

Federal Circuit Patent Bulletin: *Georgetown Rail Equip. Co. v. Holland L.P.*

August 17, 2017

"[Under Panduit test factor 1 for lost profits damages, a patentee need] only 'sell[] some item, the profits of which have been lost due to infringing sales.'"

On August 16, 2017, in *Georgetown Rail Equip. Co. v. Holland L.P.*, the U.S. Court of Appeals for the Federal Circuit (Reyna, Schall, Wallach*) affirmed the district court's judgment entering the jury verdict that Holland willfully infringed U.S. Patent No. 7,616,329, which related to a system for inspecting tie plates that connect the steel rail tracks to wooden ties, as well as the award of \$1,541,333 in lost profits damages and \$1,000,000 in enhanced damages under 35 U.S.C. § 284. The Federal Circuit stated:

"[D]irect infringement by use of a system claim requires a party . . . to use each and every . . . element of a claimed system." "[T]o use a system for purposes of infringement, a party must put the invention into service, i.e., control the system as a whole and obtain benefit from it." Significantly, use does not require a party to "exercise physical or direct control over each individual element of the system." . . . Holland collects and gathers data by its system platform on the front-end. Then, Holland sends the gathered information to a back-end third-party company with instructions to process and analyze the information. The fact that the transmission from the front-end to the back-end in this case involves "physically remov[ing] the hard drives with data . . . and ship[ping] them overseas to Rail Vision [Europe Ltd.]" is of no consequence. The intermediary steps are still "put into service" as a result of Holland's front-end collection and request for processing, demonstrating Holland's ultimate control of, and derivation of benefit from, the system. [A] reasonable jury could find evidence supporting its conclusion that Holland infringed

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Georgetown's '329 patent by putting all elements of the infringing system into use. That is all that is required to uphold the jury finding of infringement. . . .

To recover lost profits, "a patent owner must prove a causal relation between the infringement and its loss of profits." "In other words, the burden rests on the patentee to show a reasonable probability that but for the infringing activity, the patentee would have made the infringer's sales." "There is no particular required method to prove but for causation" in patent cases. . . . Georgetown chose to calculate damages based on a lost profits model under the four-factor Panduit test. The Panduit test requires the patentee to show: (1) "demand for the patented product"; (2) "absence of acceptable noninfringing substitutes"; (3) "manufacturing and marketing capability to exploit the demand"; and (4) "the amount of profit that . . . would have [been] made." . . .

As to the first Panduit factor, [the] proper inquiry asks whether demand existed in the marketplace for the patented product, i.e., a product "covered by the patent in suit or that directly competes with the infringing device." Georgetown's Aurora System and Holland's Rail Vision Systems are covered by claim 16 of the '329 patent. Holland submitted its own evidence showing that there was demand for the Rail Vision Systems device at least before 2011. Georgetown submitted evidence that its Aurora System generated millions in revenue and was contracted out to four U.S. railroad companies in long-term contracts, exhibiting strong evidence of demand. Although Holland attempts to discredit this evidence by stating that Georgetown must show demand "during the period of allegedly infringing sales," Holland again recites an incorrect standard. All a patentee must do is "sell[] some item, the profits of which have been lost due to infringing sales." Holland has not suggested, nor can it suggest, that Georgetown was not selling its Aurora System from 2012 through 2015 (the period of allegedly infringing sales). Thus, we find substantial evidence supports a finding that demand for the patented product existed, and we decline to disturb the jury's award or the District Court's denial of Holland's request for JMOL on this basis.

As to the fourth Panduit factor, . . . Georgetown submitted evidence that its lost profits calculation was based on failure to secure a contract with Union Pacific, which entered into a deal with Holland instead through the Change Order. Holland contends that because it made no profit under the Change Order signed with Union Pacific, Georgetown could not have missed any potential profits. . . . We conclude that there was a legally sufficient evidentiary basis in the record from which a reasonable jury could have found that Georgetown would have received business from Union Pacific for data collection services if Holland's infringing product was not in the market. Holland presented evidence that: Georgetown had offered its services unsuccessfully to Union Pacific prior to the relevant time period, Union Pacific had not authorized work under the Change Order, and at all times, even after the Change Order was signed, Union Pacific was free to enter into a separate contract for services with Georgetown. . . . Thus, we affirm the District Court's entry of the jury award of lost profits. . . .

When a court is assessing appropriate damages upon a finding for the claimant, "the court may increase the damages up to three times the amount found or assessed." "The subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless." [A]wards of enhanced damages are discretionary, and "courts should continue to take

into account the particular circumstances of each case in deciding whether to award damages, and in what amount.” . . .

The jury heard evidence that Holland was aware of the '329 patent prior to the current litigation, and believed that it was infringing the patent. Evidence to support this latter proposition included evidence of the parties' prior business dealings from which the jury could have inferred that Holland believed that it needed to acquire or license Georgetown's Aurora System to avoid infringement, and "circumstantial evidence that Holland copied [Georgetown's] technology." Although Holland continues to dispute several of these facts, the jury was free to decide whose evidence it found more compelling on the question of willfulness and found in Georgetown's favor. . . . None of the arguments Holland makes with respect to the findings of enhanced damages demonstrate abuse of discretion by the District Court. The District Court made detailed factual findings which, taken together, support its award of enhanced damages. It did not merely look at the jury's finding of willfulness; rather, it applied and considered all nine Read factors. . . . Finally, the District Court took into account the degree of willfulness and found that it was "not warranted" to enhance damages to the full maximum statutory amount of treble damages (over \$4,500,000); rather, it awarded only an additional \$1,000,000. Considering all of the Read factors and the District Court's statutory authority to treble damages under § 284, the award of \$1,000,000 in addition to the damages award of \$1,544,333 was not an abuse of discretion.