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From the Experts

When Patent Infringement Suits Meet Low Infringing Sales

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Let's talk about a part of patent litigation that frequently gets ignored. Too often, both clients and their attorneys focus 90 percent of their time, analysis and writings on whether a defendant is liable, as opposed to how much the defendant may be forced to pay. Yet, if the defendant has little exposure, arguably that's just as important and determinative in practical terms as no liability. When damages are discussed, we generally hear about the massive damage awards that juries have handed down (such as the three awards exceeding $1 billion in 2012). But, again, you'd be hard-pressed to find a good, practical discussion of the opposite: when the damages would be so low, when injunctive relief would be so inconsequential, even if granted, that that consideration alone should dictate a defendant's strategy and concern. Yet, given the fact that the average patent infringement case may cost over $2 million in legal fees through trial, there's considerable play in what constitutes a "low" damage award.

It's not that outside counsel are unaware of the possibility. However, their failure to raise the issue on some appropriate occasions is not indicative of an insidious plan to keep the billing machine churning. Simply put, even many patent litigators tend to ignore damage and other remedies issues at the beginning of the case. Well, "ignore" may be too strong. Let's just say it probably does not get the full attention it sometimes deserves.

For you as in-house counsel, this is a vital concern. It drives settlement strategy. It drives litigation strategy. It drives your *budget*.

The next time your company is accused of patent infringement in which exposure seems pretty low, try this: assume there's pretty clear liability, then ask how much you should care. Unless it's intuitively futile, use this checklist to ask yourself some questions relevant to a "low worries" evaluation:

5 Questions

1. When did you receive notice of the patent, and can you immediately stop sales of the accused product or process?

Entitlement to damages does not start until the defendant is adequately notified. This comes sometimes from a cease-and-desist letter or offer-to-license letter from attorneys for the patent owner. If you get one of these letters and can stop the sales from going forward, even if you've been selling the same product for the past four years, there may be little or no damages that a patent owner can claim. (Of course, this is often not practical, but read on.) Alternatively, the patent owner may claim that notice of their patent came from "constructive notice" through the marking of the patent number on their product (unless there is no product to mark), such that damages accrue well prior to any demand letter.

2. Even if you cannot stop selling the product or don't wish to, can you readily design around the patent?

Sometimes making slight alternations to the client's product design will take the product outside the scope of the asserted patent or patents. Many issued patents are narrowly drawn, in light of prior art or for other reasons. Combined with the notion that damages only may accrue upon notice, one can sometimes defang the litigation beast by altering course and stopping the blood flow.

3. Are you selling much "infringing" product?

I've also had cases in which my client was hardly selling any infringing product. That may have been thanks to my immediate advice to stop selling the accused design and to do a quick design-around, or it may simply not involve a big-selling item. Even large companies have SKU's that don't sell well. I didn't care (much) whether plaintiff was correct on infringement. My theme with their attorney and the court was that it would cost more to fight the issues than to make a reasonable compromise. Again, you would be guided by sales from the appropriate date of notice, depending on the facts of the case.

4. Can you avoid a damage award of lost profits?

Generally, yes. This is common in a multisupplier market, in which "noninfringing substitutes" may exist. If lost profits are out, then the exposure is the generally lower reasonable royalty measure.

5. If you risk an injunction being imposed against you, how badly would it hurt?

Not so fast, you might say. Even if the compensatory award may be low, the plaintiff may be able to get an injunction against future sales. Of course, this circles back to some of the considerations listed above, such as ease in designing around or stopping sales. Also, an order to stop selling a poorly selling product probably won't ruin your day.

Injunctions and the Goliath Syndrome

Sometimes, however, a truly anomalous situation arises in injunction settings, worth comment here. In contrast to the scenarios of low sales presented above, I once represented a sales "Goliath" who was being sued by a competitive "David." David's sales were low, but Goliath's were the largest in that industry segment. David really did not care

that much about the sales; it was not being hurt much. But it did sense its advantage: seek a preliminary injunction to cut off our Goliath's considerable cash flow and bring us to our negotiating knees.

For various reasons, they seemed likely to succeed in that effort. Nevertheless, I correctly foresaw that we would argue for a very large bond, in the event their award of an injunction was improvidently granted. I doubted the plaintiff would be willing to post a large bond, and thus the court would not, after all, impose the injunction, upon which posting of the bond was conditioned. Sure enough, we got a large bond ordered and plaintiff declined to post it. They "won" the preliminary injunction order but got no injunction.

Fighting for Principle

Of course, there are (many) times when one party or the other is less moved by the economics and more by principle or emotion. As a defendant, it may be important to put up a fight up to or exceeding the cost to make the case go away by settlement. It may be important to make a statement for the long run. We litigators are here for you. Nevertheless, going through this mental checklist arms you with *arguments* to make with the other side and the court, in addition to providing cautionary flags to your own group.

If any or some of these apply, the usual strategies and practices in litigation may need to be thrown out the window. Budgeting and tactics should be viewed in a different light.

A Bonus Question

Are you fighting a nonpracticing entity (NPE), in which the prospect of their winning low damages is overshadowed by other factors?

So-called "patent troll" litigation merits a brief word, since in those situations the fact of low damage exposure seems to provide small comfort to the defending company. Perhaps the royalty award would be low, but the plaintiff is seeking only a five-figure settlement, such that even a low-risk scenario takes second seat to the cost of litigation in defending the suit for more than the cost of settlement.

These cases indeed have their own unique dynamic. Some of the usual defensive weapons (counterclaims for infringement, the cost of discovery, etc.) don't have traction, since the troll can't infringe your company's patents if it's selling nothing and has few documents to produce if it bought the patent. Plaintiff's contingent-fee-based lawyers make their money from the volume of settlements and defendants, such that usual considerations of *their* cost of litigation seem to be ignored. Also, sometimes the threatened suit comes just as the defendant's key financing is sought or a next-generation product is about to roll out. Even so, consider whether "they can't hurt us much" in the litigation if the NPE wins. It will help set your strategy and unset your teeth.

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