wiley

ALERT

Federal Circuit Patent Bulletin: *Nordock, Inc. v. Sys., Inc.*

September 29, 2015

"[A] design patentee can recover either (1) total profits from the infringer's sales under § 289, or (2) damages in the form of the patentee's lost profits or a reasonable royalty under § 284, or (3) $250 in statutory damages under § 289, whichever is greater."

On September 29, 2015, in *Nordock, Inc. v. Sys., Inc.*, the U.S. Court of Appeals for the Federal Circuit (O'Malley,* Reyna, Chen) affirmed-in-part, vacated-in-part, and remanded the district court's denial of Nordock's motion for a new trial on damages following a jury verdict that System infringed U.S. Design Patent No. D579,754, which related to the ornamental design of a lip and hingeplate for a dock leveler, and the award of $46,825 in reasonable royalty damages. The Federal Circuit stated:

When a patent is infringed, the patentee is entitled to "damages adequate to compensate for infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." There are two alternative categories of compensatory damages available under § 284: "the patentee's lost profits and the reasonable royalty he would have received through arms-length bargaining." In the case of design patent infringement, a patentee can recover damages under § 284 or under 35 U.S.C. § 289, which is entitled "[a] dditional remedy for infringement of design patent." Section 289 . . . permits design patentees to claim either $250 or the infringer's "total profit" on sales of "any article of manufacture" to which the patented design was applied.

When a patent is infringed, the patentee is entitled to "damages adequate to compensate for infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer." There are two alternative categories of compensatory damages available under § 284: "the patentee's lost profits and the reasonable royalty he would have received through arms-length bargaining." In the case of design patent infringement, a patentee can recover damages under § 284 or under 35 U.S.C. § 289, which is entitled "[a] dditional remedy for infringement of design patent." Section 289 . . . permits design patentees to claim either $250 or the infringer's "total profit" on sales of "any article of manufacture" to which the patented design was applied.

We have recognized that where, as here, "only a design patent is at issue, a patentee may not recover both infringer profits and additional damages under § 284." Accordingly, a design patentee can recover either (1) total profits from the infringer's sales under § 289, or (2) damages in the form of the patentee's lost profits or a reasonable royalty under § 284, or (3) $250 in statutory damages under § 289, whichever is greater. . . .

After the jury awarded Nordock $46,825 as a reasonable royalty and found that Systems' profits were $0, Nordock asked the court to amend the judgment regarding damages or order a new trial. In its motion, Nordock argued that Systems' own expert—Richard Bero— calculated a net operating profit of at least $433 per unit for the hydraulic levelers. The district court rejected Nordock's arguments on grounds that the jury received extensive damages instructions and chose to award Nordock compensatory damages in the form of a reasonable royalty. On appeal, Nordock argues that: (1) the district court relied on Systems' legally deficient "cost savings" methodology to determine that Systems' profits were less than $15 per dock leveler; (2) the record is devoid of any evidence that Systems' profits on its sales of the infringing levelers was $0; and (3) the district court erred in its interpretation of the jury instructions. We agree with Nordock on each point. . . .

We conclude that the district court erred in relying on Bero's "cost savings" methodology, rather than on the gross profits methodology required by law and described in the jury instructions. There are several problems with this so-called "cost savings" approach. First, it is inconsistent with the fact that § 289 provides for recovery of the infringer's total profits. Indeed, this court has interpreted § 289 to require "the disgorgement of the infringers' profits to the patent holder, such that the infringers retain no profit from their wrong." Profits are based on gross revenue after deducting certain allowable expenses. . . . Rather than using gross revenue as a starting point, Bero used his "cost savings" methodology, which was limited to the "lip and hinge plate" portion of the dock levelers. In doing so, Bero ignored the fact that total profits are based on the article of manufacture to which the D'754 Patent is applied—not just a portion of that article of manufacture. [W]e recently reiterated that apportioning profits in the context of design patent infringement is not appropriate, and that "Section 289 explicitly authorizes the award of total profit from the article of manufacture bearing the patented design." . . . We therefore reject Systems' attempts to apportion damages to the lip and hingeplate where it is clear that the article of manufacture at issue is a dock leveler.

Nordock also argues that there is no credible evidence that Systems' total profits for its sales of the infringinglevelers were $0. We agree. As noted, the jury found infringement with respect to 1,457 of Systems' hydraulic dock levelers. On the verdict form, the jury awarded Nordock a reasonable royalty of $46,825, and indicated that Systems' profits were $0. According to Nordock, however, the manifest weight of the evidence shows that Systems' profits were over $600,000 for its infringing LHP/LHD levelers.

First, Nordock points to Dr. Smith's testimony and expert report which indicated that Systems had net pretax profits of $912,201 on its sales of 1,514 LHP/LHD levelers. Appellant Br. 36. In his expert report, Bero found that Systems' operating profit per unit for its hydraulic levelers was $433. And, at trial, Bero's damages slide show indicated that Systems sold 1,457 accused hydraulic dock levelers. Taken together, therefore, Bero's report and testimony reveal that Systems' total profits on the infringing hydraulic levelers were at least $630,881. Based on this evidence of record, Nordock argues that Systems' total profit for the LHP/LHD levelers is either $630,881, using Bero's information, or $912,201, using Dr. Smith's information. Under either

formulation, the evidence showed that Systems' profits were over $630,000—a far cry from $0. . . . Nordock is entitled to a determination of Systems' total profits for the sale of the levelers found to infringe. Because there is no credible evidence that Systems' profits on its sales of the 1,457 infringing levelers were $0, we conclude that the jury's verdict was "against the manifest weight of the evidence" such that a new trial is warranted.