Winning the Patent Damages Case

Richard F. Cauley

A Litigator's Guide to Economic Models and Other Damage Strategies

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(Based on the Declaration of Principles jointly adopted by a Committee of the American Bar Association and a Committee of Publishers and Associations.)

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Introduction

Patent litigation is obviously an expensive exercise. For a defendant, being sued for patent infringement can be deadly. An accused infringer is faced with the prospect of massive legal fees, the possibility of a crippling injunction, and the spectre of a huge damages award. For a defendant, any patent infringement complaint is a potential death sentence. Indeed, in the first half of 2008, the total of just the top seven damages verdicts totaled almost $1.5 billion.

On the other side of the table, for a patentholder, especially one who relies on its patented technology to compete in the marketplace, the experience of watching its rival use the technology it developed and patented to take over the market can be excruciating. For many, bringing a lawsuit to recover for such infringement may be the only way that company can get back in the game.

Thus, you would think that once the litigation begins the attorneys would bend every effort to maximizing the recovery on the plaintiff's side and minimizing the risk of loss for the defendant. No stone would be unturned. No detail would be ignored. The firm's top talent would be devoted to wringing the last penny out of the defendant or slicing and dicing a claim for lost profits.

You would be wrong.

Once a patent case begins, the engineers and scientists tend to take over. Preparation for Markman hearings and the endless search for the elusive "killer" prior art pushes every other concern out of the way—until the last minute. The substantial economic damage to the plaintiff and the potentially devastating financial consequences to the defendant are often given little priority. Opportunities to use sophisticated economic analysis and creative discovery are passed up and the damages case is often simply turned over to the accountants.

The result: a massive damages award which the defendant could have reduced or a substantial verdict for the plaintiff which does not hold up on appeal.

This does not have to happen.

Properly employed, the tools of economic analysis provided by the courts can often make a substantial difference in the outcome of a lawsuit. These economic principles are not difficult to understand, apply, or explain to a jury. What is critical, however, is that the economic underpinnings of a patent case be thought through and the principles applied from the very beginning of the lawsuit. The collection of documents and economic information from

your own client and from the other side in discovery must be done early and pursued throughout the case.

There is one issue, however, which will not be covered here for two reasons: (1) because it is contrary to the stated purpose of this work, the proper employment of economic analysis in patent litigation, and (2) because it has been overtaken by events.

It is the so-called "Rule of Thumb," which purportedly holds that a "reasonable royalty" for patent infringement is one-quarter of the defendant's profits on the infringing product. Although this "model" has, in fact, been used by courts and juries to award damages in patent cases, it has so little worth as an economic tool and so little support in the case law that it simply has no place here. In the face of the Federal Circuit's instruction to employ rigorous economic analysis in patent damages calculation, this "thumb-based" model should simply be discarded.

I hope that parties and litigants alike will use this work as a tool to encourage the use of creative economic analysis in presenting their damages cases.

SECTION

I

Background and Initial Considerations of the Patent Damages Case

CHAPTER

1

Winning the Reasonable Royalty Case

1.01 The Brief Early History of the Reasonable Royalty Remedy

[A] The Precodified Reasonable Royalty Remedy

The reasonable royalty remedy is the most democratic of patent damages awards. It is available to every patentholder as a minimum, whether or not the patentholder can prove any actual competitive injury as a result of the defendant's infringement. A plaintiff can collect a reasonable royalty even if it has never used its patent in its business or even had a business at all.

As the Supreme Court noted in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964), in a patent infringement action, a plaintiff can recover, as damages, "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement had not occurred." According to the Supreme Court in *Aro Mfg.*, the question to be asked in determining damages is "how much had the Patent Holder and Licensee suffered by the infringement. And that question [is] primarily: had the Infringer not infringed, what would Patent Holder-Licensee have made?"

Where a plaintiff is not able to show that the defendant's infringement caused it to lose profits, either through lost sales or having to lower its prices, the plaintiff will at least be able to show that its right to exclude others from

practicing its invention was violated. The "damages," therefore, are measured by the amount the plaintiff could have charged the defendant to license the patent—money that was lost because the defendant chose to infringe instead of taking a license.

