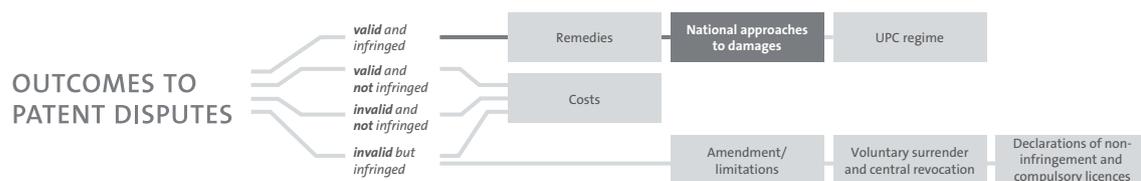


# National approaches to damages

## Essentials



A court may award damages as monetary compensation for infringement of a patent right.

Article 13(1) Enforcement Directive stipulates that all EU member states must ensure that the competent judicial authorities, on application of the injured party, order an infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by them as a result of the infringement.

**Directive 2004/48/EC**  
of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights ("Enforcement Directive")

Article 2(1) Enforcement Directive states that Article 13 sets a minimum standard for damage remedies, but does not preclude that member states grant any relief which is more favourable for right holders. Furthermore, Article 3(1), second sentence, states that the remedies must be "fair and equitable." Article 3(2) states that the remedies must also be "effective, proportionate and dissuasive and shall be applied in such a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse."

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## The UK approach

The basic philosophy behind the award of damages under UK<sup>14</sup> law is *restitutio in integrum*.

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### Procedure

In the UK, damages are assessed in separate proceedings which occur only after a finding of infringement has occurred. Successful claimants have a choice between damages (i.e. monetary compensation for the damage suffered to compensate for loss or injury by, as far as possible, putting the injured party in the same position as they would have been in if there had been no infringement) or an account of profits (i.e. the profits made by the infringer by virtue of their having infringed the patent).

Patentees are entitled to limited disclosure of the infringer's financial information, in order to make their choice between the two (*Island Records Ltd v Tring International Plc*).

*Island Records Ltd v Tring International Plc*  
[1996] 1 W.L.R. 1256

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### Particular points on damages

#### Innocent infringers

Section 62(1) UK Patents Act 1977 states that in proceedings for infringement of a patent, damages will not be awarded nor an account of profits ordered against a defendant who is able to show that, at the date of the infringement, he was not aware, and had no reasonable grounds for supposing, that that patent existed.

#### Exemplary damages

Exemplary damages, that is, damages above and beyond the loss suffered by the patentee, may be awarded (*Kuddas v Chief Constable of Leicestershire*). However, this will only occur if it is possible to show that the defendant infringed in the expectation of making a greater profit than he would be ordered to pay to the patentee in compensation.

*Kuddas v Chief Constable of Leicestershire*  
[2001] UKHL 29

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### Calculation of damages

#### Damages if a proprietor licences an invention

If a proprietor has been exploiting the patent by granting licences, then damages are assessed as the capitalised value of the royalties that the

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<sup>14</sup> The EPC and the UK Patents Act 1977 (as amended) apply equally to all parts of the United Kingdom. Jurisdictionally, however, the United Kingdom is divided into three parts: England and Wales, Scotland, and Northern Ireland. Proceedings in the Scottish courts differ markedly from those in the other jurisdictions.

infringer would have paid had he taken a licence. Where, as is often the case, a proprietor has granted various licences of the patent at different royalty rates, the court assesses the royalty rate which would have been arrived at in a hypothetical negotiation at arm's length between a willing licensor and a willing licensee in the positions of the respective parties (*General Tire & Rubber Co Ltd v Firestone Tyre & Rubber Co Ltd (No.2)*).

