdrawn from the market*".

The *Cour d'Appel* approves again the judgment which had rejected the Agilent claim relating to the "*financial damage*". Agilent claimed that it suffered a financial damage because the infringement had deprived it of income it could have invested. The court decides that Agilent did not justified that this damage was distinct from which was compensated by the grant of the compensatory royalty and the compensation of the loss of profit.

And finally, the *Cour d'Appel* of Paris also orders Waters to pay Agilent a total sum of €165,000 as a contribution to its legal costs (€150,000 in appeal and €15,000 in first instance).

Original French decision.
English translation .

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