



Study Question

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Quantification of monetary relief

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 What rules and methods are applied when quantifying actual loss?

In particular, please describe:

- a) the method used to determine the diversion of sales, i.e the part of the infringing sales that the rightholder would have made but for infringement;**
- b) what level of profit margin is taken into account.**

Infringement of IP rights is deemed a civil tort governed by the general rules of torts subject to the specific provisions of the various IPR laws such as the Patents Act (1967), Copyrights Act (2007) and Trademarks Act (1972).

In principle, a successful plaintiff is entitled to damages, which may be assessed taking into consideration different bases, such as it's the plaintiff's actual loss, reasonable royalties or restitution of benefits obtained by the infringer because of the infringement, provided that the plaintiff is **not be** entitled to receive **double damages** (for example, a combination of both actual loss and reasonable royalty). The plaintiff is not required to elect its damages; the judge has full discretion to base the determination of damages as explained above.

The purpose of awarding damages for actual loss is to put the plaintiff in the place he would have been had there not been infringement. This principle is translated in case law as limiting damages for lost sales only to sales the plaintiff can show **it would have made itself** had there not been infringement. In other words, the plaintiff must show **causal connection** between the loss of sales and the infringement. There are no specific rules for making this causal connection analysis.

There are no specific rules regarding the level of profit margin to be considered when basing the damages on actual loss. In general, costs the rightholder did not actually make would be taken into account. For example, if the volume of lost sales is USD one million and the rightholder would have had to incur USD two hundred thousand to make the sales, damages would be set at USD eight hundred thousand.

We should also note that price erosion is a recognized type of actual loss; that is, if as a result of the infringement the rightholder had to sell its product at a price cheaper than initially intended (whether before or after a grant of injunction), the difference between the intended price and the actual price should be factored into the profit loss.

2

What rules and methods are applied when quantifying a reasonable royalty?

In particular, please describe:

- a) the royalty base;**
- b) how relevant comparables among licence agreements are defined;**
- c) how a reasonable royalty is quantified in the absence of relevant comparables;**
- d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?**

Royalty base: Case law is not sufficiently developed in this regard. In general, the court can look at *comparables* also for deciding the royalty base. The court may also look at comparative law, for example, US case law regarding smallest saleable unit.

Comparables: The court has wide discretion to look at comparables as well as to decide which agreements qualify as comparables.

Considerations in awarding compensation: According to a ruling hand down by the Supreme Court, the court has wide discretion in awarding compensation and may take into consideration various factors, such as, for example, the scope and duration of infringement, the type of patented product (whether sold alone or with other products), the commercial success of the infringing products, the commercial success that the patented products would have enjoyed were it not for the infringement, the degree to which the patented products were imitated, effect of the infringing products on the market and on the price of the patented products, and the anguish caused to the patentee. In addition to compensatory damages, the court may award punitive damages (not exceeding the amount of actual damages awarded) if the alleged infringer has been warned.

In the absence of relevant *comparables*, reasonable royalties should be quantified based on expert opinion regarding the rate that would be agreed upon by a willing licensor and willing licensee.

The court has power to somewhat increase the damages amount resulting from any assessment, as a punitive measure and as a negative incentive for infringement, but the court ought to only determine damages of this type and after careful review of the case. This is because if the rightsholder is only entitled to reasonable royalties from license, a prospective licensee could have an incentive to infringe and dishonor the IP right. In such case, punitive damages are appropriate.

Reasonable royalty would typically be calculated as a percentage of revenues, yet no rule exists preventing the court from also awarding a lump sum (fixed amount) or a combination of the two if a review of comparables suggests it appropriate to do so.

3

What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?

In particular, please describe:

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;**
- b) what level of profit margin of the infringer should be taken into consideration.**

There are no specific statutory provisions concerning quantifying the infringer's profits.

The onus is on the infringer to convince the court that he is entitled to deduct certain costs from the revenues he generated from the infringing activity.

The general principles of unjust enrichment apply. Thus, the profits to be determined by the court may well be different from that shown in the infringer's books. Controversies in this regard are typically adjudicated based on expert opinion.

4.a

What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty in relation to conveyed goods.

See div 4.b below

4.b

What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the infringing product forms part of a larger assembly.

The court has discretion to quantify damages based on the larger assembly or on a smaller part. As noted, there are no express statutory

provisions in this regard; however, the court is careful not to award the rightsholder inflated damages and make the infringer suffer unbearable financial losses. The issue is not fully developed in our caselaw but of note is a one of the leading Supreme Court judgements on patent infringement that attached importance to the fact that the non-infringing goods were part of "one salable unit". In another district court case that dealt with copyright infringement the judge applied a wider test of "clear causal connection".

4.c What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

The court has power to quantify the damages in a manner that includes not only the infringing products but also other products sold or licensed together with the infringing product. The same causal connection analysis is applied and the court is generally cautious when awarding such damages.

4.d What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

In that case, damages are not compensated.