*General Tire & Rubber Co Ltd v Firestone Tyre & Rubber Co Ltd (No. 2)* [1975] 1 W.L.R. 819

### **Damages if a proprietor works an invention**

If in contrast, the proprietor does not grant licences but instead works the patent, damages are assessed based on the following principles taken from *Gerber Garment Technology v Lectra Systems*, and Court of Appeal at [1997] RPC 443 as restated in *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd & Anor*:

*Gerber Garment Technology v Lectra Systems* [1995] RPC 383, as restated in *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd & Anor* [2006] EWHC 1344 (Pat)

- Damages are compensatory. The general rule is that the measure of damages is to be, as far as possible, that sum of money that will put the claimant in the same position as he would have been in had he not sustained the wrong.
- The claimant can recover loss which was (i) foreseeable, (ii) caused by the wrong, and (iii) not excluded from recovery by public or social policy. It is not enough that the loss would not have occurred but for the tort. The tort must, as a matter of common sense, be a cause of the loss.
- The burden of proof rests on the claimant. Damages are to be assessed liberally. But the object is to compensate the claimant, not punish the defendant.
- It is irrelevant that the defendant could have competed lawfully.
- Where a claimant has exploited his patent by manufacture and sale he can claim (a) lost profit on sales by the defendant that he would have made otherwise; (b) lost profit on his own sales to the extent that he was forced by the infringement to reduce his own price; and (c) a reasonable royalty on sales by the defendant which he would not have made.
- As to lost sales, the court should form a general view as to what proportion of the defendant's sales the claimant would have made.
- The assessment of damages for lost profits should take into account the fact that the lost sales are of “extra production” and that only certain specific extra costs (marginal costs) have been incurred in making the additional sales. Nevertheless, in practice costs go up, and so it may be appropriate to temper the approach somewhat in making the assessment.
- The reasonable royalty is to be assessed as the royalty that a willing licensor and a willing licensee would have agreed on. Where there are truly comparable licences in the relevant field, these are the most useful guidance for the court as to the reasonable royalty. Another approach is the “profits available” approach. This involves an assessment of

the profits that would be available to the licensee in the absence of a licence, and apportioning them between the licensor and the licensee.

- Where damages are difficult to assess with precision, the court should make the best estimate it can, having regard to all the circumstances of the case and dealing with the matter broadly, with common sense and fairness.

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### Account of profits

As an alternative to an assessment of damages, successful claimants may instead elect to be compensated by receiving an account of profits (*Celanese International Corp v BP Chemicals Ltd*). Typically, this choice is made where the patentee is not in a position to make the kind of sales that were made by the defendant and therefore has suffered little or no actual damage themselves. In practice, an account of profits is rarely used due to the uncertainties surrounding the profits made.

When determining an account of profits, the issue facing the court is what profits were actually made. This assessment is a factual one rather than a hypothetical assessment of the profits that could have been made if a defendant had run their business efficiently. Furthermore, where the patented invention represents only a part of the defendant's product, then it may be necessary to apportion the profit actually made in order to assess what profit was attributable to the use of the invention (*Colbeam Palmer v Stock Affiliates Pty*). In addition, an account of profits is considered to be an equitable remedy and hence only available if a claimant did not unduly delay in bringing a claim (*Electrolux Ltd v Electrix Ltd*).

*Celanese International Corp v BP Chemicals Ltd* [1999] RPC 203

*Colbeam Palmer v Stock Affiliates Pty* [1972] RPC 303

*Electrolux Ltd v Electrix Ltd (No.1)* [1953] 70 RPC 158

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## The French approach

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### Procedural issues

In France, damages can be assessed by the court either in the main decision regarding infringement or by way of an additional decision to be rendered after a finding of infringement.

Exclusive licensees may, unless otherwise stipulated in the licence agreement, initiate infringement proceedings if the patent owner does not initiate such proceedings after being requested to do so in writing (Article L-615-2 of the *Code de la propriété intellectuelle* (French Intellectual Property Code) (IPC).

The limitation period used to be three years, but was increased to five years by virtue of law No. 2014-315 of 11 March 2014.

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### Subjective status of the infringing party

Under French law, the good faith of the infringer is not taken into account when assessing damages. But good faith may be taken into account when determining whether or not someone should be regarded as an infringer, subject to limitative conditions (e.g. against a good faith distributor which is not regarded as a specialist), but it should not affect the amount of the damages. However, bad faith on the part of the infringer could to a limited extent affect the assessment of moral damages (see below).

