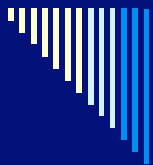


Injunctions & Assessment of Damages

Randall R. Rader, Circuit Judge,
U.S. Court of Appeals for the
Federal Circuit




Part I Injunctive Relief after eBay v. MercExchange




eBay Inc. v. MercExchange L.L.C.

- In May 2006 the US Supreme Court ruled that no GENERAL RULE would favor permanent injunctions even after a finding of infringement
- Instead, standard 4-factor test governs




Key facts from eBay case

- MercExchange, the patent owner:
 - Does not practice its patented inventions
 - Licenses its inventions to others
 - Sought to license with eBay but no agreement reached



District Court & Federal Circuit

- Trial judge found willful infringement by eBay BUT denied permanent injunction because MercExchange does not practice its patents
- Federal Circuit REVERSED due to “general rule” that permanent injunction should follow a finding of infringement




Supreme Court

- Unanimous opinion REVERSES the Federal Circuit
 - No “general rule” favors a permanent injunction after a finding of infringement
 - Instead the patent owner must show entitlement to permanent injunction under the traditional 4-factor test




Four-factor test

- Irreparable harm to patent owner
- Remedies at law (damages) inadequate to compensate for injury
- Balancing hardships of both parties favors an injunction
- Public Interest factors (health and safety) do not preclude injunction




Law vs. Equity – origin of difference

- Origins of common law remedies depended on court
 - Court of law could award damages
 - Court of equity could enjoin courts of law if unjust
 - Chancellor was highest church officer
 - Enjoined courts of law to prevent “sin”
 - Emphasized consideration of extenuating facts




Role of Patent Act in eBay case

- Section 283: a court “MAY” grant injunctions “in accordance with the principles of equity”
 - Supreme Court emphasizes that the Act makes the injunction optional under principles of equity
 - Traditional equitable principles do not permit broad rule to govern injunctions




Patent Act (continued)

- Section 261: patents have “attributes of personal property”
- Section 154: patents entail the “right to exclude others” from making, using, etc.
- BUT Section 283 still says MAY and governs




Chief Justice Roberts (and two)

- “a page of history is worth a volume of logic”
 - Even though Supreme Court is emphasizing 4-part test, courts since the 19th century have granted permanent injunctions to protect the “right to exclude”




Justice Kennedy (and two)

- A patent “industry” (TROLLS?) use patents to obtain licensing fees, not to produce goods
- Two factors emphasize problem:
 - Patent owner does not practice the invention
 - Patented invention is just a “small component” of a larger infringing product and injunction is used as “leverage” in negotiations




Likely Impact of eBay

- Patent trolls lose leverage in settlement negotiations
- ITC becomes more preferred remedy because it guarantees an injunction
- Potentially more trials because less risk for infringer at outset




Paice LLC v. Toyota (Fed. Cir. 2007)

- At the trial court:
 - Paice sued Toyota over 3 hybrid electric vehicle drive train patents
 - Jury found infringement, awarded \$4.3 million in damages
 - District judge applies eBay factors, denies permanent injunction
 - District judge *sua sponte* awards \$25 / vehicle ongoing royalty




Paice LLC v. Toyota (Denial of Permanent Injunction)

- Irreparable injury
 - Paice does not manufacture goods
 - No real evidence that the absence of an injunction would adversely affect Paice's ability to license
- Adequacy of monetary damages
 - Paice had offered Toyota a license post-trial
- Balance of hardships
 - Injunction would damage "burgeoning hybrid market" and severely disrupt Toyota's business
 - Paice's "extinction" argument based on rejected premise that only injunctive relief leads to a successful licensing program
- Public interest
 - Favored neither party




Paice LLC v. Toyota (Majority opinion on appeal)

- "In most cases, where the district court determines that a permanent injunction is not warranted, the district court may wish to allow the parties to negotiate a license amongst themselves regarding future use of a patented invention before imposing an ongoing royalty. Should the parties fail to come to an agreement, the district court could step in to assess a reasonable royalty in light of the ongoing infringement." (emphasis added)
- "[T]he district court's order provides no reasoning to support the selection of \$25 per infringing vehicle as the royalty rate. . . Thus, this court is unable to determine whether the district court abused its discretion in setting the ongoing royalty rate. Accordingly, we think it prudent to remand the case for the limited purpose of having the district court reevaluate the ongoing royalty rate."



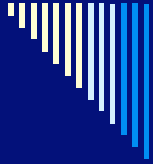
Paice LLC v. Toyota (Rader concurrence)

- "this court should do more than suggest that 'the district court may wish to allow the parties to negotiate a license amongst themselves . . . before imposing an ongoing royalty.' . . . Instead, this court should require the district court to remand this issue to the parties, or to obtain the permission of both parties before setting the ongoing royalty rate itself."
- "District courts have considerable discretion in crafting equitable remedies, and in a limited number of cases, as here, imposition of an ongoing royalty may be appropriate. Nonetheless, calling a compulsory license an 'ongoing royalty' does not make it any less a compulsory license. To avoid many of the disruptive implications of a royalty imposed as an alternative to the preferred remedy of exclusion, the trial court's discretion should not reach so far as to deny the parties a formal opportunity to set the terms of a royalty on their own. With such an opportunity in place, an ongoing royalty would be an ongoing royalty, not a compulsory license."



Post-eBay decisions in patent cases: district courts

- Preliminary injunctions
 - 8 granted
 - 16 denied
- Permanent injunctions
 - 29 granted
 - 14 denied
 - some cases feature only a "small component" of larger product
 - other cases feature patent owner that does not practice the invention
- How to compute future infringement?
 - some cases impose continuing payment (royalty)
 - other cases require patent owner to bring new damages case



Part II
Damages: Assessing the
Ultimate Value of IP




Damages: 35 U.S.C. § 284

- “adequate to compensate for infringement”



The test for “adequate to
compensate”

- “Had the Infringer not infringed, what would the Patent Holder-Licensee have made?” Aro Mfg., 377 U.S. at 507.
- “This surely states a ‘but for’ test.” Rite Hite, 56 F.3d at 1538.




