

AQUA SHIELD v. INTER POOL COVER TEAM, Appeal No. 2014-1263 (Fed. Cir. December 22, 2014). Before Wallach, Taranto and Chen. Appealed from D. Utah (Judge Stewart).

Background:

Aqua Shield sued IPC in the Eastern District of New York for infringing claims of its patent directed to enclosures for covering a pool. Due to questions about personal jurisdiction over the defendants, this case was transferred to the District of Utah, which entered summary judgment finding that IPC infringed Aqua Shield's patent, that none of the infringed claims were invalid, that IPC had not been willful in its infringement, and awarded Aqua Shield \$10,800 in damages.

The district court ruled that IPC had not been willful in its infringement because IPC had a reasonable belief that its products were non-infringing, based on the New York district court's denial of Aqua Shield's motion for a preliminary injunction. The district court also relied on IPC's net profits of past infringing sales in determining a reasonable royalty and limited Aqua Shield's damages to a royalty based only on IPC's net profits. Aqua Shield appealed.

Issues/Holdings:

(1) Did the district court err in its damages determination? (2) Did the district court err in finding that IPC had not been willful in its infringement? Yes on both issues, remanded, with damages award vacated.

Discussion:

In calculating damages, a reasonable royalty is measured based on the value of the patented technology, which can be traditionally assessed through a "hypothetical negotiation" between the patentee and the adjudicated infringer in order to determine the royalty upon which the parties would have agreed if they had successfully negotiated an agreement just before infringement began. The Federal Circuit held that the district court erred in treating the profits IPC actually earned during the period of infringement as a royalty cap. The Federal Circuit found that this treatment incorrectly replaces the hypothetical inquiry into what the parties would have anticipated, looking forward when negotiating, with a backward-looking inquiry into what turned out to have happened. That is, the district court erroneously assumed that any royalty paid by IPC would have directly reduced its profits, dollar for dollar. This is not the case because IPC could have raised its prices (over what it actually charged for infringing sales) to account (partly or fully) for a royalty payment.

Further, the Federal Circuit held that the significance of a preliminary-injunction denial with respect to a willfulness determination depends on why the preliminary injunction was denied. The New York district court denied Aqua Shield's motion for a preliminary injunction because of personal-jurisdiction questions and because Aqua Shield lacked sufficient knowledge of IPC's infringing product to provide a required showing of the likelihood of success on the merits. In this case, the Federal Circuit found that these factors did not affect an infringement or validity analysis, and thus held that the denial of Aqua Shield's motion for a preliminary injunction is a legally insufficient reason for determining that IPC did not willfully infringe.