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### Calculation of damages

The assessment of damages for patent infringement is addressed in Article L. 615-7 IPC. According to this article, in claiming compensation for patent infringement, the plaintiff may elect to request the application by the court of one of two calculation methods: consideration of the actual damages suffered (1) or consideration of compensation based on licence analogy (2).

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### Actual damage suffered

The court will determine the amount of damages in respect of negative economic consequences for the plaintiff, profits made by the infringer and moral damages.

There is an ongoing debate as to whether, on the one hand, the profits lost by the plaintiff, and, on the other hand, the profits made by the

infringer may or may not be cumulatively taken into consideration. This question has not yet been definitively clarified by case law.

For an example of the cumulative application of these two elements for trade mark infringement see *Cour d'appel (CA) de Paris* (Court of Appeal of Paris), 26 June 2013 N. RG 10/0115.

### **Negative economic consequences for the plaintiff**

The court will assess *in concreto* whether infringement has caused loss of sales to the patentee as follows:

- If the infringing product caused a commercial loss to the patentee, the court will determine to what extent the patentee could have sold the patented product instead of the infringing product. In this situation, the court will assess, based on the evidence provided by the parties, the percentage of goods sold by the infringer that would have been sold by the patentee (“report rate”). The court determines such a rate (generally from 90% to 30%) taking account of a number of criteria (features of the product, related market, production capacity of the patentee).
- In the case of a 100% report rate, the patentee is entitled to claim compensation corresponding to its margin rate applied to the full amount of the infringing mass, i.e. 100% of the infringing products sold.
- The basis of calculation will be the value of the *tout commercial* (commercial product), i.e. the value of the final whole product if there is a close commercial link between the patented and the non-patented part of the product.
- As compensation for damages, if the infringing products have caused no commercial loss of sales to the patentee, the court will consider that the negative economic consequences consist in the loss of remuneration that would have been payable to the patentee to authorise the exploitation. This amount will be calculated pursuant to the same method as in the case of compensation through licence analogy described below.

CA Paris  
11.01.2012, N. RG 08/08144

TGI Paris  
26.03.2010, N. RG 04/15839

### **Profits made by the infringer**

The possibility to take the defendant's profits into account in the calculation of damages should be construed neither as providing for punitive damages, nor as offering a compensation system similar to the account of profits which is seen in common law countries.

This relatively new rule is generally understood, in French practice, as permitting “adjustment” of the damages by taking account of the infringer's profits. The court may thus make an overall assessment (rather than a strict calculation) of the damages, taking into consideration the infringer's profits, amongst other criteria.

In cases where the patentee would not have made 100% of the sales made by the infringer, the court could order the recovery of the corresponding infringer's profits, as compensation for the excess sales which would not have been made by the right holder. This may make

sense in light of the fact that this remedy aims to prevent the defendant from enriching himself at the plaintiff's expense. However, this position has not yet been clearly confirmed by case law.

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### **Compensation by analogy with a licence**

The court will apply a royalty rate to gross turnover corresponding to the total *masse contrefaisante*, or infringing sales, which corresponds to the value of the infringing products manufactured, used, sold, put on the market or imported in France by the infringer for the period during which the infringement took place. The courts generally refer to rates at the upper end of the scale of arm's length rates for a similar product and similar use.

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### **Moral prejudice**

This remedy is frequently awarded where violation of the patent is considered particularly serious, where the infringement has been undertaken intentionally, and in cases where the goodwill and commercial value of the patent, as well as the patentee's reputation, have been undermined as a result of the infringement.

It is very commonly used by the courts to increase and round up the final amount of the damages following an overall assessment. It is therefore difficult to detect a consistent method of assessment by the courts in this regard.

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## The Italian approach

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### Procedural issues

In Italy the quantification of damages is determined as part of the main proceedings following the adjudication of liability. The burden of proof rests on the claimant.

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### Subjective status of the infringing party

Not all claimants will get all the relief to which they are ostensibly entitled: the courts retain an equitable discretion which is applied, in large part, according to the intent of the infringer. A strong distinction is made between the innocent, the negligent, the grossly negligent and the wilful (i.e. intentional) infringer.

