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TECHNOLOGY LAW UPDATE

A report of the latest Federal Circuit updates brought to you by Preston Gates.

Ericsson, Inc. v. Harris Corp.

Nos. 02-1571, -1603 (Fed. Cir. Dec. 9, 2003).

“To recover lost profits [due to lost sales or price erosion], a patent owner must . . . show a reasonable probability that ‘but for’ the infringing activity, the patentee would have made the infringer’s sales [or sold its product at a higher price].”

On December 9, 2003, the Federal Circuit reversed the district court’s judgment as a matter of law (JMOL) that Harris did not infringe U.S. Patent 4,961,222, which related to an apparatus for supplying power to a telephone set in a telecommunications system. The Federal Circuit also affirmed the district court’s denial of JMOL with respect to damages, stating:

[S]ubstantial evidence supports the jury’s damages award for lost profits due to lost sales. To recover lost profits, a patent owner must prove “a causal relation between the infringement and its loss of profits.” [T]he patentee must show “a reasonable probability that ‘but for’ the infringing activity, the patentee would have made the infringer’s sales.” To show “but for” causation, the patentee must reconstruct the market to determine what profits the patentee would have made had the market developed absent the infringing product. Such market reconstruction must be supported by “sound economic proof of the nature of the market and likely outcomes with infringement factored out of the economic picture.” We have affirmed lost profits awards based on “a wide variety of reconstruction theories in which the patentee has presented reliable economic evidence of ‘but for’ causation.” [W]e conclude that Ericsson’s market definitions and allocations were supported by substantial and economically sound evidence. We also conclude that Ericsson’s market share analysis adequately compensated for the effects that any noninfringing substitutes would have had on Ericsson’s lost profits. Moreover, we point out that Ericsson’s failure to present all of the economic evidence that Harris now identifies does not mean that Ericsson failed to present sound economic evidence. Harris was entitled to present its own damages theory regarding, for example, how cross-elasticity calculations and second-sourcing would have affected the “but for” market. It was ultimately up to the jury, however, to weigh the credibility of the parties’ opposing theories and evidence. We will not overturn a jury’s determination as to the amount of a damages award when, as in this case, that verdict was supported by substantial evidence.

Harris also challenges the jury’s award of \$645,000 for lost profits due to price erosion, arguing that Ericsson failed to provide sound economic proof for those damages. In particular, Harris contends that Jackson improperly concluded that both the “Harris market” and the “Ericsson market” were “totally inelastic” and that he failed to consider that Ericsson would have lost sales in response to an elevated price. Harris also asserts that Jackson relied on a flawed benchmark . . . in his price erosion calculation. [S]ubstantial evidence supports the jury’s damages award for lost profits attributable to price erosion. To recover lost profits on a theory of price erosion, a patentee must show that “but for” infringement, it would have sold its product at a higher price. The patentee must also “present evidence of the (presumably reduced) amount of product the patentee would have sold at the higher price.” Moreover, “the patentee’s price erosion theory must account for the nature, or definition, of the market, similarities between any benchmark market and the market in which price erosion is alleged, and the effect of the hypothetically increased price on the likely number of sales at that price in the market.” . . .

The jury obviously did not accept Ericsson’s theory of price erosion damages in its entirety, as it awarded only \$645,000 of the \$8.1 million that Ericsson requested. To the extent that the jury did accept Ericsson’s theory of damages attributable to price erosion, however, we find that award to be supported by substantial evidence.