

Damages and legal costs in IP matters: recent case law trends

October 17 2016 | Contributed by [IP Law Galli](#)

Introduction

Lost profits

Recent case law on convoyed sales

Calculation of lost profits and infringer's profits

Lost profits: equitable damages

Assessment of infringer's profit

Further damages

Reimbursement of out-of-pocket costs

Liability without negligence

Reimbursement of legal costs

Introduction

Following the implementation of the EU IP Rights Enforcement Directive (2004/48/EC) in 2006, Italian law has provided a general rule for the calculation of damages in IP matters, which is set out in Article 125 of the Industrial Property Code. This rule applies to the violation of all IP rights except copyright, the rules for which are set out in Article 158 of the Copyright Law, which differs from Article 125, but has been interpreted similarly. According to Article 158, the holder of an infringed IP right can receive a sum corresponding to the greater of the infringer's profits or the rights holder's lost profits. Compensation for further damages, such as expenses incurred for responding to the infringement or damages to reputation, can also be included in the sum. No overall limitation of the damages assessed is provided for.

A significant evolution has taken place in this regard; the courts have progressively shared the view of scholars who interpret these rules as being based on full compensation for real damages suffered by the rights holder, but as well as on the deterrent effect of further infringing activities. As a result, between 2013 and 2016, relevant damages (between €1.8 million and €3.8 million) have been awarded in a number of cases. Further, a number of key cases promote the development of well-established case law on the most debated issues, which can be seen as best practice at an EU level, even if some disputed matters remain.

Lost profits

The most relevant element for assessing damages in IP rights infringement cases is the lost profits that the rights holder suffers. As stated by Italian case law and scholars, and expressly set out in Article 125 of the Industrial Property Code (as amended to implement the IP Rights Enforcement Directive), damage suffered can be evaluated in light of the relevant facts of a single case. Courts usually appoint an unbiased marketing and accounting expert during the proceedings to:

- better assess market outcomes had the infringement not taken place; and
- check the relevant data that both parties must supply.

Calculating the ratio between sales of infringing products and lost sales of the original products depends on the type of product and the IP right that has been violated. In general, a court-appointed expert will consider the different factors on which this ratio depends – in particular, the purchaser

AUTHOR

[Cesare Galli](#)



attitude towards the product, including the perceived quality of the infringing products and the channels through which they are marketed.

As a result, the ratio between sales of infringing products and lost sales of the original products is usually 1:1 for patent infringement when the patent regards the overall product. There is a similar ratio for trademarks, designs and copyrights, which depends mainly on consumer motivation for buying the products.

An Italian Association of Furniture Manufacturers-commissioned survey, in which 46% of consumers chose furniture based on its design is often quoted in this regard (see also *Flou spa v Mondo Convenienza Holding spa*, Court of Milan, June 16 2015).

Recent case law on convoyed sales

Lost sales are assessed to settle damages pursuant to the loss of profit criterion, which is based on the loss of business opportunities due to an infringement activity, taking into account the infringer's sales and profits.

The courts sometimes consider price erosion to determine lost profits due to an infringement activity. This is common practice when an IP rights violation weakens the reputation of the original product or service and:

- results in a price reduction; or
- can be considered a reasonable measure that the IP rights holder can adopt to reduce the loss of sales of the original product or service.

All such convoyed sales are considered – including the sale of spare parts, accessories and maintenance and service contracts – as well as the effects on the rights holder's pricing policy. In *Cama 2 v IMA and Gima*, still pending before the Milan IP Specialised Division on Company-related Matters, an assessment was conducted by a court-appointed expert and profit made through the sale of a plant was considered, even though the infringing machine was only a small part of the plant, as the collected elements suggested that, without the machine, the infringer would not have been able to market the plant.

Calculation of lost profits and infringer's profits

In order to calculate a rights holder's lost profits and an infringer's profit, marginal revenue must be considered. This calculation normally considers only the variable element relating to the cost of the relevant goods or services. As a result, the rights holder's lost profits will be equal to the difference between the presumed revenue and the non-incurred variable costs (if any). The corresponding infringer's costs will be equal to the difference between:

- the total revenue depending on the sale of infringing products; and
- the variable costs incurred in manufacturing and marketing them.

The fixed costs are taken into account only in special cases – in particular, when the fixed costs would not have incurred if the infringing activity had not taken place (eg, if a dedicated new plant has been built for manufacturing the infringing products, the relevant costs must be considered).

For example, the Court of Milan's December 5 2013 decision in *Slide v Eva Stampaggi*, in which the court amended the court expert's conclusion, excluded the fixed costs from the calculation. The Court of Milan's February 2 2015 decision in *Flou v Chateau d'Ax* and its June 14 2016 decision in *Eko Mobile v Samsung Italia* are also of interest in this regard.