“Innocent infringers” are considered rare, as there is a presumption that all parties know about the existence of the others’ patents. Even then, an innocent infringer is liable for the value of a licence assessed at a reasonable commercial rate.

If infringers have been negligent, they are likely to be liable for a larger royalty (perhaps at double the usual commercial rate), and if grossly negligent, some proportion of the infringer’s profits might also be granted as damages.

Those infringers who are most culpable – the wilful infringers – are liable for all the damages which flowed from the infringement, including the claimant’s loss of profits, and their own infringing profits.

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### Calculation of damages

Under Italian law, the alternative methods for assessing the compensation for damages from IPR infringement are set out in Article 125 of the *Codice della proprietà industriale* (Italian Industrial Property Code) (CPI), which is substantially in line with the Enforcement Directive:

- Article 125.1 CPI: actual damages in terms of loss of profits/undue profits and moral damages
- Article 125.2 CPI: reasonable royalty (subsidiary method)
- Article 125.3 CPI: account of the infringer’s profits

Generally speaking more than one method of calculation will be applied. In a typical patent case, the patentee will request a combination of compensation for loss of profits and recovery of the infringer’s profits.

Only one of these can be recovered, but this typically allows for recovery of the higher amount. In any event, the minimum award will be no less than the reasonable royalty.

Article 125.1 CPI directs the court to take into account all the pertinent aspects, including the patentee's lost profits and the profits made by the infringer. The burden is on the claimant to demonstrate the actual reality or economic likelihood of these losses, though if loss is demonstrated and it is not possible to give a precise figure, the courts will give an estimated lump sum as is equitable.

To obtain compensation for loss of profits the claimant must demonstrate:

- an existing demand for the infringed product
- the unavailability of effective substitutes for the patented product to meet the demand
- that the IPR owner had the capacity to produce the products sold by the infringer
- that it would therefore be a reasonable inference that the infringing sales replaced sales of the original goods, resulting in a loss of profits to the IPR owner.

Where it can clearly be proved that a decrease in sales is due to the presence on the market of the infringing products, the amount of the damages is the result of multiplying the sales of the infringer's products by the original product's earnings before interest, taxes, depreciation and amortisation (EBITDA).

Given that proof of a decrease (or lack of increase) in sales is not always easy to demonstrate as being unequivocally related to the infringement, the courts will estimate such lump sum as may be equitable.

Article 125.2 CPI states that a claimant can receive a reasonable royalty from the infringer, whereby a fair rate will be applied to the lump sum gained by the infringer on account of the infringement, which in any event will not be lower than the market value (since it is assumed that the infringer has taken up some market space).

A reasonable royalty will be calculated by taking the standard royalty applied in the market in question and increasing it to take account of the infringement. The claimant then has to provide a benchmark and evidence of the standard royalty applied in the given field.

A leading precedent from the Court of Vicenza dated 17 June 2002 established the following principle:

#### Article 125 CPI

(1) Compensation due to the damaged party shall be set according to the provisions of Articles 1223, 1226 and 1227 of the *Codice civile*, the Italian Civil Code, taking into account all of the pertinent aspects, such as the negative economic consequences, including lost income, of the owner of the infringed right, the benefits achieved by the infringer, and in appropriate cases, non-economic elements, such as the moral damage caused to the owner of the right by the infringement.

(2) The judgment that rules on the compensation of damages may establish payment of an overall sum set based on the proceedings in the case and the presumptions that result from them. In this case the loss of profits shall however be determined as an amount not less than the royalties that the author of the infringement would have had to pay, if he had obtained a licence from the owner of the infringed right.

(3) In any event, the owner of the infringed right may request the recovery of the profits obtained by the infringer, either as an alternative to compensation for the loss of profits or to the extent that they exceed that compensation.

*“The parameter of a reasonable royalty cannot completely quantify the damage produced by the infringement of the patent ... as it unreasonably places the patent holder in the condition of a compulsory licensor and ends up rewarding the infringer, who is called to pay late and only following a lawsuit, the amount that it would have had to pay had it correctly entered into a licence agreement with the patent holder.”*

The court found that the parameter to be used in the calculation corresponded to the standard 5% royalty, increased by three points to 8%. Subsequent case law has followed this principle.