Since the reasonable royalty remedy came into full flower in 1970, with the landmark *Georgia-Pacific* decision, proper application of this remedy has often fallen by the wayside. Damages are often calculated mechanically, with little or no economic analysis, and are often imposed on the basis of rules of thumb that have little or no relationship to the parties, to the patent, to the technology, or to the marketplace. While often the most useful—and sometimes the only—remedy for patent infringement, it is also the most abused and neglected remedy.

To win its reasonable royalty case—and to make sure that any award stands up to posttrial motions and on appeal—each party must dig deep into the economic underpinnings of the reasonable royalty analysis and understand how the pieces of this analysis fit together. The hypothetical negotiation methodology that forms the basis of modern reasonable royalty analysis provides myriad opportunities for each side to maximize its leverage in increasing or decreasing the eventual award.

For a remedy that has virtually universal application, its history is remarkably sparse. Indeed, the remedy seems to have initially been virtually an afterthought—one that the courts came up with when the plaintiff was unable to show more than nominal real damages and was unable, for either evidentiary or procedural reasons, to show that the defendant had profited from infringement of the patent. The courts believed that such a plaintiff deserved some remedy for the defendant's infringement and decided that the patentholder was at least entitled to some royalty as compensation for the defendant's use of its valuable invention.

Originally, the awarding of damages in patent cases was complicated by the requirement that the patent plaintiff decide whether to would pursue the infringement action in law or in equity. If the plaintiff brought an action in law, it would be able to collect damages—the amount of the injury—from the defendant. If, on the other hand, the plaintiff chose to pursue an action in equity against the defendant, it would be able to obtain an injunction and the defendant's profits—which were deemed to be held "in trust" for the plaintiff.

In an action in law, one measure of damages was an established royalty—the amount for which the plaintiff could have licensed the patent with proof that it had actually licensed the patent and had obtained royalties. However, since, as discussed below, an established royalty is often difficult to prove, the courts were often stuck as to how to properly compensate a plaintiff for the infringement of its patent.

The Supreme Court was presented with this quandary in *Suffolk Mfg. Co. v. Hayden*, 70 U.S. 315, 320 (1866), which admitted that the question of damages

"is always attended with difficulty and embarrassment both to the court and jury." There being no established license fee, the court was forced to resort to "general evidence" to determine damages, including "the utility and advantage of the invention over the old modes or devices that had been used for working out similar results," the "benefits to the persons who have used the invention, and the extent of the use by the infringer." The court determined that this information would provide enough information to the jury to "enable them, in the exercise of a sound judgment, to ascertain the damages, or, in other words, the loss to the patentee or owner, by the piracy, instead of the purchase of the use of the invention."

This decision, however, obviously gave little guidance to the courts as to the actual procedure a court or jury should follow in awarding damages to a plaintiff that was unable to demonstrate any competitive injury or show that there was an already established royalty for its patent.

In 1894, however, the Ninth Circuit lit upon a solution in *Hunt Bros. Fruit-Packing Co. v. Cassiday,* 64 F. 585, 587 (9th Cir. 1894): "Where damages cannot be assessed upon the basis of a royalty, nor on that of lost sales, nor on that of hurtful competition, the proper method of assessing them is to ascertain what would have been a reasonable royalty for the infringer to have paid." Although the court did not lay out a mechanism for calculating such a royalty or determining its reasonableness, the court held that, in that case, the patentholder's estimate of what would be a reasonable royalty was sufficient to support the jury's verdict, as such opinion was based on "figures and estimates"—"the cost of manufacture, the selling price, so far as he had sold, the profit, and his estimate of the proportion of the profit that should be attributable to the infringed invention."

This approach was finally adopted by the Supreme Court in *Dowagiac Mfg. Co. v. Minnesota Moline Plow Co.,* 235 U.S. 641, 648 (1914), the Court finding that "it was permissible to show the value [of the patent] by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved. Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty."

After *Dowagiac*, the courts continued to award damages in the form of a reasonable royalty where no other remedy was available. Where the courts were unable to find an established royalty for the patent, they would, using the procedure developed for later cases, estimate what royalty the plaintiff and defendant would have agreed to, assuming a willing buyer and willing seller. As the Sixth Circuit noted in *Horvath v. McCord Radiator & Mfg. Co*., 100 F.2d 326, 335–36 (6th Cir. 1938), "In fixing damages on a royalty basis against an infringer, the sum allowed should be reasonable and that which would be accepted by a prudent licensee who wished to obtain a license but was not so compelled and a prudent patentee, who wished to grant a license but was not so compelled. In other words, the sum allowed should be that amount

which a person desiring to use a patented machine and sell its product at a reasonable profit would be willing to pay."

