

14 September 2004



TECHNOLOGY LAW UPDATE

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

Poly-America, L.P. v. GSE Lining Tech., Inc.

No. 04-1022 (Fed. Cir. Sept. 14, 2004)

"[A] non-exclusive licensee . . . has no entitlement under the patent statutes to itself collect lost profits damages for any losses it incurred due to infringement."

On September 14, 2004, the Federal Circuit affirmed the district court's denial of GSE's motion for judgment as a matter of law, upholding the jury verdict that U.S. Patents No. 5,763,047 and No. 5,804,112, which are related to a three-layered textured landfill liner, were not invalid as on-sale under 35 U.S.C. § 102(b), but reversed and remanded the district court's denial of GSE's motion for a new trial on damages. The Federal Circuit stated:

[A] patentee shall be awarded "damages adequate to compensate for the infringement, but in no event less than a reasonable royalty." [C]ongress intended in § 284 that a "patent owner would in fact receive full compensation for 'any damages' [the patentee] suffered as a result of the infringement." [T]he recovery of lost profits by a patentee is not limited to the situation in which the patentee is selling the patented device. However, the patentee needs to have been selling some item, the profits of which have been lost due to infringing sales, in order to claim damages consisting of lost profits. Poly-America apparently has not sold any item on which it claims damages to itself from GSE's infringement. Although it is not clear here whether Poly-America has itself suffered lost profits from the infringement, a matter that may be dealt with on remand, Poly-America argues that Poly-Flex's lost profits on its lost sales are legally compensable to Poly-America, its licensor. We disagree.

Even though Poly-America and Poly-Flex seem to share interests as two entities collaborating in the manufacture and sale of textured landfill liners, that relationship by itself is not sufficient to permit Poly-America to claim Poly-Flex's lost profits from Poly-Flex's lost sales. Poly-America and Poly-Flex have a common parent corporation and are not simply divisions of a single corporation, but are separate corporate entities. Their parent has arranged their corporate identities and functions to suit its own goals and purposes, but it must take the benefits with the burdens. While we do not speculate concerning the benefits that the two companies reap from dividing their operations and separating the owner of the patent from the seller of the patented product, Poly-America and Poly-Flex may not enjoy the advantages of their separate corporate structure and, at the same time, avoid the consequential limitations of that structure—in this case, the inability of the patent holder to claim the lost profits of its non-exclusive licensee. While Poly-America may have the right to sue under its patents, both as an owner and as a back-licensee, it can recover only its own lost profits, not Poly-Flex's.

The provision of the license agreement between Poly-America and Poly-Flex providing that Poly-America "desires to have the contractual right to collect all damages accruing to Poly-Flex for certain past infringements of the Patents" does not change this situation. [A] licensee generally may not sue for damages unless it has exclusive rights under a patent, including the right to sue. Poly-Flex does not have exclusive rights. It is clearly identified in the license agreement as a non-exclusive licensee, and as such, it received only a "bare license" and has no entitlement under the patent statutes to itself collect lost profits damages for any losses it incurred due to infringement. Although parties to a lawsuit may allocate the disposition of infringement damages between themselves, as they appear to have done here, they cannot create lost profits for a patentee if there are none. Awarding lost profits to Poly-America on the basis of its private arrangement with Poly-Flex would synthetically create lost profits for Poly-America, when it may not have suffered any, to the detriment of GSE.