The Preferred Method of Damages Calculation in German Patent Infringement Proceedings

Klaus Grabinski *

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I. INTRODUCTION

Three methods of damages calculation have been recognized in German patent law for a long time:

1. Compensation of the infringed party's lost profit
   (Section 139(2) Patent Act (prior version), Sections 249, 252 Civil Code)
2. Surrender of infringer's profit
3. Payment of adequate license royalty
   (Development by case law; minimum damages equal to licensee's payment)

The calculation method of surrender of infringer's profit was first developed by case law on the basis of two reasonings:

1. the infringer shall be treated as if the infringer had used the patent as an agent without mandate from the patentee (analogous application of Sections 687(2), 667 Civil Code), and
2. it shall be assumed fictitiously that the patentee would have gained the same profit.

Reasoning 1 has been criticized because the provisions of Sections 687(2), 667 Civil Code require that the agent without mandate is knowingly conducting the other person's business, and this is not the case if the patent is infringed negligently.

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* Dr. iur., Judge at the Federal Court of Justice.

Since the recent amendment of the Patent Act effective from September 1, 2008, the infringer's profit is explicitly mentioned as a criterion for calculating the damage compensation in Section 139(2) 2. The provision reads:

> Any person who intentionally or negligently undertakes such an act shall be liable to the injured party *for compensation of the damages incurred thereby.* When assessing the damages, *the profit which the infringer has made by infringing the right* may also be taken into account. The claim for compensation of damages may also be calculated on the basis of *the amount the infringer would have had to pay as an adequate remuneration had he obtained the authorization to use the invention.*

This wording implements the EU Enforcement Directive of April 29, 2004.

The alternative three calculation methods have remained unchanged. However, the reasoning that the infringer having to surrender his profit is treated as an agent without mandate should no longer be applicable since Section 139(2) 2 is based on EU law. Rather, according to the explanatory memorandum of the Patent Act amendment, the provision is based on the assumption that the patentee would have gained the profit that the infringer has obtained by the infringing acts. The memorandum states:

> Furthermore it may be assumed due to the exclusive character of the IP right that the right-holder, had he exploited his rights, would have earned the profit which the infringer earned by exploiting the right of another.…

This corresponds to the traditional second reasoning, i.e. the fiction that the patentee would have made the infringer's profit.

In court practice, the claim for surrender of the infringer's profit was of little significance for a long time because the case law accepted the full deduction of overhead costs of the infringer. Thus this calculation frequently resulted in a loss. The patentee who was not able to verify the infringer's calculation was thus forced to calculate damages based on the license analogy, which therefore was the common method of damages calculation.

This situation has fundamentally changed due to the landmark *Gemeinkostenanteil* ("*Share of Overhead Costs*") decision of the First Civil Panel of the Federal Court of Justice of November 2, 2000.[1] In this decision, which related to the infringement of a design right, the court held as follows:

> If damages are payable in the form of surrender of the profit of the infringer, overhead costs may be deducted only if and to the extent they can, as an exception, by directly attributable to the infringing objects.

1 BGHZ 145, 366 – *Gemeinkostenanteil* = IIC 2002, 900 – *Share of Overhead Costs*.

In the meantime, the courts have applied this principle to all IP rights.[2] And ever since, most plaintiffs, when suing for payment of damages in patent or utility model infringement cases, have chosen the calculation method of infringer's profit. According to the author's experience, this was true in at least three-fourths of all patent and utility model infringement cases regarding compensation of damages at the Düsseldorf Regional Court.

II. CALCULATION OF INFRINGER'S PROFIT

The infringer's profit is calculated from the income obtained with the infringing acts. From this income, the costs arising from the infringing acts must be deducted. Thus the general formula is this: profit = income – costs.

1. Income

The income includes the turnover achieved by the infringer with the infringing product. But it can also include income achieved with a non-infringing product, if its sale is caused by the infringing use of the teaching of the patent. This has been held by courts in the case of non-infringing peripheral devices that were sold together with the patent-infringing product and only because of the sale of the latter. The same must apply when the infringer can sell a non-infringing product only due to the use of an infringing process. An example is the use of a grout that makes linoleum strips laid out on the floor appear to be one surface; if the infringer sold the linoleum strips only because of that infringer's use of the infringing process of applying the grout, the turnover with the linoleum strips is included in the infringer's income achieved by infringing the patent.

2. Costs

The costs of the infringer that would not have accrued without the acts of infringement (e.g. costs of manufacture and sale of the infringing product) shall be deducted, provided that these costs would have also accrued in the (fictitious) business of the patentee.