Lost profits: equitable damages

If requested by the rights holder, the court can also render a decision on the equitable liquidation of damages (ie, a lump sum) based on a discretionary assessment of the allegations in the case at hand.

If the rights holder asks the court for a decision regarding the equitable liquidation of damages, the

assessment of damages cannot be less than the "reasonable amount of royalty" that the infringer would have paid to obtain a licence from the rights holder. In other words, the reasonable amount of royalty is a residual method, which is used to determine the minimum amount of damages due to the rights holder when no other methods for liquidating damages are available. Therefore, this method is applied irrespective of the availability of the IP rights for licence, if no other way to award damages is available.

The reasonable royalties method refers to the licence fee that the infringer would have had to pay to make contractually valid use of the infringed right. This represents a minimum standard of protection when seeking compensation for lost profits based on damages (insofar as they are identifiable). Therefore, the price of the infringed goods is usually considered.

The royalty accrued by the rights holder in similar cases is also considered (if any). Otherwise, the royalty is fixed, taking into account the average royalty paid by licensors to licensees in the relevant field.

However, this method is favourable for infringers, as it effectively transforms them into a mandatory licensee. For this reason, the relevant Italian laws (ie, Article 125 of the Industrial Property Code and Article 158 of the Copyright Law) and case law strictly follow the EU IP Rights Enforcement Directive in identifying such reasonable royalties as a minimum standard only for compensation determined on an equitable basis and in the absence of other findings of proof. In the most recent case law, it has therefore been generally accepted that equitable evaluations can be increased on the basis of additional assessments of damage – primarily, infringement of the rights holder's exclusive right of use. Hence, a higher royalty than that normally practised by the rights holder (or in the relevant field) is used for this purpose (see in particular *Emmentaler Switzerland v Wick Käse GmbH*, Court of Milan, June 9 2015).

Assessment of infringer's profit

The holder of an infringed IP right could receive a sum which corresponds to the greater of the infringer's profits or the rights holder's lost profits. In both cases, compensation for any further damage, such as expenses incurred for responding to the infringement or damage to image, could also be included in the sum.

In other words, the Italian legal system allows rights holders to select the most favourable criterion among these options. Further, the courts appear not to consider the relationship between the investment that the infringer makes to enter the market and the advantages in selling the products that accrue from the violated IP rights (ie, the profits that the infringer makes from manufacturing or selling the infringing products or services). The assessment of unfair profits that the infringer accrues are calculated in the same way as the rights holder's lost profits (ie, marginal revenue is also considered).

Landmark cases in this regard include the Court of Milan's June 16 2015 decision in *Flou spa v Mondo Convenienza Holding spa* and its June 14 2016 decision in *Eko Mobile v Samsung Italia*, which granted the right's holders €3.35 million and approximatively €2.1 million, respectively, having considered the infringers' profits plus further damages.

Further damages

As stated above, compensation for further damages, such as expenses incurred for responding to the infringement or damage to reputation, may also be included in the calculation. Article 125 of the Industrial Property Code, as amended in 2006, expressly establishes the assessment of damages for:

- the impaired value of infringed IP rights; and
- the rights holder's lost profits or net profits that the infringer makes.

In this regard, legal theory and case law state that, if the infringement damages the reputation of the IP right (especially trademarks and designs), additional damages should be paid to the rights holder.

In trademark infringement cases, dilution (ie, impairment of distinctiveness) and disparagement (ie,

damage of reputation) are relevant forms of prejudice in this regard. Compensation for damage caused to the rights holder's reputation is often calculated as a fraction of the advertising expenses that the rights holder incurred or the cost of an advertising campaign to mitigate the negative impact of the infringement on public opinion.

In general, the Italian courts consider:

- the damage to the undertaking's name or reputation;
- the loss of value regarding goodwill;
- the loss of IP rights value;
- the loss of advertising investment during the period at stake; and
- the damage to the desirability of the IP rights as regards licensing, merchandising or co-branding activities.

These kinds of damage – particularly the first kind – cannot be directly assessed by examining a basic profit and loss balance sheet. However, such damages are quantified by the courts based on data that can be obtained in the course of the proceedings – in particular, when the activities have clearly led to a substantial loss of value regarding the rights holder's corporate goodwill and the IP rights themselves. The IP rights have their own independent market value which is quantifiable in financial terms – in particular, by means of transfer and warranty operations. In this case, the specific compensation can be calculated by adopting the consolidated corporate methods for assessing intangible assets. With regard to assessing the value of corporate goodwill damaged by the infringement, total goodwill needs to be calculated. Once the value of the rights holder's goodwill has been determined, the percentage of the value can be easily calculated based on the percentage of profitability applied to the average revenue ascertained. This percentage represents the counterfeited goods' contribution to sales revenue. It is possible to calculate how much goodwill was removed by the infringement by calculating the number of counterfeit products sold.