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### **Account of profits**

Article 125.3 CPI states that a claimant can opt for an account of profits.

At the specific request of the IP owner, the court may grant the restitution of the infringer's profits. This may be requested as an alternative to the reimbursement of lost profits, or if the infringer's profits exceed this reimbursement.

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### **Moral damages**

If the claimant is able to demonstrate moral prejudice, additional damages will be granted, often calculated as 50% of the claimant's lost profits.

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## The Dutch approach

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### Procedural issues

In the Netherlands, the basis for a claim for damages is Article 70 *Rijksoctrooiwet* (Netherlands Patents Act). Damages are normally assessed in separate proceedings which occur only after a finding of infringement. However, if the court which deals with validity and infringement questions has sufficient data to be able to an award of damages, it may do so in the main proceedings. Unlike in the UK, in the Netherlands the claimant does not have to choose between a claim for damages or an account of profits. The claimant can make both claims, and the court will award the highest amount.

In the Dutch courts, claims for damages or surrender (account) of profits may only be brought by exclusive and non-exclusive licensees and mortgagees if they have been (explicitly) authorised by the proprietor of the patent.

Under Dutch law, a right of action to compensate for damages is allowed on the expiry of five years from the beginning of the day following the one on which the prejudiced person becomes aware of both the damage and the identity of the person responsible therefor, and, in any event, on the expiry of twenty years following the events which caused the damage.

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### Subjective status of the infringing party

The Dutch courts can only award damages if the infringing party has knowingly, or having reasonable grounds to know, been engaged in infringing activities (Article 70(4) *Rijksoctrooiwet*). The rule of Article 68(4) Unified Patent Court Agreement (UPCA) (see below) does not exist in the Netherlands.

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### Calculation of damages

The Dutch courts make a strict distinction between claims for damages and orders to surrender any profits derived from the infringement and give an accounting of such profits. With respect to damages, they can apply four different methods of calculation:

- Concrete calculation of all damages of the injured party.
- Abstract calculation of damages by looking at the unfair profits made by the infringer.
- Calculation on the basis of a fixed amount or at least a reasonable royalty.
- Estimation *ex aequo et bono*.

In general, the courts will assess damages in a manner most appropriate to their nature. Damages consist of any financial loss and any moral damages. However, in Dutch case law, moral damages do not play any role in patent cases. Financial loss consists of any losses incurred and any profits derived.

The types of damages recognised are: loss of profits due to lost royalty fees, loss of profits due to lost sales, price erosion (lowered prices in order to maintain market share), collateral damages (loss of profits due to loss of non-infringing parallel sales), loss of the value of the patent right (future damage, for example resulting from the inferior quality of the infringer's products), costs incurred to prevent or minimise damages, costs incurred in assessing damages and liability, for example costs of a European patent attorney, costs incurred in trying to obtain damages out of court, moral damages, and interest on damages.

Circumstances which are relevant to calculating the loss of profits due to lost sales are: the extent to which it can be said that each sale of an infringing product resulted in one less original product sold (ideally: only two suppliers, same market, same price and identical products), the demand for the product in issue (to what extent is the patent relevant for the decision to buy), the availability of similar non-infringing products on the market, and the manufacturing and marketing capacities of the plaintiff. In practice, the causal link is often problematic. Damages cannot be awarded if they would also have existed had there been no infringement. Furthermore, damages must be foreseeable as a result of the patent infringement.

The second method is an abstract way of calculating damages by a legal fiction: damages are fixed at the level of the profits made by the infringer. A minimum requirement is that the injured party must have suffered damages and must explicitly request this method of calculation. The court has discretionary power whether or not to use it. This method can be used if the plaintiff does not want to disclose its own figures. This method of calculating damages must be distinguished from the account of profits discussed below.

The third method is mentioned in Article 70(5) *Rijksoctrooiwet*. It may be useful if it is difficult to apply the first method and where it is possible to fix a reasonable royalty rate, for example in the case of standard-essential patents (SEP). It can also be applied in cases where the injured party would never have granted a licence to the infringer or if the injured party did not exploit its patent.