(a) Deductible Costs

Costs that are directly attributable to the manufacture and sale of the infringing product are deductible. This includes variable costs, including production costs (e.g. costs for materials and energy due to the production of the infringing product), procurement costs

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2 BGH GRUR 2006, 419 – *Noblesse*; BGH GRUR 2007, 431 – *Steckerverbindergehäuse*; BGH, 14.05.2009, I ZR 98/06 – *Tripp-Trapp-Stuhl*; Higher Regional Court Düsseldorf, InstGE 5, 25 – *Lifter*; InstGE 7, 194 – *Schwerlastregal*; Regional Court Düsseldorf, InstGE 3, 48 – *Rasenwabe*.

(e.g. purchase prices for components of the infringing product), distribution costs (e.g. packaging, transportation and advertisements of the infringing product), costs of personnel exclusively engaged in activities relating to the infringing product and fixed costs (e.g. rental costs for storage room used exclusively for the infringing product).

(b) Non-deductible Costs

Costs are not deductible if they are unrelated to the manufacture and sale of the infringing product. These are costs that arise due to the maintenance of the business independent of the scope of production and distribution of the patent-infringing product.

The ratio of this case law is that the profit earned from the infringing acts would not be completely skimmed off if the infringer were allowed to deduct from the profit the costs that are unrelated to the infringing activity. These so-called "anyway" costs (*Sowieso-Kosten*) would have accrued in any case, since they are not related to the infringing acts. It is assumed that they would also have accrued in the (fictitious) business of the patentee and therefore are irrelevant to the infringer's profit. Examples are the salary of the managing director of the infringing company, administrative costs (accounting, personnel, etc.) and marketing costs, if unrelated to the turnover with the infringing product.

(c) Attributability of Costs for Personnel or Equipment

A problem is how to attribute costs of personnel and equipment that the infringer used only in part for the production or sale of the infringing product. In this case it must also be examined whether and – if yes – to which extent these costs would not have accrued without the infringing acts. They are deductible to the extent that they would not have accrued without the infringing act. Indications can be found in the duration and the extent of use during the production or distribution of the infringing product.

(d) Burden of Presentation and Proof

In court practice, the distribution of the burden of presentation and proof is often decisive for the outcome of the lawsuit. In the present case it is the infringer who must explain and possibly prove that the costs the infringer has indicated are deductible, i.e. that these costs would not have accrued without the patent infringement. After all, the infringer is claiming the deductibility of costs that have accrued in the infringer's sphere. Problems of proof (e.g. because the infringement occurred long ago or was not documented) are therefore to the infringer's disadvantage. The infringer may require the services of a certified accountant or party expert to substantiate the infringer's assertions. In the framework of Section 287 of the Code of Civil Procedure,[3] the court is also free to estimate the relevant amount, taking into consideration all circumstances of the case.

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3 See Appendix.

(e) Costs Irrelevant to the Patentee

Costs, even if not "anyway" costs, may not be deducted if the patentee could not have incurred them in the first place. This is because damage compensation by surrender of the infringer's profit is based on the fiction that the patentee would have made the same profit, were it not for the infringement. Consequently, the costs of the infringer who has been held liable for defending himself in the lawsuit, or due to not being able to sell infringing products in stock, or having to recall infringing products pursuant to Section 140a Patent Act, are not deductible.

III. CAUSALITY

The purchaser may be motivated by many reasons to buy the infringing product. Besides the invention protected by the infringed patent, the motive may be other protected inventions incorporated in the product, or it may be the product's design or trademark, the company name and the associated "goodwill" of the infringer or the infringer's sales activities, etc.

1. Principle

It is generally accepted that the infringer's profit must be surrendered only to the extent it is based on the patent infringement. However, this relation should not be considered under the aspect of adequate causality, but is comparable to the assessment of contributory negligence pursuant to Section 254 Civil Code.[4] First the court must identify the factors relevant to the turnover on the basis of the submissions of the parties, and thereupon the share of the profit based on the patent infringement in contrast to the other factors relevant to the total profit must be determined using an evaluating assessment. Here again the court has discretion to make an estimate pursuant to Section 287 Code of Civil Procedure.[5]

2. Factors Relevant to the Turnover

One important factor relevant to the turnover is the distance of the patented invention from the market-relevant prior art. It makes a difference whether the object of the invention is *a thoroughly new product*, relates to *a completely new feature* of a known product or merely *improves a detail of a known product*. In case of a completely new product, the assumption may be correct that the total infringer's profit is based on the patent infringement. In contrast, only a part of the infringer's profit may have to be surrendered in case of the improvement of a detail. The profit based on the infringement may also be

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4 See Appendix.
5 See Appendix.

negatively affected by the fact that alternative products of equal value are available on the market.