5 Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

If there is a licensee, the damages to which the rightsholder is entitled typically include loss of royalties payable by the licensee and **do not** include damages suffered by the licensee. The latter damages should be claimed by the licensee. For example, if the licensee lost sales in the amount of USD one hundred thousand, did not pay royalties in the amount of USD ten thousand and avoided other costs in the amount of USD forty thousand, the rightsholder can claim damages of USD ten thousand and the licensee can claim damages of USD fifty thousand.

6.a What kinds and types of evidence are accepted for proving the quantum of actual loss.

See div 6 below

6.b What kinds and types of evidence are accepted for proving the quantum of reasonable royalties.

See div 6 below

6 For example, is expert accounting evidence on past licensing practices accepted?

Cases of infringement of IP rights are typically bifurcated. In the first phase, the judge decides whether the IP right(s) was/were infringed or not. If not, the case is dismissed. If the rights were infringed, a permanent injunction is issued together with an order requiring the defendant to account for its infringing transactions (including, among others, revenues generated and profits made). Such accounts should typically be approved by a CPA.

In the second phase, the rightsholder claims an amount of damages quantified based on the accounts submitted. Typical controversies revolve around the adequacy of the accounts, namely, whether or not all transactions are accounted for, royalty base and royalty rate,

defendant's profit, and the amount of damages to be awarded based on the infringing transactions. Factual controversies are typically adjudicated based on expert opinion, such as accountants, licensing experts and the like.

7 What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

The rightholder is entitled to discovery, interrogatories (written depositions), and could also ask the court to subpoena third parties to testify or produce documents.

8 How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

We are not aware of caselaw that directs a difference between quantification of damages for direct infringement and quantification of damages for indirect or contributory infringement, at least when damages are based on actual loss. Obviously, when damages are based on restitution of profits, profits of the element in the chain become relevant.

9 Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available

a) if an injunction has also been granted

Please explain your answer

In principle, forward looking damages are available regardless of whether an injunction has been granted; however, such a case would be, *a priori*, quite difficult to prove.

10 Is the bad faith of the infringer taken into account in the assessment of the damage?

Yes

If so, how is bad faith defined and is it possible to infringe a patent in good faith?

As noted above, the damages to be awarded may be somewhat increased as a punitive measure. The extent of increase is discretionary and there are no specific rules regarding its application. A defendant's bad faith may also be considered when damages are awarded on the basis of restitution of the defendant's profits. The court may be more willing to refuse to recognize certain costs of the defendant when the defendant acted in bad faith, since deduction of such costs is also governed by principles of unjust enrichment.

11 How do courts take into account the damage suffered between the date of the infringing acts and the date of the award of damages?

The default rule is that the successful rightholder is entitled, as a matter of law, to both pre-judgment and post-judgment interest on damages payable. In principle, the rightholder may try to prove special damages suffered beyond the loss of interest on the revenues lost.

II. Policy considerations and proposals for improvements of your Group's current law

12 Are there aspects of these laws that could be improved?

None that come to mind.

3.a If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?

No

Please Explain

We are not familiar with any case law regarding this question.

3.b If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court first be required to find that all the IP rights in suit are valid and infringed?

Yes

Please Explain

If the IP rights are not infringed, no damages will be awarded. If only some IP rights are valid and infringed and others are not, damages will be awarded only for those that were found to be valid and infringed and attorney fees may be awarded with respect to the those IP rights that were found to be invalid or not infringed.

14 If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

The court may refer to comparables as explained above.

15 Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

Please see our response to question 9.

III. Proposals for harmonisation

16 Is harmonisation of the quantification of damages desirable?
If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.

Yes

Please Explain

In principle harmonization is favored. However, in the context of damages for infringing acts occurring in a particular country, stronger force seems toward the country's demand to apply its own rules to infringing acts that occurred within its jurisdiction.

17 Please propose the principles your Group considers should be applied when quantifying actual loss

Questions 17-21 were intentionally left blank

18 Please propose the principles your Group considers should be applied when quantifying reasonable royalties

Questions 17-21 were intentionally left blank

8.a Explaining in particular the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

Questions 17-21 were intentionally left blank

8.b Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit

Questions 17-21 were intentionally left blank

8.c Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit

Questions 17-21 were intentionally left blank

9.a Please propose, in relation to actual loss and reasonable royalties how conveyed goods should be dealt with

Questions 17-21 were intentionally left blank

9.b Please propose, in relation to actual loss and reasonable royalties how competing goods of the rightholder, not making use of the patent, should be dealt with

Questions 17-21 were intentionally left blank

9.c Please propose, in relation to actual loss and reasonable royalties how damages should be determined when the infringing product forms part of a larger assembly

Questions 17-21 were intentionally left blank

20 Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

Questions 17-21 were intentionally left blank

21 Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

Please indicate which industry sector views are included in part "III. Proposals of harmonization" on this form:

Questions 17-21 were intentionally left blank

Please enter the name of your nominee for Study Committee representative for this Question (see Rule 12.8, Regulations of AIPPI). Study Committee leadership is chosen from amongst the nominated Study Committee representatives. Thus, persons not nominated as a Study Committee representative cannot be in the Study Committee leadership.
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