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New Approach to Patent Damages for COVID-19 "Good Samaritan" Infringers

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"Good Samaritan" companies may be exposing themselves to potential patent infringement liability when rapidly mobilizing to produce products for fighting the COVID-19 pandemic. In a previous **e-alert**, we discussed how these companies might apply a novel equitable defense based on the public necessity privilege to avoid infringement liability. But if the courts do not recognize this defense and if the federal government has not taken steps to immunize them, these companies may be exposed to infringement damages—even if they committed their infringing acts in the public interest. How might courts address this "public interest infringement" scenario in the context of a damage analysis?

The patent law provides two primary types of infringement damages: lost profits and reasonable royalties. To recover lost profits, a patent owner must prove that the infringer displaced sales that, but for the infringement, the patent owner likely would have made. *See* Minn. Mining & Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc., 976 F.2d 1559, 1577 (Fed. Cir. 1992). To prove this fact, the patent owner must show, among other things, that it had the manufacturing capacity to meet the demand for the infringing product. *See* Panduit Corp. v. Stalin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978). In theory, however, the Good Samaritan infringer is driven to produce products like ventilators, personal protective equipment, and vaccines precisely *because* the patentee and its licensees cannot meet overwhelming and urgent public demand caused by the COVID-19 crisis. In many cases, therefore, lost profits damages will be unavailable against true Good Samaritan infringers.

Patent owners may, however, seek damages corresponding to a "reasonable royalty." There is no universal formula or methodology for determining a reasonable royalty, but courts typically apply a well-accepted set of analytic criteria known as the *Georgia-Pacific* factors. These factors are analyzed in the context of a hypothetical, arm's length negotiation between the patent owner and infringer on a date just before the infringement. In this hypothetical negotiation, both parties are reasonably willing to strike a royalty deal. *See* Georgia-Pacific Corp. v. United States Plywood Corp., 318 F.Supp. 1116, 1120 (S.D.N.Y. 1970). In short, the *Georgia-Pacific* factors address the typical commercial considerations that would tend to increase or decrease the bargaining leverage of one party or the other. For example, these factors ask questions such as: has the patent owner considered licensing, or did it want to supply the invention exclusively? If the owner licensed others, what royalty rate did it apply to the licenses? What do others in the industry pay for similar licenses? What would be the license scope and term? What is the commercial relationship between the parties? To what extent did the infringer make use of the invention? What portion of the infringer's profits are attributable to the invention as opposed to un-patented elements of the infringing product? This analysis is highly fact-intensive, and the outcome of the hypothetical royalty negotiation ultimately may hinge on any number of more than a dozen *Georgia-Pacific* factors.

Though useful in a typical reasonable royalty damage analysis, the *Georgia-Pacific* factors arguably provide limited guidance in the COVID-19 Good Samaritan infringer scenario. The underlying premise for the *Georgia-Pacific* factors is a hypothetical negotiation in which both parties are motivated purely by business considerations. The Good Samaritan infringer in our scenario, however, may be driven less by business considerations and more by a desire to address an urgent public need. Courts, therefore, may look for ways in which public interest and public policy may factor into the reasonable royalty analysis. Stated differently, a royalty that may be "reasonable" in a hypothetical deal between two business-focused companies in ordinary times may not be "reasonable" in a hypothetical deal that arises against the backdrop of the COVID-19 crisis. How, then, will courts evaluate royalty damages in this unique scenario?

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One possibility is that courts may apply a modified set of *Georgia-Pacific* factors appropriate to a hypothetical negotiation set in the context of the COVID-19 pandemic. That approach would place a greater emphasis on certain existing factors while deemphasizing others. For example, courts could emphasize the factor that assesses the infringer's profits. If the infringer realized no profits, that factor could weigh heavily in determining what royalty was "reasonable" in the circumstances. Likewise, courts may also focus on the extent to which the infringer made use of the patented invention—*i.e.*, did the infringer infringe more than was necessary to address the public health issue? If so, that fact may weigh heavily for the patentee in assessing a reasonable royalty value. In light of these possibilities, Good Samaritan companies and their patent counsel may want to carefully evaluate decisions related to product design and pricing made in response to urgent public health needs.

Another possibility is that courts may adopt an entirely new analysis that considers other sorts of business benefits that the infringer may have realized from the infringement, and weigh them against various business harms suffered by the patentee. For example, an infringer whose factories and workers otherwise would have been idle during the COVID-19 crisis may have benefitted from the infringement even if it realized no corporate profits. Likewise, if the infringement irrevocably altered the market for the patented product, that may weight in favor of greater compensation for the patent owner.

Ultimately, however, it remains to be seen how courts will react to this unprecedented situation. As we noted in our previous e-alert, the government could intervene to immunize COVID-19 Good Samaritans from patent infringement liability. In the meantime, portions of the post-COVID-19 landscape remain uncharted and may call for creative analysis and lawyering. Good Samaritan companies and their patent counsel may want to account proactively for this uncertainty. Furthermore, parties should continue to take sufficient steps to document decisions to manufacture, use, or sell products in response to urgent public health needs during the COVID-19 crisis.

Please contact the authors or your Miller Canfield attorney with further questions.

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