



United States District Court, S.D. New York.  
GEORGIA-PACIFIC CORPORATION, Plaintiff,  
v.  
UNITED STATES PLYWOOD CORPORATION,  
Defendant.

Civ. A. No. 99-195.  
May 28, 1970.

TENNEY, District Judge.

By opinion dated October 26, 1956, entered in an action by Georgia-Pacific Corporation (hereinafter referred to as 'GP') for a declaratory judgment of invalidity and non-infringement of three patents held by United States Plywood Corporation (hereinafter referred to as 'USP') and upon a counterclaim by USP for patent infringement and unfair competition, my late brother Judge Herlands found USP's three patents (one Deskey and two Bailey patents) invalid for lack of invention, not infringed by GP's product and further, that there was no proof that GP engaged in acts of unfair competition. The Court of Appeals reversed and remanded in 1958, holding that Claim 1 of USP's Deskey Patent No. 2,286,068 covering 'Weldtex' striated fir plywood valid and infringed.

Following the decision of the Court of Appeals, the case was referred to a special master to determine the amount of damages to be awarded to USP under 35 U.S.C. § 284, which provides for 'damages adequate to compensate for the infringement.' The master, computing damages upon the basis of GP's profits derived from the sale of the infringing article, awarded \$685,837.00 to USP. Judge Herlands, on exception to the Master's Report, concluded that under the instant circumstances and controlling statute GP's profits did not constitute the proper measure of recovery, and that the award to USP should have been computed on the basis of a reasonable royalty.

The statute provides:

'§ 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.'

In the proceedings before the special master, USP sought recovery on three alternative theories:

(1) 'Lost profits' of \$1,101,520, representing the net profits on Weldtex that were diverted from USP by GP's infringement (on the assumption that USP would have sold 80% Of the striated plywood footage sold by GP), supplemented by an additional lost profit of \$431,410, on 'convoyed sales' of other USP products that would have been generated by and sold along with the projected sales of Weldtex;

(2) 'Infringer's profits' of \$1,004,735, representing the net profits derived by GP from the infringing sales, and supplemented by an additional infringer's profit of \$431,000 on convoyed sales of other GP products generated by and sold along with the GP striated; and

(3) As an alternative method of computation, USP sought damages of \$974,953 on the 'standard of comparison' theory, representing the difference between GP's profits on the infringing sales of GP striated and the profits GP would have earned by selling an equal quantity of unpatented 1/4' AD panels.

While the parties agree upon the doctrinal criteria of a reasonable royalty, they differ sharply in their application of those principles to the hard specifics of the evidence. The extreme divergence of the parties is reflected in the difference between GP's submission that the reasonable royalty herein should be fixed at a figure somewhere between a dollar and one-half to three dollars per thousand square feet and USP's claim that the minimum reasonable royalty should be the rate of fifty dollars per thousand square feet.

A comprehensive list of evidentiary facts relevant, in general, to the determination of the amount of a reasonable royalty for a patent license may be drawn from a conspectus of the leading cases. The following are some of the factors seemingly more pertinent to the issue herein:

1. The royalties received by the patentee for the licensing of the patent in suit, proving or tending to prove an established royalty.

2. The rates paid by the licensee for the use of other patents comparable to the patent in suit.

3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold.

4. The licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licenses under special conditions designed to preserve that monopoly.

5. The commercial relationship between the licensor and licensee, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter.

6. The effect of selling the patented specialty in promoting sales of other products of the licensee; that existing value of the invention to the licensor as a generator of sales of his non-patented items; and the extent of such derivative or convoyed sales.

7. The duration of the patent and the term of the license.

8. The established profitability of the product made under the patent; its commercial success; and its current popularity.

9. The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.

10. The nature of the patented invention; the character of the commercial embodiment of it as owned and produced by the licensor; and the benefits to those who have used the invention.

11. The extent to which the infringer has made use of the invention; and any evidence probative of the value of that use.

12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the invention or analogous inventions.

13. The portion of the realizable profit that should be credited to the invention as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer.

14. The opinion testimony of qualified experts.

15. The amount that a licensor (such as the patentee) and a licensee (such as the infringer) would have agreed upon (at the time the infringement began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee- who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention- would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable by a prudent patentee who was willing to grant a license.

The drawing of proper conclusions from conflicting evidence concerning the amount of a reasonable royalty has been said to call 'for the exercise of judicial discretion by the District Court.' Both sides agree that this Court has a broad range of judgment in evaluating the relevant factors.