For the fourth method see "Moral prejudice" below.

#### Article 70 Netherlands Patent Act

[...]

(4) Damages may be claimed only from a person who is knowingly, or with reasonable grounds to know, engaged in an infringing activity.

(5) Besides a claim for damages, the proprietor of a patent may seek to have the defendant ordered to surrender any profits derived from the infringement and to give an accounting of such profits; if the court determines, however, that the circumstances of the case do not justify such an order, it may order the defendant to pay damages. In appropriate cases, the court may determine damages as a lump sum.

(6) The proprietor of a patent may institute claims for damages or for the surrender of profits on behalf of himself and licensees or pledgees, or on behalf of licensees or pledgees only, without prejudice to the right of the latter parties to intervene in the claim brought by the proprietor of the patent, whether or not brought exclusively or also on their behalf, in order to obtain direct compensation for their damages or in order to be awarded a proportional share of the profits to be surrendered by the defendant. Independent claims may only be brought by licensees and pledgees referred to in paragraphs 3 and 4 and may only be caused to be served with a view to such actions if they have been authorised by the proprietor of the patent.

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### **Account of profits (order to surrender profits)**

As noted, the Dutch courts make a strict distinction between claims for damages and orders to surrender any profits derived from the infringement and give an accounting of such profits. An order to surrender any profits is useful if the parties are not competitors. It has the advantage that the injured party does not have to disclose its own figures, and it forces the infringing party to give an account of its profits.

The rationale for this protection is that it should not be possible to enrich oneself by infringing another's patent rights. Unlike the above-mentioned second method of calculation, it is possible to file this claim if the successful party has not suffered any damage. However, Article 70(5) *Rijksoctrooiwet* states that the court has a discretionary power not to grant this relief if it decides that the circumstances of the case do not justify such an order, for example because of a problematic causal link between the infringer's high profits and the infringement in which case only a claim for damages can be filed.

Under Dutch law it is not possible to accumulate claims for lost profits and surrender of profits. If the infringer's profits are higher than the injured party's losses, the court can still award the infringer's profits, but it is not possible to further add the injured party's losses. However, an order to surrender profits may still be combined with other types of damages to the extent that they are not related to the lost profits but are related to the infringing products as sold. Examples of costs which could be added to the infringer's profits are costs incurred in assessing liability, and loss of the value of the patent right and/or moral damages.

*Hoge Raad 14.04.2000, NJ 2000/489  
(HBS v Danestyle)*

In order to calculate the infringer's profits, the Dutch courts calculate the "net profits" on the basis of the retail price minus the taxes and expenses that are directly related to the sale of the infringing goods, such as manufacturing and transportation costs. However, they do not deduct general overheads, such as rent of the infringer's office, since they are not directly related to the sale of the infringing goods.

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### **Compensation for use of a patent application prior to grant**

Article 72 *Rijksoctrooiwet* states that the proprietor of a European patent may demand "reasonable compensation" from any person who, in the period between the publication (pursuant to Article 93 EPC) of the application which has resulted in the grant of the patent and the publication referred to in Article 97(4) EPC of the mention of the grant of the European patent in respect of said application, has performed any of the exclusive acts in so far as the proprietor of the patent has acquired the exclusive rights thereto and such acts are within the scope of the last filed and published claims.

However, this compensation will only be ordered for acts performed after the expiry of thirty days following the date on which the party concerned was informed, by means of a writ, of the right to which the proprietor of the patent is entitled by virtue of Article 73 *Rijksoctrooiwet*. The writ, indicating precisely which part of the patent application relates to such acts, will be accompanied by service of a notice of a translation into Dutch of the claims as contained in the publication of the European patent application in accordance with Article 93 EPC. If such translation was sent to the Netherlands Patent Office prior to the service of the writ and was recorded in the patent register, serving notice of the translation may be omitted, provided that the writ makes mention of the record in the patent register.

