IFFY & INKY

Your client, InkyPro, Inc., developed, patented, and sells a sophisticated toner cartridge for high end, high volume, laser business printers. Its design enables use of highly concentrated ink and extraction for longer cartridge life. Four years ago, rival PanPrint Co. began marketing a toner cartridge with a "miracle life span." While your company's marketing people don't pay attention to every rival's boasting, they took a look at PanPrint's toner cartridge when they noticed a drop in sales to B2B suppliers. They purchased a PanPrint cartridge, gave it to InkyPro's engineers, and confirmed its visual and technical design appeared identical. Two years ago, InkyPro's CEO contacted you, saying "tell me we can stop these PanPrint poachers! They are killing our business!"

Based upon your research and advice, InkyPro notified PanPrint of its patent infringement and demanded they cease and desist. PanPrint refused to stop or negotiate and lowered the offending cartridge's list price in a clear effort to capture yet more of the market.

InkyPro sued for patent infringement. Discovery and exchange of expert reports followed. Your infringement claims remain strong: PanPrint cannot argue with a straight face that their toner cartridge's design is outside the scope of InkyPro's patent.

Unfortunately, from a damages perspective, you received very bad news today that the judge just granted PanPrint's *Daubert* motion preventing your expert from offering any opinions at trial concerning reasonable royalties. In his report, your expert had opined that a reasonable royalty for licensing the InkyPro patent - is 11%. Given PanPrint's large sales revenues for this cartridge - $20 million a year for 4 years – that would be an $8.8 million dollar recovery. Their *Daubert* motion successfully argued that your expert's analysis failed to consider the comparability of other licensed technologies to the patent in suit. Bottom line: the judge's *Daubert* ruling bars your expert's opinion on that terrific 11% royalty rate.

Although your expert may still testify as to lost profits, you think that is the weaker of InkyPro's damages claims. Your expert aggressively argued in his report that InkyPro and PanPrint are the only companies in a submarket for toner cartridges using highly concentrated ink, and InkyPro is entitled to all PanPrint's profits from these cartridges. However, PanPrint's expert argued that 50+ companies make cartridges that are acceptable, non-infringing alternatives for business customers.

Having read both experts' reports and seen their depositions, you are pessimistic about the succeeding on InkyPro's two-company submarket argument. (You give it a 15% chance.) You believe a jury would be more likely to accept PanPrint's assertion that the relevant market includes cartridges produced by 50+ companies. If so, InkyPro's lost profits would be negligible.

Of course, there are some options:

1) Go after the "reasonable royalty" measure by:
    - Filing a motion for reconsideration (cost about $12,000 and highly unlikely to succeed); and/or
    - Developing testimony from your fact witnesses supporting the various factors legally relevant to a reasonable royalty determination. [1] You might not get to 11%, and you can't

[1] Generally, damages experts consider 15 factors—called the *Georgia Pacific* factors—in forming opinions regarding a reasonable royalty. Such factors consider, for example, royalty rates for

get an expert opinion, but it would give your case some reference points for a jury to consider. You know PanPrint's expert will set the reasonable royalty at 2%.

2) Approach PanPrint about a settlement. They seem to know you have them on patent infringement. Based on a few hints by their lawyer, you suspect they might be willing to pay up to 3% going forward, but just a year or two looking back. One year back - 3% of $20 million in sales - would be $600,000, two years gets to $1.2 million.

3) Appeal the *Daubert* ruling after trial. You believe that the judge erroneously granted the *Daubert* motion and that there's a 30-40% chance that the Federal Circuit will reverse. This option also is not inexpensive—you estimate it will cost your client about $35,000.

comparable licenses, the effect of the infringing product in promoting sales of other products, profitability and commercial success of the patented product, and the portion of the profit that is attributable to the invention vs non-patented elements.