By 1946, the right to a reasonable royalty was formally engrained in the Patent Act, with the statute providing that "upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

The courts continued to wrestle, however, with how a reasonable royalty should be determined. Judge Lindley, in *Activated Sludge, Inc. v. Sanitary Dist. of Chicago,* 64 F. Supp. 25, 36 (N.D. Ill. 1946), set forth the factors he considered: "[I]n arriving at my award I have had in mind the proof as to all factors proper for consideration, including the utility, practicability and advantages of the patents, the population served, the cost of the infringing plants, the fact that substantial savings accrued to defendants from the infringing use of the patented process, the fact that plaintiffs granted licenses to others at certain figures, that offers to license defendant at certain figures were made, the facts as to settlements made with other infringers, the circumstances under which they were made, the testimony as to a reasonable royalty and all other relevant and pertinent circumstances appearing in the record."

Likewise, the special master in *Hartford Nat'l Bank & Trust Co. v. E. F. Drew & Co.,* 188 F. Supp. 353, 359 (D. Del. 1960), took a number of economic factors into account: "This Circuit in defining a reasonable royalty to be an established royalty, as the amount which an infringing party using another's patent must pay, did not exclude, I think, consideration of all other factors, including the tort-feasor's profits, in arriving at the patent owner's damages. For example, the nature of the invention, its utility, its novelty over and advance in the art, and the extent of its use by the infringer are all entitled to judicial consideration. Damages may be measured by the defendant's gain or the plaintiff's loss. Yet, no matter how measured, it can never be less than a reasonable royalty—and, there must be the factor of the infringer's profits to be considered as one of the elements of measurement."

However, it was not until 1965, with the decision in *Georgia-Pacific Corp. v. United States Plywood Corp*., 318 F. Supp. 1116 (S.D.N.Y. 1970), that the factors that should be taken into account in a reasonable royalty analysis were finally virtually codified in a form that the courts have used for nearly the past forty years.

1.02 The Modern Era of Reasonable Royalty Begins: Georgia-Pacific

The modern era of patent damages began in 1955, when the management of the Georgia-Pacific Plywood Company decided to begin manufacturing a

highly decorative type of plywood, with a "multiplicity" of grooves parallel to the grain of the wood. Management of the United States Plywood Corporation, who had obtained a patent on just this type of plywood thirteen years earlier, took exception to these activities and notified Georgia-Pacific that this product was covered by its patent. Georgia-Pacific filed a declaratory relief action, U.S. Plywood counterclaimed, and fifteen years later the most influential decision in patent damages law was issued.

The Georgia-Pacific decision is a particularly appropriate place to begin a survey of the law of patent damages. Not only is it the touchstone of modern reasonable royalty analysis, but it highlights most of the important issues in patent damages law that continue to be debated almost forty years later.

The litigation arose out of Georgia-Pacific's alleged infringement of three patents held by U.S. Plywood, the only one of relevance being a patent issued in 1942 to Donald Deskey. This patent covered a plywood panel whose surface was covered with grooves parallel to the grain of the wood. This treatment, known as "striation," not only is highly decorative but also serves to prevent warping of the wood. U.S. Plywood sold products covered by this patent under the name "Weldtex," and these products proved extremely popular.

Even though, for reasons that are not explained, U.S. Plywood did not make a claim for willful infringement, Georgia-Pacific's infringement of the Deskey patent was quite deliberate. Not only was the company aware of the Deskey patent and its scope, it consulted its counsel as to the danger the patent posed to its prospective product offerings and received an opinion that there was a substantial risk that the company would be sued for infringement. Georgia-Pacific, however, was highly motivated to enter the market because, as its lab chief admitted, the manufacture of this product was "extremely advantageous from a profit standpoint." Georgia-Pacific relied on its counsel's opinion that, although its product might infringe, the patent was invalid. It started manufacturing its product in February 1955 and delivered a sample to U.S. Plywood in March.

Almost immediately thereafter, Georgia-Pacific's president Owen Cheatham received a letter from U.S. Plywood noting that, although "imitation is supposed to be the sincerest form of flattery, I must confess to a different reaction when I learned that you are imitating Weldtex." U.S. Plywood threatened "vigorous action" to enforce its patent rights and stated that it would turn the matter over to its attorneys "for appropriate action." Based on this letter, Georgia-Pacific sued for declaratory judgment.