In the present case there is a multiplicity of inter-penetrating factors bearing upon the amount of a reasonable royalty. But there is no formula by which these factors can be rated precisely in the order of their relative importance or by which their economic significance can be automatically transduced into their pecuniary equivalent. In discharging its responsibility as fact finder, the Court has attempted to exercise a discriminating judgment reflecting its ultimate appraisal of all pertinent factors in the context of the credible evidence.

The parties agree that there was no 'established' royalty for USP's Weldtex or GP striated. Consequently, it is necessary to resort to a broad spectrum of other evidentiary facts probative of a 'reasonable' royalty.

The Supreme Court has said that, where a patentee could not prove lost profits, infringer's profits or an established royalty, the patentee could 'show the value by proving what would have been a reasonable royalty, considering the nature of the invention, its utility and advantages, and the extent of the use involved.' 'In fixing damages on a royalty basis against an infringer, the sum allowed should be reasonable and that which would be accepted by a prudent licensee who wished to obtain a license but was not so compelled and a prudent patentee, who wished to grant a license but was not so compelled.' A variant phrasing reads:

'The primary inquiry, often complicated by secondary ones, is what the parties would have agreed upon, if both were reasonably trying to reach an agreement.'

The rule is more a statement of approach than a tool of analysis. It requires consideration not only of the amount that a willing licensee would have paid for the patent license but also of the amount that a willing licensor would have accepted. What a willing licensor and a willing licensee would have agreed upon in a suppositious negotiation for a reasonable royalty would entail consideration of the specific factors previously mentioned, to the extent of their relevance. Where a willing licensor and a willing licensee are negotiating for a royalty, the hypothetical negotiations would not occur in a vacuum of pure logic. They would involve a market place confrontation of the

parties, the outcome of which would depend upon such factors as their relative bargaining strength; the anticipated amount of profits that the prospective licensor reasonably thinks he would lose as a result of licensing the patent as compared to the anticipated royalty income; the anticipated amount of net profits that the prospective licensee reasonably thinks he will make; the commercial past performance of the invention in terms of public acceptance and profits; the market to be tapped; and any other economic factor that normally prudent businessmen would, under similar circumstances, take into consideration in negotiating the hypothetical license.

As pointed out in an earlier decision herein by this Court, the very definition of a reasonable royalty assumes that, after payment, 'the infringer will be left with a profit.' It is necessary to consider, as an element in determining the amount of the reasonable royalty, the fact that GP would be willing hypothetically to pay a royalty which would produce 'a reasonable profit' for GP.

It is evidence, therefore, that the formulation called the willing seller and willing buyer rule represents an attempt to colligate diverse evidentiary facts of potential relevance. In applying the formulation, the Court must take into account the realities of the bargaining table and subject the proofs to a dissective scrutiny.

USP's reconstruction is attacked by GP as a distorted fictional playback that trims the facts to fit USP's theory. For example, GP describes the trial testimony of USP's witnesses, Antoville and Heilpern, as insulated from reality by assuming to recapture the mood of 1954 without any such modification as is required by subsequently developed facts. This is the direct result of a basic misconception by plaintiff of the 'willing seller' rule. The entire thrust of the Heilpern-Antoville testimony was to give expression to an opinion of what USP would have asked had there been a 1955 negotiation with GP for a Deskey license.

Testimony of this nature is irrelevant and, if regarded at all, misleading. The 'willing seller' rule does not contemplate a confrontation between adverse negotiators and the use of their campaign slogans as evidence. It does contemplate a marshaling of all of the pertinent facts which, like cards dealt face up, are for all to see. And it then contemplates the suppositi-

tious meaning of buyer and seller, who are able, on the basis of the over-all round-up of information, to become 'willing' buyers and sellers, at a royalty which will enable the buyer to make and sell at a reasonable profit.'

The Court, having considered GP's critique, finds that USP's presentation is, in decisive respects, rooted in reality.

[15 pages of detailed economic analysis follow, and are deleted here]

#### CONCLUSION

The amount of the reasonable royalty fixed by the Court has been derived from a close factual analysis of the total record. The reasonable-royalty case law analysis, based on all the reasonable-royalty decisions in this circuit and the most pertinent decisions elsewhere, has furnished general guidelines in the form of the applicable criteria of legal principles and operative facts. To the extent that there is precedential guidance, that factor has been subjected to the qualifications and modifications required by a realistic comparison of the particular facts and individual circumstances in the prior decisions and those in the case at bar.

The Court finds and concludes that \$50.00 per thousand square feet of the patented product, striated fir plywood, made and sold by GP, represents a fair reasonable royalty that should be paid by GP. This amounts to \$800,000, which is hereby awarded to USP, together with interest on the said award computed from the date of the last infringement, September 1, 1958, to the date of payment of the award, at the rate of 6 per cent per annum..

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