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Allocation of the profits made by the infringer as damages

Pierre Véron (Véron & Associés) · Wednesday, December 5th, 2012

Since French Act No. 2007-1544 of 29 October 2007, which implemented Directive No. 2004/48/EC into French law, it is expressly stated in Article L. 615-1 of the French Intellectual Property Code (IPC) that "Any violation of the rights of the owner of a patent (…) shall constitute an infringement. An infringement shall imply the civil liability of the infringer". The civil sanction for patent infringement is therefore a matter of civil delictual liability as governed by Article 1382 (and Article 1383) of the French Civil Code, which states the general and classical principle according to which "Any human deed whatsoever which causes harm to another creates an obligation in the person by whose fault it was caused to compensate it" (Article 1383 adds that "Everyone is liable for the harm which he has caused not only by his deed, but also by his failure to act or his lack of care").

Therefore, the civil sanction for patent infringement is the obligation for the infringer to compensate for the damage he has caused to the patent holder by his fault, *i.e.* his act of infringement, by the payment of damages to the patent holder. And the other classical principle that typically applies in such cases is that the compensation should cover the damage and nothing but the damage. The amount of the damages should be equal to the damage suffered by the victim so as to compensate for it but may not be lower than it or exceed it (see *Cour de cassation*, 23 March 2010, Devred / Cloud's, No. 09-13673).

However, the application of this principle in the field of civil sanction for patent infringement is not so obvious anymore.

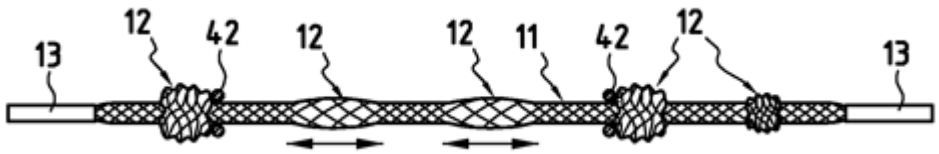
French Act No. 2007-1544 of 29 October 2007, still implementing Directive No. 2004/48/EC and Article 13 thereof in particular, also amended Article L. 615-7 IPC. This article now states that "To set the damages, the court takes into account the negative economic consequences, including lost profits, suffered by the injured party, profits made by the infringer and the moral prejudice caused to the right-holder by the infringement".

Taking into account both the negative economic consequences, including lost profits, and the moral prejudice is clearly in line with the classic idea of full compensation of the damage suffered by the patent holderas a result of the infringement, and merely confirms the previous practices. However, taking into account the "profits made by the infringer" raises much more questions. Has it become possible to allocate the profits made by the infringer as damages to the patentee victim of infringement? Is this possible even if these profits exceed the amount of the damage suffered by the patentee? The profits made by the infringer are not necessarily related to the damage suffered

by the patentee. It is quite possible that the infringer has a greater production capacity than the patent holder himself and is therefore able to earn more profits from the infringement than the owner could have earned from the lawful exploitation of his invention. In such a case, the profits made by the infringer may exceed the damage suffered by the patentee as a result of the infringement. This is explicitly recognized by some foreign laws, which allow the courts to grant the patentee the difference between the amount of the damage and the amount of the profits related to the infringement or which offer as an alternative the possibility of claiming the allocation of the profits derived from the infringement by the infringer.

This question has been posed in French law since the 2007 reform (see especially C. Maréchal, "L'évaluation des dommages-intérêts en matière de contrefaçon", RTD com. 2012, p. 245 *et seq.*). In French case law, it has gradually appeared that some courts do not hesitate to grant the total profits of the infringer as damages. The *cour d'appel de Colmar*, in a decision dated 20 September 2011, had already granted as compensation the amount of the profits made by the infringer (CA Colmar, 1st civ. ch., 20 September 2011, Docket No. 10/02039, Jurisdata No. 2011-029869; PIBD 2012, No. 953, III, 6; Propr. industr., 2012. comm 11, note J. Raynard, D. 2012, p. 529, note J. Raynard): after finding that the damage, *i.e.* the lost profits of the victim, amounted to €16,352, the *cour d'appel* had finally decided "Whereas, having regard to the assessments previously made of the damage suffered by the patent holder and the profits made by the infringer, the compensation awarded to Prodis shall be determined according to the profits made by MBI, *i.e.* €29,388.61, in accordance with the compensation scheme established by Article L. 615-7 CPI in its present drafting". In its decision of 7 November 2012 discussed below, the *cour d'appel de Paris* grants to the patent holder, as compensation, all the profits made by the infringer.

The US company Quest Technologies Inc. (hereinafter referred to as "Quest Technologies") is the holder of European patent EP 1 216 317 entitled *Draw-tight elastic cordage* and applied for on 9 February 2000 claiming US priority of 14 April 1999. Quest Technologies granted an exclusive licence for the exploitation of its European patent on the French market to the French company Distrisud. Distrisud sells the laces, subject-matter of the patent, under the brand name Xtenex.



Mr Creton, operating under the trade name Free Lace Technology, is the holder of French patent FR 2 894 115 filed on 6 December 2005 and European patent EP 1 795 085 claiming priority from that French patent, relating to an extensible lace with a sheath and less extensible with a core. This lace is marketed by SARL AHT Sud under the brandname Free Lace.

As Quest Technologies discovered the offer to sale on the French market of the Free Lace laces and considered that these laces implemented the features of claims 1 to 6 of its European patent, it summoned Mr Creton and SARL AHT Sud before the *tribunal de grande instance de Paris* for infringement of claims 1 to 6 of the European patent and for compensation. Distrisud voluntarily intervened in the proceedings.

In a judgment of 14 May 2009, the *tribunal de grande instance de Paris* acknowledged that the

offer to sale, the marketing and holding for these purposes of Free Lace laces constituted an infringement of Quest Technologies' European patent and, pending the assessment of the damage suffered by Quest Technologies and Distrisud, ordered Mr Creton and SARL AHT Sud *in solidum* to pay to them an advance payment of of €10,000 and €2,000 respectively.

The *cour d'appel de Paris*, in its 7 November 2012 decision, affirms the judgment on this issue. It confirms the validity of Quest Technologies' European patent EP 1 216 317 and confirms that the Free Lace laces are infringing products because they implement the features of claims 1 to 6 of the patent. Most importantly, concerning Quest Technologies' request for the assessment of its damage, the *cour d'appel de Paris* only takes into consideration the profits made by the infringer. Exclusive of any assessment of the damage (losses, lost profits) suffered by the patent holder, the *cour d'appel* determines and adds the profits made by Mr Creton and SARL AHT Sud, assessing at €451,869 the "overall profit made by Mr Sylvain Creton and SARL AHT Sud" and finally ordering them *in solidum* to pay to Quest Technologies "the sum of €451,869 as damages in compensation for the acts of infringement".

The allocation of the profits made by the infringer as damages is therefore gaining credit with French courts. It would be a good thing if this issue could be submitted to the *Cour de cassation*.

Original French decision.
English translation .
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