At the time Georgia-Pacific started selling its product, U.S. Plywood's striated plywood product was without substantial competition. Although it had been selling this product since 1946, no other company had posed a competitive threat, and U.S. Plywood was able to keep its prices for its Weldtex products high.

Given the lucrative opportunities presented, the temptation for Georgia-Pacific to enter the market, even if it were sued, was too hard to resist.

Litigation ensued almost immediately, with Georgia-Pacific simultaneously reaping huge profits from its sale of its striated plywood products. Indeed, the company was barely able to keep up with demand.

Georgia-Pacific's calculated risk initially appeared to have been a good one; in 1956, Judge Herlands of the Southern District of New York held all three U.S. Plywood patents invalid. Judge Herlands noted the acquiescence of virtually the entire plywood industry in respecting U.S. Plywood's monopoly but discounted it, noting that the resources necessary to challenge even a "spurious" patent are more than most companies can bear.

Georgia-Pacific, however, was less successful in the Second Circuit. That court held in 1958 that claim 1 of the Deskey patent was valid and infringed. The case then returned to the district court, where the court expended the next twelve years in determining the damages U.S. Plywood had suffered by Georgia-Pacific's infringing sales from 1955 through 1958.

The case was initially referred to a special master in April 1959. After a year of discovery, six days of hearing in Portland, Oregon, and a trip to U.S. Plywood's factory in Washington, the special master issued his report in December 1961, awarding U.S. Plywood the profits earned by Georgia-Pacific on the infringing product.

In January 1962, the parties filed objections to this report with Judge Herlands. Over two years later, in April 1964, Judge Herlands apparently held the first hearing on these objections and, in June 1965, issued his opinion.

This opinion, based on the Supreme Court's decision in *Aro Mfg. Co. v. Convertible Top Replacement Co.,* which placed the focus in a patent infringement case on what the patentholder lost rather than on what the infringer gained, required, in Judge Herlands's opinion, overturning the special master's opinion and instituting a new inquiry as to a reasonable royalty for the Deskey patent.

Five more years passed.

Judge Herlands held thirteen more days of hearing on the issue of reasonable royalty during 1967, 1968, and 1969, and the parties filed five more sets of briefs. Finally, after presiding over the case for thirteen years and after apparently drafting a comprehensive opinion, Judge Herlands died without ever having ruled on the issue of reasonable royalty.

Judge Tenney, future chief judge of the district, was handed the case and, after obtaining the stipulation of all parties that he could freely draw upon the notes, memoranda, and draft opinion of Judge Herlands, finally issued his opinion in May 1970, fourteen years after the suit had been brought. However, it is clear that Judges Herlands and Tenney did not simply draw on a "conspectus of the leading cases" to determine the factors that are most relevant to determining a reasonable royalty. As they put it, they adapted these factors, "mutatis mutandis," to fit the facts before them.

Indeed, it is clear that the particular circumstances presented in the case before them—Georgia-Pacific's deliberate infringement and the extreme popularity of both the patentee's and the infringers' products—was a significant

factor in the development of the factors that have dominated reasonable royalty analysis ever since. Accordingly, it is highly instructive to examine how Judges Herlands and Tenney developed these factors against the background of the unique factual history they had before them.

[A] List of Factors

Judge Tenney began his discussion of reasonable royalty with a listing of the famous "factors" (*Georgia-Pacific*, 318 F. Supp. at 1120):

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.
2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.
3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.
4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.
5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.
6. The effect of selling the patented specialty in promoting sales of other products of the licensee; the existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.
7. The duration of the patent and the term of the license.
8. The established profitability of the product made under the patent; its commercial success; and its current popularity.
9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out of results.
10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.
11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.
12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.
13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing

process, business risks, or significant features or improvements added by the infringer.

14. The opinion testimony of qualified experts.
15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention—would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

These factors, apparently drafted by Judge Herlands, are, remarkably, without explicit citation. Indeed, the court did not even use all of these factors in coming up with a reasonable royalty for the infringement of the Deskey patent. However, how the court did use these factors often says more about how the facts of this particular case influenced Judges Herlands's and Tenney's analysis than might generally be appreciated. Their analysis also gives greater depth to the "hypothetical negotiation" mode for constructing a reasonable royalty than had even been done before.