This method was applied by the Court of Florence in its May 2 2016 decision in *Nappa v Corsi* regarding trademark infringement and the Court of Milan in its June 16 2015 decision in *Flou spa v Mondo Convenienza Holding spa* regarding copyright infringement. In other cases, these damages were determined according to equity (eg, the Court of Milan's March 12 2014 decision regarding patent infringement and its January 20 2015 decision regarding trademark infringement).

Reimbursement of out-of-pocket costs

Out-of-pocket costs (other than the obvious legal expenses required by the proceedings) concern:

- technical experts' fees
- costs incurred for the investigation; and
- the cost of the time that the plaintiffs' employees and IP consultants dedicated to gathering information, conducting the required assessments and making relevant decisions.

When proven by the plaintiff, these costs are reimbursed (if so requested), provided that they are reasonable (eg, *Geosec srl v Uretek*, Court of Bologna, August 25 2015 regarding unfair competition).

However, it is difficult to determine these costs precisely (ie, the amount of time that the right holder's employees or technical experts spent collecting documentation and making the necessary assessments and decisions). This is because employees and technical experts are not paid hourly. Further, during this time, they cannot be employed for other activities, which consequently results in further damages for the plaintiffs. These damages are usually calculated according to equity (eg, *Omer Spa v Pogliani & Rivolta Spa*, Court of Milan, April 29 2014).

Liability without negligence

Italian law provides common general rules on infringement, but does not distinguish between counterfeiting and piracy when assessing the infringer's liability or determining the compensation due to the rights holder. In principle, under Italian law, the restoration of damages is linked to the infringer's behaviour: damages are due only if the infringement was triggered by wilful or negligent behaviour. However, pursuant to Italian case law, in registered IP rights infringement cases there is a

presumption of the infringer's negligence or wilfulness, as the registration system allows market players full knowledge of third-party rights. The scale of counterfeiting does not influence the criteria for liquidating damages, but rather the amount.

Further, some scholars argue that the rule under which the disgorgement of an infringer's profits is due to the rights holder "in every case" means that said disgorgement must be ordered even if the infringing activity was neither wilful nor negligent. However, other scholars have stressed that details of the infringer's profit must be expressly provided as an alternative to the payment of the rights holder's lost profits and that therefore, the same rule on the infringer's behaviour should apply.

Reimbursement of legal costs

Under Article 91 of the Civil Procedure Code, the final court decision orders the losing party to reimburse the winning party for expenses and legal fees, including:

- lawyers' fees;
- court experts' fees; and
- the fees of the IP attorney acting during the court expert stage (if any).

Exceptions to this rule occur:

- in cases implying legal problems which are new or especially complex; and
- when the successful party breaches its duties of loyalty and probity (Article 92 of the Civil Procedure Code).

In these cases, the costs can be settled by both parties (ie, each party bears its own costs). Further, in the second scenario, the losing party could be entitled to a (usually partial) reimbursement (eg, *Bugnion spa v F&M*, Court of Bologna, November 5 2012 regarding stolen trade secrets).

According to an official tariff, the court determines these expenses – which are usually much lower than the real costs expended by the rights holder – and only 30% of the actual legal costs are typically recovered.

However, some improvements have been made in this regard. For the time being, the criteria for determining reimbursable costs are set by Ministerial Decree 55/2014 and include:

- the value of the goods at stake;
- the stage of the proceedings;
- the difficulty of the case; and
- the number of parties involved.

As a result, reimbursements are now comparatively higher than in the past (eg, *Eko Mobile v Samsung Italia*, Court of Milan, June 14 2016, (cost determined at €100,000.00) and *Flou spa v Mondo Convenienza Holding spa*, Court of Milan, June 16 2016 (cost determined at €80,000.00)).

Further, as indicated above, the costs of research and time spent by IP employees in tackling infringing activity can be included among the damages.

For further information on this topic please contact [Cesare Galli](mailto:galli.mi@iplawgalli.it) at IP Law Galli by telephone (+39 02 5412 3094) or email (galli.mi@iplawgalli.it). The IP Law Galli website can be accessed at www.iplawgalli.it.

The materials contained on this website are for general information purposes only and are subject to the [disclaimer](#).