

Paying Attention to Patent Details: Who Owns Your Patents and Who Sells the Patented Item?

Patents can help you to exclude others from making, using, selling or importing a device you have patented, or prevent others from using a patented process. You can enforce your patents by suing the infringer. But collecting damages due to infringement may be frustrating if you are not careful in how the patent is assigned or licensed. This applies especially to corporate structures with several subsidiaries or layers of subsidiary companies. Case in point: The Court of Appeals for the Federal Circuit reversed a \$7 million judgment for lost profits because the corporate owner of the patent was not the operating unit selling the patented product.

The case, *Poly America, L.P. v. GSE Lining Tech., Inc.*, 383 F.3d 1303 (Fed. Cir. 2004), involved a corporation that owned two "sister" subsidiaries. One subsidiary, Poly America, owned three patents for multilayer liners, while its sister corporation, Poly Flex, which had a nonexclusive license, sold the patented product. Poly America sued GSE and eventually won a \$12 million jury judgment, \$7 million for lost profits and \$5 million as a reasonable royalty. On appeal, GSE argued that Poly America should not be awarded lost profits because it was not making and selling the patented product, and thus had no profits to lose.

The Federal Circuit agreed. A patent owner can be awarded damages adequate to compensate for infringement, but in no event less than a reasonable royalty for the use of the invention made by the infringer. Since Poly America owned the patent, it could recover a reasonable royalty. In order to prove lost profits, however, it had to show that it was harmed by the infringing sales. Since it did not sell the patented product, there were no lost sales and thus no lost profits. Poly America could not recover lost profits attributable to Poly Flex's lost sales. Poly Flex had only a nonexclusive license and was not joined in the suit. The \$7 million lost profits verdict was reversed.

Here's the Lesson

The patent could have been assigned to Poly Flex, or Poly America could have granted an exclusive license to Poly Flex. Either way, Poly Flex would have been a party to the suit and could have sought lost profits. Our Intellectual Property group prepares patent applications, assignments and licenses. We use our

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