Since there was admittedly no established royalty, Judges Herlands and Tenney were forced to examine "a broad spectrum of other evidentiary facts" to determine a reasonable royalty. Their basic approach was that of a "hypothetical negotiation," which they described as "more a statement of approach than a tool of analysis." More economic than legal, this approach "requires consideration not only of the amount that a willing licensee would have paid for the patent license but also of the amount that a willing licensor would have accepted." This analytical tool, also referred to as the "willing buyer and willing seller" rule, had been previously used by the Sixth and the Ninth Circuits but had never been given the kind of intense analysis and examination as employed by Judges Herlands and Tenney here.

As the court noted, "Where a willing licensor and a willing licensee are negotiating for a royalty, the hypothetical negotiations would not occur in a vacuum of pure logic," but would involve a "market place confrontation of the parties. . . . In applying the formulation, the Court must take into account the realities of the bargaining table and subject the proofs to a dissective scrutiny." The parties would consider such factors as "their relative bargaining strength; the anticipated amount of profits that the prospective licensor reasonably thinks he would lose as a result of licensing the patent as compared to the anticipated royalty income; the anticipated amount of net profits that the prospective licensee reasonably thinks he will make; the commercial past performance of the invention in terms of public acceptance and profits; the market to be tapped; and any other economic factor that normally prudent

businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license."

Without any independent analysis, the court adopted the rule of assuming that the hypothetical negotiation took place on the date that Georgia-Pacific started infringing the Deskey patent—February 1955—although it stated that it would take into account events subsequent to that date, but only as those facts bore on the assumptions that the parties would have had if they had actually conducted a negotiation in 1955.

The most important fact for this court was the incredible success of the products—both of U.S. Plywood and Georgia-Pacific—that were covered by the patent and the fact that the parties were direct competitors. U.S. Plywood's commercial success with its Weldtex product would, according to the court, have made it extremely resistant to licensing the patent to a competitor and giving up its monopoly on the sale of striated plywood. At the time of the hypothetical negotiation, U.S. Plywood legitimately believed that sales of striated plywood would remain high and that, as a monopolist, it would be able to keep its prices—and its profits—extremely high. As the court noted, "in the hypothetical negotiations, USP would have been reasonable in taking the position that it would not accept a royalty significantly less than the profit it was making by its policy of licensing no one to sell striated fir plywood in the United States."

Likewise, the court put great weight on the fact that Georgia-Pacific chose to "deliberately" duplicate the Weldtex product "notwithstanding the caveat of GP's own counsel that an expensive infringement suit was inevitable," even though there was intense competition in the market for decorative plywood from suppliers who did not use the patented process. Obviously, Georgia-Pacific thought that the U.S. Plywood process was particularly valuable and would, presumably, have paid dearly for the ability to use it. Indeed, there was substantial evidence that Georgia-Pacific had a very good idea of the profits U.S. Plywood was actually making on its striated plywood products and "took, as its own guide for the purpose of profit expectations, the profit that USP was then making on its Weldtex sales."

The court also considered issues that have bedeviled courts having to deal with damages issues ever since: where the defendant's infringement has caused the patentholder to lose sales of both the patented product and non-patented accessories (like a camera and a camera case) and where the patent only covers a particular component of a larger product.

With regard to the first issue, so-called court "collateral and convoyed" items, although the court did not award damages based on those sales, it did note that, in the hypothetical negotiation, U.S. Plywood would have been well aware that granting a license to Georgia-Pacific would also cost it sales of these other, non-patented, products and that this would also have been a factor that would have increased the amount of the royalty. The court noted that Georgia-Pacific increased its own sales of such collateral products by selling the infringing product.

The Georgia-Pacific court also tackled the sensitive issue of allocation—determining how much of the revenue attributable to the infringing product should be allocated to the patented invention. The court's analysis, prescient in light of subsequent controversy, applied what has become known as the "entire market value rule," which holds that the "reasonable royalty" should be applied to the entire price of the infringing product where the reason that the consumer purchases the item is because of the invention claimed in the patent. As the court put it, "there is a basic distinction between a patent which is only a part of a machine or structure and which creates only a part of the profits and, on the other hand, a patented article or a patent which gives the entire value to the combination or an article patented as an entirety. Consequently, it is necessary to determine whether the invention extends to and affects the whole article, giving it its essential marketability, or whether it is only for an improvement."