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### **Moral prejudice**

Article 6:106 *Burgerlijk Wetboek* (Netherlands Civil Code) (BW) enables the courts to award moral damages in respect of non-economic damages. However, this theory has not yet been developed in patent infringement cases. In other cases, such as copyright cases, this type of damage is often awarded. In such cases, the courts will use the fourth method of calculation, which is the *ultimum remedium*: an estimation *ex aequo et bono*. It will only be used if it is not possible to calculate the damage in any other way.

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## The German approach

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### Procedure

In Germany, if a finding of infringement has been made, the defendant is generally obliged to pay damages, which are also determined in the course of the infringement proceedings. He also has to render accounts regarding the extent of use of the patent in suit. Once he has done so (i.e. subsequent to the infringement proceedings), the quantum of damages to be paid is assessed in separate court proceedings.

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### The beneficiary

According to Section 139(2), first sentence, *Patentgesetz* (German Patent Act) (PatG), the infringer must compensate for the loss caused to and suffered by the person whose patent rights have been infringed. Such loss may be suffered only by the patentee or an exclusive licensee. Thus, only patentees or exclusive licensees may claim damages based on their own losses. Non-exclusive licensees may only claim damages for losses suffered by the patentee or exclusive licensee. In such cases, the patentee/exclusive licensee's claim for damages must be assigned to the non-exclusive licensee if the latter is the plaintiff in infringement proceedings.

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### Subjective status of the infringer

According to Section 139(2), first sentence, PatG, the infringer is liable for compensation for damages caused by intentional or negligent acts. A patent infringement is normally considered to be based on intentional – or at least negligent – acts of the infringer, because it is accepted that any business person manufacturing or distributing products or performing methods of manufacture has a general obligation to check the intellectual property rights of third parties.

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### Calculation of damages

As a general rule, the party entitled may claim the amount of damages which is necessary to put him in the same position as he would have been in if he had not sustained the patent infringement. In practice, when calculating damages, the party entitled may choose between three different methods of calculation. These are: (1) actual damage suffered, including own lost profits; (2) account of infringer's profits; (3) damages by analogy with a licence.

In the course of the court proceedings, the party entitled may claim damages using these three different methods in parallel. However, when

calculating the amount of damages, the three methods may not be mixed. Finally, the entitled party needs to choose an amount calculated using one method only. The right to choose between these three methods of calculation persists until either a specific damage claim is established using one of the methods or a final and legally binding court decision has been rendered regarding the amount of the damages quantified by use of one of the methods.

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### **Actual damage suffered, including lost profits**

Profit is turnover (sales) minus deductible costs. There are two ways to calculate the profits lost by a party due to a patent infringement:

Lost profits may be calculated relatively easily if the party entitled uses the specific method. He must be able to show that as a result of the infringing acts he was prevented from concluding specific business transactions and sales and that he thereby lost a specific profit because he could not conclude these transactions.

This calculation becomes more complex if the entitled party needs to use an abstract method based on the assumption that a business person concludes certain transactions and sales in the course of his usual business and takes a certain share of his profits with these transactions.

Firstly, the entitled party needs to show that it would itself have concluded all the transactions or a certain share of the transactions which the infringer has concluded by infringing the patent. Thus, the entitled party needs to establish its capabilities for concluding the sales or a certain share of it which the infringer has concluded. This is easier if only the entitled party and the infringer are operating in the respective market. It is more difficult if further innocent competitors are operating on the same market, because it is possible that the innocent competitors would have concluded the transactions if the infringer had not been on the market with the infringing product. In particular, it has to be assessed whether the consumer's decision to buy the product was actually caused by the use of the patent in suit or whether other factors were involved, such as superior customer service or creative advertising.

Secondly, if it is established (1) what share of the sales is based on the use of the patent in suit (and not on other factors) and (2) that these sales would have been concluded by the party entitled itself (and not by other innocent competitors), an assessment must be made of the profit that would have been earned by the entitled party from these lost sales. In this regard, the entitled party must disclose and provide evidence for its usual calculation of profits. In other words, the amount of costs (cost component) needs to be deducted from the turnover with sales in order

#### **Section 139(2) PatG**

Any person who intentionally or negligently undertakes such an act shall be liable to the injured party for compensation of the damages incurred thereby. When assessing the damages, the profit which the infringer has made by infringing the right may also be taken into account. The claim for compensation of damages may also be calculated on the basis of the amount the infringer would have had to pay as an adequate remuneration had he obtained the authorisation to use the invention.

to calculate the profit. This resulting profit is the profit lost by the entitled party and must be reimbursed by the infringer.

