IP DAMAGES THEORIES AND THE SUPREME COURT ON DISGORGEMENT

SUPREME COURT DECISIONS AND ECONOMIC ANALYSIS
**Disgorgement as a Damages Remedy**

- Actual damages are awarded to compensate the owner of the IP for their losses from infringement.

- Disgorgement is awarded to prevent an infringer from profiting from a wrongful act.

What is the socially optimal level of deterrence? Is it different for different types of intellectual property? If so, to what extent?
Disgorgement as a Damages Remedy, cont.

- **Design Patents**
  - Was eliminated as a remedy for utility patents in 1946
  - Allowed as a remedy for design patents (35 U.S.C. § 289)
    - “Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.”

- **Trademarks**
  - Section 35 of the Lanham Act (15 U.S.C. § 1117(a))
    - “When a violation of any right of the registrant of a mark registered in the [USPTO], a violation under section 1125(a) or (d) of this title, or a willful violation under section 1125(c) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant’s profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action.”
Disgorgement as a Damages Remedy, cont.

**Trade Secrets**

- UTSA – now adopted by all states except NC and NY (where it has been proposed)
  - “Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.”
  - Case law supports the practice that the plaintiff need only show sales derived as a result of the trade secret and the defendant must prove any relevant deductions

**Copyrights**

- 17 U.S. Code § 504
  - “The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer’s profits, the copyright owner is required to present proof only of the infringer’s gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.”
RECENT SUPREME COURT CASES ADDRESSING DISGORGEMENT

**Samsung v. Apple (2016)**
- At issue was a design patent
- Reversed and remanded, ruling that the term “article of manufacture” “is broad enough to encompass both a product sold to a consumer as well as a component of that product.”
- “total profits” to be disgorged could mean after an allocation to the infringing component

**Romag Fasteners v. Fossil (2020)**
- On the trademark infringement, jury found no willfulness but awarded disgorgement
  - Judge threw out the disgorgement holding that the 2nd Circuit required willfulness for disgorgement
- SCOTUS found that willful infringement is not a requirement for an award of disgorgement
  - §1125(c) of the Lanham act (dilution – specifically mentions willfulness) v. §1125(a)
Economic Discussion – Design Patents

- As of the Supreme Court decision in *Samsung v. Apple*, disgorgement is of total profits for the relevant article of manufacture.

- This is a distinct change from the past where all profits of an infringing product, even a multicomponent product, were subject to disgorgement regardless of the portion of the product that was covered by the design patent.

- *Theoretically*, this reduces disgorgement damages to just the unjust enrichment associated with the IP at issue – a nod to apportionment.
  - However, damages are still “total profits” associated with that article – *not apportioned*. 
Economic Discussion – Design Patents, cont.

- BUT HOW?
  - DOJ 4-Factor Test

- Has there been any change? Recent Cases:
  - In *Colombia v. Seirus* liability had already been established. The court put the burden on the infringer to prove the article of manufacture was less than the entire product – they were not successful.
  - *Microsoft v. Corel* – utility and design patents for graphical user interfaces in software applications. Liability for infringement had already been established. The court held that the article of manufacture for purposes of Section 289 damages was the entire accused product.
  - In the *Apple v. Samsung* case, on remand, the jury awarded damages on the entire product, holding that article of manufacture for the patent covering the graphical user interface was the entire phone.

  So, no.

- In theory, damages can now account for the infringing article separate from other non-infringing elements, but so far, cases lean towards deciding that the article of manufacture is the entire product.
Economic Discussion - Trademarks

- The ideal is to calculate the profit attributable to the infringement
  - “Total Profit Rule” – disgorgement of profits is limited to sales for which the driving factor of demand arose from the infringement

- **Burden** is on the plaintiff to show revenue and on the defendant to show costs
  - The burden is also on the defendant to prove apportionment in that certain sales might not have been influenced by the trademark at issue
  - Nonetheless, once that apportionment is done, there is no further deduction for other, non-infringing factors, that may have driven sales
  - This has the potential for over-deterrence

- **Willfulness** – prior to *Romag*, about half of the appellate circuits required willfulness and half did not
  - Willfulness no longer *required* for disgorgement HOWEVER – “a trademark defendant’s mental state is a highly important consideration in determining whether an award of profits is appropriate”
  - In some cases defendant’s profits may be an acceptable proxy for plaintiff’s lost profits
Economic Discussion – Trade Secrets

- Similar to trade secret law, courts generally attempt to measure the gain attributable to the trade secret.

- Burden is on the plaintiff to show that the defendant profited from the trade secret.
  - In certain cases, the courts have then shifted the burden to the defendant to show costs and apportionment, but not in all cases.

- Damages is most frequently measured by avoided R&D costs plus the value of the “head start”.
  - However – defendant must show that it would have been able to develop the misappropriated IP.

- Willfulness is not a separate issue because on the liability side misappropriation of a trade secret requires knowledge.

- There are jury verdicts awarding disgorgement – but some courts are deciding that disgorgement is an equitable remedy and must be decided by a judge.
**Economic Discussion - Copyrights**

- Copyright damages can include actual lost damages and disgorgement
- No willfulness or conscious wrongdoing is required – strict liability rule

- Disgorgement is always a possible remedy
  - BURDEN is on the plaintiff to show revenue
  - BURDEN is on the defendant to prove deductions and to **apportion**
  - BURDEN may be on the plaintiff to show causality, especially if there are indirect sales as in the case of infringement occurring as part of an advertisement
Summary

- Different IP regimes treat disgorgement very differently, with certain regimes applying certain rules and safeguards not applied in others.

- Although recent SCOTUS decisions move towards treatments that would limit disgorgement to profits attributable to the infringement, in practice profits are still often higher than what can reasonably be attributable to infringement, sometimes significantly so.

- The differences will lead to different levels of deterrence, and the level of socially-optimal deterrence is an important one worth further investigation.
Dr. Vanderhart is a PhD Economist with more than 20 years’ experience in the evaluation and quantification of economic damages including claims arising from patent, copyright or trademark infringement, trade secret misappropriation, contract disputes, employment discrimination, and claims of expropriation by foreign governments. She has testified in federal and state courts and in domestic and international arbitration proceedings. She has assisted companies in patent and trademark licensing negotiations, royalty investigations and calculations, and intellectual property and asset valuations.