Proof of “but for” damages

- ❑ Lost profits
- ❑ Reasonable royalty
- ❑ Price erosion
- ❑ Entire market value rule (conveyed sales)



Lost Profits: the DAMP test

- ❑ Demand for the patented product
- ❑ Availability of acceptable non-infringing substitutes
- ❑ Manufacturing and marketing capability
- ❑ Profit




DAMP: “not an exclusive test”

- ❑ assumes that patentee and infringer sell products in same market segment
- ❑ *BIC v. Windsurfing*, 1 F.3d 1214 (1993)
- ❑ *Rite-Hite*, 56 F.3d 1536 (1995)
- ❑ availability?
- ❑ available for purchase or available as known but unused substitute?

Court Pro v. Titan

- Court Pro racquet
 - price: \$100/ racquet
 - cost: \$50/racquet
 - sold: 50,000 racquets
 - profit: \$50/racquet
- Titan racquet
 - price: \$75/ racquet
 - cost: \$50/racquet
 - sold: 100,000 racquets
 - profit: \$25/racquet

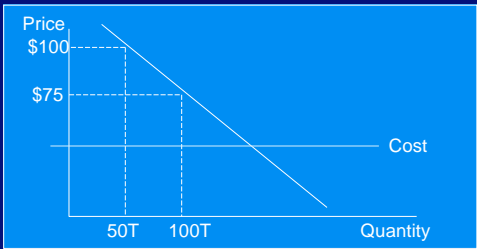


Lost profits damages



- 100,000 racquets x \$50 (CP profit) = \$5,000,000
- “but for” infringement would have made all Titan’s sales

Racquet demand curve





Lost profits: economic considerations

- CP could not make all of Titan's sales at the higher CP price
- An accurate lost profits calculation, even in the simplest two-supplier market with identical products, requires a demand curve
- SOLUTION?: Use Titan's sales price (\$2.5m in lost profits -- what market actually paid for identical product)



Price erosion

- Rule: but for infringement, patentee could have sustained higher price
- Economic problem: at a higher price, would the patentee sell fewer products?



Price erosion: Court Pro v. Titan

- Titan's presence in market depressed CP price from \$110/racquet to \$100/racquet
- but for infringement -- CP gets \$10 more profit per racquet
- \$10 x 100,000 = \$1,000,000 for price erosion
- TOTAL= \$6m (\$5m l.p. + \$1m p.e.)

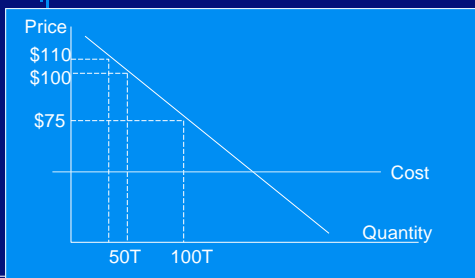


Price erosion: Court Pro v. Titan

- Economic problem: prior calculation assumes that price has no effect on quantity
 - because demand curves almost always slope down, a higher price to compensate for erosion means fewer sales
- How to calculate? Depends on slope of demand curve



Racquet demand curve





How to determine price erosion?

- Depends on slope of demand curve
 - demand elastic (many substitutes, little price variation): low price erosion damages
 - demand inelastic (few substitutes, vast price variation): high price erosion damages






Reasonable royalty




- Rate depends on slope of demand curve
- royalties could exceed lost profits
 - two factors: elasticity of demand and Titan's costs
 - royalties large when demand elastic (small price change produces big shift in quantity) and Titan has cost advantage (makes racquets cheaper than CP)



Entire market (or functional) value rule

- Rite-Hite on lost profits: "reasonably foreseeable ... in the relevant market"
- R-H on convoyed sales: "unpatented components must function together with the patented components"
- English rule: reasonably foreseeable in the market Gerber Garment (1995)



Damages law today

- Often calculate damages without recognizing demand curve realities
 - King v. Perego, 65 F.3d 941 (market share rule); TWM Mfg. v. Dura, 789 F.2d 895 (both LP and PE); State Indust. v. Mor-Flo, 883 F.2d 1573; 3M v. J&J, 976 F.2d 1559 (2%PE per year)
- Why?
 - ease of proof; deterrence of infringement



Whence damages law?

- More economic analysis?
 - Rite-Hite; BIC v. Windsurfing; Pall v. Micron
 - "Instead of presenting actual sales combined with reliable economic analysis of demand, supply, and price over time, Oiness invites. . . speculation." Oiness v. Walgreen, 88 F.3d 1025
- Speculative to use demand curve?
 - exclude experts without demand curve?
- Deterrence v. compensation?



Legislative reform for damages?

- HR 1908, Sec. 5
 - reasonable royalties
 - court must only consider:
 - relationship of damages to contributions over prior art;
 - Royalty "applied only to that economic value properly attributable to the patent's specific contribution"
 - entire market value rule; or
 - Applies where the patent's specific contribution is the "predominant basis" for market demand for the infringing product/process
 - other factors
 - Where the above are inapplicable, courts may consider:
 - terms of non-exclusive marketplace licensing
 - "other relevant factors"



Legislative reform for damages?

- More about HR 1908, Sec. 5
 - combination inventions: patentee may show "additional value" resulting from combination
 - changes in willfulness
- HR 1908, Sec. 19
 - USPTO Director must conduct a study of cases where reasonable royalties have been awarded, and report back to Congress.