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### **Account of infringer's profits**

According to Section 139(2), second sentence, PatG, the profit which the infringer has made by infringing the patent may also be taken into account when calculating the amount of damages. This means that the profit made by using the patent-in-suit must be surrendered. Profit is turnover minus deductible costs.

The “relevant turnover” is the turnover related to the patented product. If the product is not sold as such, e.g. because it is merely a small part of a larger system which is sold, the entire system is the starting point of the calculation. Furthermore, the turnover achieved with side-by-side sales – in other words, the turnover achieved by products that are not patented themselves, but which are usually sold together with or subsequent to the patented product – is also relevant.

The infringer may only deduct certain manufacturing overheads from the turnover it achieved. Overheads may only be deducted if and to the extent that they can be attributed directly to the manufacture and distribution of the product infringing the patent. Costs incurred by the general running of the infringer's business which are independent of the extent of the production and distribution of the infringing product are not deductible.

BGH, 02.11.2000, BGHZ 145, 366 –  
“Gemeinkostenanteil”

Furthermore, it is important that only the portion of the profits which is caused by and results from the infringement is to be surrendered. This causal link is assessed by evaluating certain factors. The causal share is especially important if the turnover is achieved by selling an entire system of which only a small part is patented. When assessing the extent of the causal share, extraordinary distribution efforts of the infringer and lower prices are usually considered by the court. What is decisive is whether it is the technical advantage of the subject of the patent in suit or other factors which has caused consumers to buy the infringing product.

BGH, GRUR 2009, 856 –  
“Tripp-Trapp-Stuhl”

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### **Damage assessment via analogy with a licence**

According to Section 139(2), third sentence, PatG, claims for damages may also be calculated on the basis of the amount the infringer would have had to pay as remuneration had he first obtained authorisation to use the invention. This is the “licence analogy” approach. Under this approach, a hypothetical licence fee needs to be established. Whether or not the entitled party would have actually granted a licence is irrelevant. In the course of the proceedings, it must be established what reasonable

contractual partners would have agreed on if they had foreseen future developments when concluding a hypothetical licence agreement, in particular in view of the duration and extent of use of the patent in suit.

If the patentee has already concluded licence agreements, their terms and conditions may afford a reliable basis for an analogy. Furthermore, licensing conditions usually applied in the relevant industry may also be relevant.

Usually, the turnover achieved by the patented product itself is considered as a reasonable licence base. If the patent in suit relates to a small part of a system, the usual customs and accepted standards are decisive factors for deciding whether to use the net sales price of the small patented part or a certain share of the net sales price of the entire system as sold as the basis for the licence.

Also, the applicable rate is based on what reasonable contractual partners in the relevant industry would have been likely to agree on. On this basis, various factors are accepted which may increase or decrease the applicable licence fee. For example, high profits achieved with the patented product act as an enhancing factor. A short period of infringing use or the parallel use of the infringer's own patent rights in an entire system are factors which will decrease the rate.

### **Exemplary or punitive damages or moral prejudice**

The German courts do not award exemplary or punitive damages – that is, damages above and beyond the loss suffered – in respect of patent infringement. Nonetheless, the damages awarded according to the basis of the infringer's profit (i.e. an account of profits) may exceed the losses suffered (in the narrow sense) by the person whose rights have been infringed.

### **Moral prejudice and immaterial damages**

The German courts may award compensation for moral prejudice or immaterial damages. However, this is not common in patent infringement cases. The courts may, however, award damages to compensate for losses suffered as a result of damage to the image or reputation of the patentee. Such damage may occur if the infringing product is of a lesser quality than the genuine product and consumers attribute such quality problems to the patentee. A further case may be that the patentee is forced as a result of the infringement to reduce the retail price of his own product.