

Intellectual Property

Accounting for intellectual property profits: What's in it for me?

By **Emanuela Truffo**

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(January 8, 2021, 12:20 PM EST) -- An intellectual property (IP) right is an intangible asset. An IP right is therefore a tool protected by the law and offered to business to make business. To make money, actually.

Furthermore, an IP right is essentially a monopoly granted by the law to the IP right holder as a reward for the investments and the efforts deployed to reach the goal; i.e. the IP right itself. We are not far from the truth stating that the whole domestic and international IP system is based on the endless research into the most accurate balance between the interest of the society to improve culturally, scientifically and technologically, and the need to reward those who make it possible to make this world a better one.

Although the modern economy is based on the principles of free trade and the liberty of economic initiative, a monopoly should come to an end. That is the reason why patents have a prefixed legal duration.

A monopoly is disliked by everyone — except the monopolist, of course. However, during the legal duration of an IP right its owner is entitled to prevent third parties from using or simply taking advantage of the right, bringing the case to court, if necessary.

Leaving aside the few means to get the status quo ante restored, the main tool to grant a proper enforcement of an IP right is damages compensation.

In theory, the criteria to be followed by courts are three: reasonable royalty, loss of profits and accounting for profits (i.e. basically, calculating the damages to be paid according to the infringer's profit).

If we leave the ideal world of legal doctrine and land for the real one, more often than not parties are leaving the pitch with a nil-nil score. On one hand, the claimant is unsatisfied because the discovery phase did not let it get the full evidence of the defendant's profit and the related damages to be paid. On the other hand, the defendant is unsatisfied because the audit did not consider properly the costs and all the other deductions to be made to the profits gotten thanks to infringement.

Awaiting the — potential — new approach of British courts in respect to patent cases management once Brexit has been definitively delivered, among the continental Europe legal system, the Italian one offers the claimant the chance not to choose the criteria to rely on for determining the damages compensation. As a matter of fact, the plaintiff is required to submit the damages compensation claim listing the criteria — all of them — mentioned in art. 125 of the Italian IP Code (Legislative Decree n.30/2005) and the court should award the plaintiff with the higher sum that results from applying the different criteria.

Although it sounds great — and it is, if compared with other jurisdictions where the claimant has to proceed blindly being required to choose one path waiving automatically the others before having allowed to carry out an audit on the defendant's accounting books — reaching the final goal could be tricky:

Reasonable royalty: It is up to the claimant to prove the average royalty in the industry. Disclosing

the standard contracts concluded by the plaintiff is a good starting point, but it is not enough to provide courts with all the elements necessary to have a full idea of the economic framework in which judges have to take their decisions.

Loss of profits: It might be easy to prove it but it might be quite difficult to prove the cause/effect link between the infringement and the loss of profit suffered by the claimant. More often than not, even if a patent — including the one playing a leading role in the IP portfolio of the plaintiff — is infringed, there is no loss of profits detectable in its balance sheets. And those who get used to pleading at the bar know very well that being successful in the “but-for test” in a courtroom is tasking.

Account for profits: The audit of the defendant's accounting books is crucial to get the necessary information and to accurately apply this criterion. Again, it is pivotal to prove the cause/effect link between the profit gotten by the infringer and the infringement itself.

In recent years, Italian case law has dramatically increased its awareness about the economic value of patents and subsequently of the related litigation. And parallelly, if not even proportionally, to such a brand-new awareness, damages compensations have begun to go higher and higher, but the process has yet to come to an end to have recognized in court pitch the economic value that is granted on the market.

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