The profit to be surrendered may also be reduced due to the existence of further IP rights that relate to the infringing product, not only concerning technical inventions but also trademarks, copyrights or design rights. For example, in the patent-infringing sale of ink cartridges, the (legal) use of the trademark "*Pelikan*", which the consumer in Germany has associated with high-quality ink products for many years, may be highly relevant to the turnover.

Even unprotected technically relevant components of a product may have an effect on the decision to purchase it and therefore also determine its value. Patented inventions often relate only to a part of the whole sold product. The side mirror of a car is an extreme example. In such cases it is not decisive whether the whole product is mentioned in the patent claim or whether only the specific part is claimed or possibly its function is mentioned. What is crucial is the relevance of the inventive construction of the part (the side mirror having the inventive features) for the decision of the customer to purchase the whole product (the car).

3. Special Sales Efforts of the Infringer

How to treat special sales efforts of the infringer in this context is a problem. In contrast to the factors mentioned above, which relate to the value-enhancing features of the infringing product itself, sales efforts are activities of the infringer relating to the infringing product – for example, special advertising or use of special distribution channels.

In its *Gemeinkostenanteil* decision, the First Civil Panel of the Federal Court of Justice rejected the reduction of the infringer's profit to be surrendered with regard to special sales efforts of the infringer, arguing it was irrelevant that the patentee would not have been able to obtain the profit obtained by the unauthorized use of the patent.[6] This was correct in the (design right) case decided at that time. The success of the special sales activities was lastly due to the attractiveness of the protected design and therefore not to be taken into account for reducing the profit. In a patent case this would be comparable to a drug with a superior active ingredient. Any sales success, even if the result of special sales efforts, would in the end always be due to the superior effect of the patented ingredient, and it is thus justified not to consider the special sales efforts to be relevant to the turnover.

However, if the case concerns an invention of a detail – e.g. a needle in an ink cartridge whose use in the infringing product has little effect on the consumer's inclination to purchase the product since other factors are perceived as more important, such as the use of a well-known trademark – there is no reason to disregard the sales efforts of the infringer (e.g. special bargain prices or advertising campaigns) from the outset. This is

6 BGHZ 145, 366, 375 – *Gemeinkostenanteil*.

because in such cases, the generated turnover may also be due to the sales efforts of the infringer, which in an evaluating assessment have no causal relation to the patent infringement. They may thus have to be considered as a factor relevant to the turnover.

4. *Court Practice*

The share of the infringer's profit relevant for the compensation of damages in relation to the rest of the infringer's profit has to be determined by estimate pursuant to Section 287 Code of Civil Procedure. For this purpose, all turnover-relevant factors that the court could ascertain based on the submissions of the parties must be assessed in regard to the infringement of the patent. The result of this assessment is the share of the profit based on the infringement. In the case law of the lower courts following the *Gemeinkostenanteil* decision of the Federal Court of Justice, the profit share to be surrendered as a result of infringement of technical IP rights was determined to be between 15% and 60%.

IV. CONCLUSION

1. With the coming into force of Section 139(2) 2 Patent Act, the surrender of the infringer's profit is now codified as one of the three methods of compensation of damages incurred by the infringement of an intellectual property right. This is based on the assumption that, due to the exclusive character of the intellectual property right, the patentee, when exploiting a patented invention, could have obtained the profit made by the infringer using the patent. It is thus no longer necessary to apply in analogy the provisions of quasi-management of another's affairs without mandate.

2. When calculating the infringer's profit, those costs must be deducted that would not have accrued without the infringing acts, provided the costs would have also accrued in the fictitious business of the patentee. Thus all costs are deductible that can be attributed directly to the patent-infringing product. Not deductible are the costs that could accrue only in the business of the infringer, unless the existence of the business depended on the patent-infringing acts. In regard to costs for personnel and equipment that have accrued partly due to the production or sale of the infringing products and partly due to the manufacture or sale of other products, one must examine whether and to what extent the costs would not have accrued or not accrued in the given amount without the patent-infringing acts. The burden of presentation and proof in this respect is on the infringer. Costs that would not have accrued for the patentee are not deductible.

3. The infringer's profit must be surrendered only to the extent it is based on the patent infringement, and the causal relation between infringement of the patent and obtained profit is ascertained by way of an evaluating assessment. Factors relevant to the turnover may be the distance between the infringed patent and the market-relevant prior

art, other intellectual property rights relating to the infringing product, or unprotected but technically relevant components of the product. As a rule, special sales efforts of the infringer are not relevant in the case of superior inventions, while they may be considered in the case of inventions relating to technical details. The share of the infringer's profit determining the compensation must be decided in relation to the rest of the profit by estimate pursuant to Section 287 German Code of Civil Procedure.