In this case, the court found that it was the "value of the striated face that created the value of the striated fir plywood panel" and that "the entire market value of Weldtex and GP striated was attributable to the Deskey patent." The court rejected the argument made by many defendants that a portion of the "value" of the infringing product was attributable to other patents simply because those inventions may have been used in the product. The court preferred an economic argument: without using the patented invention, the infringing product would have "no commercial value at all," therefore the royalty should be calculated with respect to the entire value of the infringing product.

The court also refused to deduct any value attributable to the unpatented decorative appearance of the plywood, which admittedly was a substantial reason for its popularity, because this decorative appearance could not have been obtained without using U.S. Plywood's patent. "The fact—as we now know it in retrospect, according to the evidence of the motives of the purchasers of striated fir plywood—that the buyers of that product were attracted to it by its decorative appearance is irrelevant to the hypothetical negotiations of a reasonable royalty where GP's expectations of profits could be lawfully fulfilled only by a license of the Deskey patent and where the rate of profit could be estimated by both USP and GP on the basis of a long and recognized record of past performance."

[B] Consideration of Rigorous Economic Analysis

The *Georgia-Pacific* decision is noteworthy for many reasons. This decision established principles that have been used by virtually every court since in determining a reasonable royalty. Although its lessons are often misapplied and the policy behind its factors is often distorted or ignored, the decision provides subsequent decision makers with a rational basis for compensating plaintiffs who cannot be awarded lost profits.

Even more important, however, *Georgia-Pacific* marks one of the first real attempts to apply economic principles to the computation of reasonable royalties in patent cases. In creatively interpreting that for a royalty to be "reasonable" under the statute it should reflect what the parties themselves would have agreed to, the court gave thoughtful parties the opportunity to bring virtually any economic factor the parties might have considered to the table. After *Georgia-Pacific*, the fact finder is encouraged to consider such issues as the nature of the marketplace, the competition between the parties (and the competition with third parties), and the relative strengths of the parties, both in terms of their ability to impose their will in the hypothetical negotiation and in the marketplace generally. Indeed, under this construct, the fact finder can consider both the interest and need of each party to enter into a license and the ability of each side to walk away from the table.

By permitting the fact finder to take into account every economic factor that the parties could have considered at the time of infringement, the *Georgia-Pacific* court fully implemented a true economic regime into awarding damages in a patent case. Although this opportunity is honored much more often in the breach than in the observance, the ability of either party to bring economic rationality to the table in calculating damages is fully available and, more often than not, acts more to the benefit of the party utilizing this sophisticated analysis over parties that do not.

Attorneys can properly apply these factors to either maximize or minimize a reasonable royalty award only if they understand both the legal basis and the economic policy underlying each factor. Only with an understanding of the reasons the *Georgia-Pacific* court believed these factors to be important in determining the basic compensation to be awarded to a prevailing plaintiff can counsel effectively communicate with his or her expert in constructing the damages analysis and, later, communicate with the jury in presenting this analysis in a persuasive manner. Attorneys who understand not only the theory but also the reasons behind the theory are much more likely to have their damages position prevail at trial.

In ***Winning the Patent Damages Case***, Richard Cauley offers an analysis of patent damages that will prove invaluable to any attorney or damage specialist involved in patent litigation.

"At once comprehensive and comprehensible, this book is required reading for anyone litigating a patent damages case."

— Mark A. Lemley, William H. Neukom Professor of Law, Stanford Law School
Director, Stanford Program in Law, Science and Technology

"Richard Cauley has artfully laid out a precise road map for the practitioner to understand, discover, prove-up and win a damages case…a must for every law library."

— Terrence P. McMahon, Head of Global Intellectual Property, Media & Technology, McDermott Will & Emery

"I have never seen in one place such a complete exposition of the case law pertaining to economic aspects of reasonable royalties. Richard Cauley provides constructive insight for anyone who undertakes patent valuations, both within and outside of litigation."

— Jesse David, Vice President, NERA Economic Consulting

Richard F. Cauley is a partner with the Newport Beach, California law firm of Wang, Hartmann, Gibbs & Cauley. Previously he was a partner with McDermott Will & Emery, LLP, in Palo Alto, California. He is an experienced trial attorney, specializing in complex intellectual property and antitrust law with particular expertise in matters requiring financial and economic analysis.

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