PATENT CLAIM DRAFTING

OWNERSHIP, ACCESS AND USE OF DATABASES IN CYBERSPACE

LOST PROFITS IN CYBERSPACE

Intellectual Property Today™

www.lawworks-iptoday.com

I. P. Today, 375 W. Northwest Hwy., Palatine, IL 60067

A Publication of Omega Communications

September, 2000 $9.00 Volume 7, No. 9

Don't Cover Your EARS: Ignoring the Export Administration Regulations at Your Peril

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Lost Profits in Cyberspace

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Lost profits? What profits? With few dotcoms actually making money, it is surprising to see new Internet patentees rushing to the courthouse to seek "lost profit" damages for infringement.

Or is it? Let's take a quick stroll through E-commerce 101. Dotcoms are not supposed to make money. Not at first anyway. They need time to grow. Time to build bankable assets in cyberspace. Assets like brand recognition and consumer loyalty. Profits? This is a time for deep discounts, and free shipping. In the minds of many of today's entrepreneurs, there will be plenty of time for profits later. First, they need time to chip away at the market share of established brick and mortar businesses and other e-commerce companies that have already established a presence in the market. This is, after all, the Internet we are talking about. The stunning shockwave that has dumbfounded many in the business and legal community. The force responsible for the "irrational exuberance" of the stock market that concerned Federal Reserve Chairman Alan Greenspan not too long ago. Revenue and profit projections by dotcom patentees are subject to attack by infringers. Courts may see such projections as being too speculative. On the other hand, many argue that there is an inherent uncertainty in the future of the Internet and it is unfair to put the burden of this uncertainty on the injured party. Damages in Internet-related patent infringement cases just have to be determined a little differently, right? Wrong.

FOCUS ON VALIDITY OF INTERNET-RELATED PATENTS NOT ENOUGH

In the last few years, we have seen an explosion of Internet-related patent applications filed at the Patent and Trademark Office. These applications are just now starting to issue as patents. As the first wave of litigation reaches the courthouse, the validity of many of these Internet business method patents will be scrutinized by courts for the first time. This is a necessary inquiry. However, it is important to look beyond validity and into the more troubling issue of remedies. After the goldrush mentality surrounding Internet-related businesses wears off, only a few well-positioned companies will survive. Do we want to encourage a system where a company with patented technology that fails to be profitable in the marketplace is nonetheless permitted to obtain a windfall in the courthouse? I think not.

STATUTORY PATENT DAMAGES

In order to analyze damage issues relating to e-commerce patents, lets assume that most of them are held to be valid and turn our attention to the troubling question of remedies. The starting point for any analysis of patent damages is 35 U.S.C. § 284 ("the Patent Statute") which provides:

> 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 use of the invention by the infringer.

The goal of monetary relief is to return the patentee to the position he was in, economically, if his patent were not infringed. Although it is not necessary that the patent owner prove causation to a certainty, evidence showing a reasonable probability is required. No liability will lie for damages that are speculative.

LOST PROFITS VS. REASONABLE ROYALTY DAMAGES

Patent damages are generally classified as either lost profits or a reasonable royalty under 35 U.S.C. §284. The United States Court of Appeals for the Federal Circuit has consistently interpreted a "reasonable royalty" measure of damages to be the lowest threshold of compensation for infringement. An absolute minimum. As such, a reasonable royalty measure of damages is the last resort for patentees and is only pursued in instances where lost profits cannot be proved. However, for many Internet-related patentees without a track record of profits, a reasonable royalty may be the only type of monetary damages that are available. Even if no damages were available, many Internet patentees will attempt to enforce their patent rights in order to get an injunction preventing further infringement. Let us look at the hurdles that must be overcome in order to establish lost profits.

PROVING LOST PROFITS

The typical approach by which patentees meet their burden of proving lost profits is by utilizing the four-part test outlined in *Panduit Corp. v. Stahlin Brothers Fibre Works, Inc.*, 575 F.2d 1152 (6th Cir. 1978). Under the *Panduit* four part test, the patentee has the burden of establishing 1) demand for the patented product or method, 2) the absence of acceptable non-infringing substitutes, 3) the marketing and manufacturing ability to meet the demand, and 4) the amount of profit the patentee would have made. These factors need to be examined separately.

EXISTING DEMAND

Proving existing demand is relatively easy for Internet patentees facing infringement. From a logical standpoint, it is hard to imagine anyone infringing a patented product or method for which there is no demand. As such, one common approach to proving demand for a patented product is to establish the amount of an infringer's sales. This is something that must be done anyway if a successful monetary remedy is desired. Internet patentees may have an added advantage over traditional brick and mortar businesses when it comes to proving existing demand. Because cyberspace has no borders, an infringer's sales may be seen as supporting demand for the patentee's products no matter where in the world those sales occur. For example, an Alaskan company's infringing sales to local customers in Alaska may still be seen as supporting demand for a New York Internet patentee's products or methods.

ABSENCE OF ACCEPTABLE NON-INFRINGING SUBSTITUTES

The second *Panduit* factor, the absence of non-infringing substitutes, poses more of a challenge for Internet patentees. If there are adequate non-infringing alternatives to a patented product or method, the patentee

cannot establish that it would have made the sale absent infringement. The difficulty lies in determining what an "adequate" alternative is on the Internet. Is an Internet retailer that offers a "two or three-click" online ordering system an "adequate alternative" to Amazon.com's patented "one-click" ordering system? Little caselaw has developed which illuminates this issue. To a great extent, the inquiry will be determined by the nature of consumer purchasing on the Internet. If the economic reality of consumer purchases dictate that they would have just as well purchased a non-infringing product if the infringing product were not available, the patentee has not proven causation. One way that patentees have been able to bolster the showing that there are no acceptable substitutes is to show that the patented device or method fulfilled a long-felt need and enjoyed great commercial success.

ABILITY TO MEET DEMAND

In addition to proving demand and the absence of acceptable non-infringing substitutes, a patent owner must also prove an ability to meet the demand. For many Internet patentees, proving the ability to meet demand is not a difficult task. Unlike industrial patentees, Internet-based patentees typically seek protection for novel business methods employed on a computer. Such patents seldom require heavy industrial infrastructure or manufacturing capabilities. By removing traditional barriers to entry such as marketing, manufacturing, servicing, and distribution, the Internet has made it substantially easier for a new entrant to an existing industry to competitively meet demand.

PROVING THE AMOUNT OF PROFIT

The final and most difficult element that Internet patentees face is proof of the amount of profit the patentee would have made if it were not for the infringement. In its most rudimentary sense, a claim for lost profits must somehow show that the patentee was economically harmed by the infringement. The fact that the patentee would have made a sale had it not been for the infringement is only a necessary first step. The purported objective of many Internet patentees is to pursue growth in market share by sacrificing short-term profits. Indeed, many Internet-based businesses are selling below cost in an effort to solidify brand recognition and consumer loyalty. An infringer may very well decrease a patentee's market share. The problem is that loss of market share, by itself, is not a compensable injury. Internet patentees are left with the argument that increased market share today will lead to profits tomorrow. This is, after all, the premise upon which thousands of Internet-related businesses have grounded their meteoric rise in stock prices. Let's not forget, however, that this may also be the premise called into question by Federal Reserve Chairman Alan Greenspan earlier this year when he cautioned that there was an "irrational exuberance" in the market. Internet patentees seeking lost profit damages face the difficult task of proving causation to a reasonable probability. Indeed, "irrational exuberance" sounds a little too close to "speculative profits" for comfort. IPT

The opinions expressed are those only of the author, and not those of Fish & Neave.