

CLASS 21

PATENT REMEDIES

PATENT LAW & POLICY
PROFESSOR WAGNER



Today's Agenda

Overview of Remedies

Injunctive Relief

Damages

Willful Infringement & Attorney's Fees

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Overview of Remedies

Patent Remedies

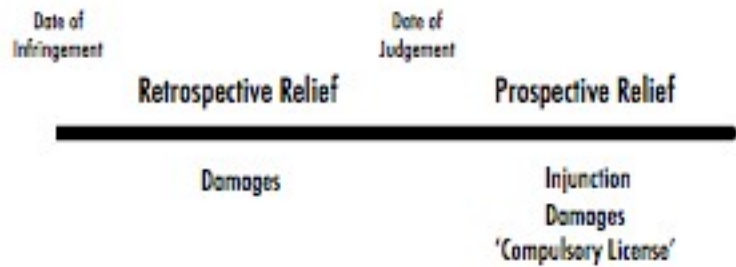
Patents are enforceable from
their date of issue to date of expiration.

[Note: § 154(b) allows collection of "reasonable royalty" from time of
publication of the application to the time of issue]

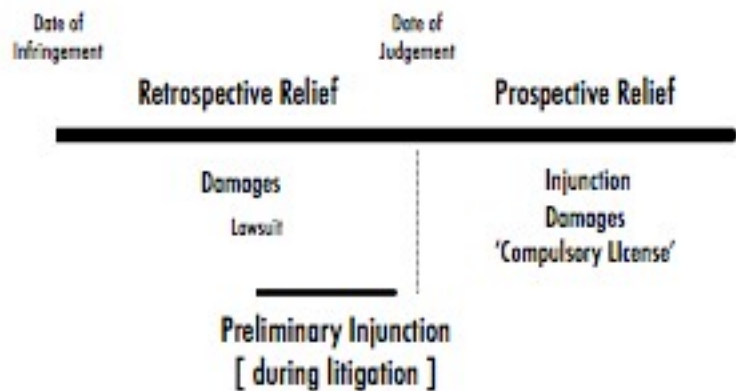
Limits on recovery:

Statute of Limitations (6 yrs)
Laches or Implied License (equity)
Failure to Mark

Types of Relief



Types of Relief



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Injunctive Relief

Patents as Property



United States Patent		Patent Number	1,234,567
Title		Class of Invention	35 U.S.C. § 101
1. A method of...
2. A device for...
3. A system for...
4. A process for...
5. A composition of...
6. A structure for...
7. A method of...
8. A device for...
9. A system for...
10. A process for...
11. A composition of...
12. A structure for...

Patent Remedies

Patents are thought to be property rights.
[Enforced via property rules.]

Why does this matter?

Property Rules vs Liability Rules

Property Rules	Liability Rules
'absolute' right to exclude	right to collect damages
injunctive relief	calculation & award of damages

Property Rules vs Liability Rules

Property Rules	Liability Rules
better harnesses private information about valuation	avoids costs associated with property rules (esp. "transaction costs")

Property Rules vs Liability Rules

Property Rules	Liability Rules
better when ... fewer parties difficult valuation low transaction costs	better when ... many interested parties strategic behavior possibilities high transaction costs

Property Rules vs Liability Rules

Property Rules	Liability Rules
Which is better for patents?	
better fewer parties difficult valuation low transaction costshen ... many interested parties strategic behavior possibilities high transaction costs

Patent Injunctions

35 U.S.C. 283 Injunction.

The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

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Preliminary Injunctions

Amazon.com v Barnesandnoble.com (Fed. Cir. 2001)

What are the standards for preliminary injunctions?

[Who bears the burden?]

What does the alleged-infringer have to show to prevent a PI from issuing on grounds of invalidity?

[Does this make sense, given the trial burdens?]

The Federal Circuit's Approach to Preliminary Injunctions

Factor	FedCir's Approach
likelihood of success	(1) likely to prove infringement (2) likely to withstand invalidity claim
irreparable harm	presumed by infringement [usually follows LOS factor]
balance of the hardships	usually favors patentee [not often considered in this context]
the public interest	favors protection of patents; limited public interest exceptions (public health, welfare)

The Federal Circuit's Approach to Preliminary Injunctions

Given the standards and burdens, can you expect to get a PI where obviousness or DOE is at issue in the case?

Has the Federal Circuit set the bar properly for PIs?

The Federal Circuit's Approach to Preliminary Injunctions

Factor	FedCir's Approach
likelihood of success	(1) likely to prove infringement (2) likely to withstand invalidity claim

What must the alleged infringer show to prevent the injunction?

Note the burden-shifting process:

[if a "substantial question" related to infringement or validity,
then P must show that argument "lacks substantial merit"]

Does this make sense, in light of trial burdens?

The Federal Circuit's (Historical) Approach to Injunctions

Factor	FedCir's Approach
irreparable harm	presumed by infringement
damages inadequate to compensate	always inadequate / patents as "property"
balance of the hardships	always favors patentee
the public interest	favors protection of patents; limited public interest exceptions (public health, welfare)

The Federal Circuit's Approach to Injunctions

Factor	FedCir's Approach
<p>Over the years, the Federal Circuit had shortened the analysis: injunctions will issue following infringement, absent public interest considerations.</p> <p>"The general rule."</p>	<p>is public</p>

eBay v. MercExchange (2006)

MercExchange owns a business method patent, covering an electronic marketplace where a central authority establishes trust among users.

MercExchange doesn't operate such a marketplace.

eBay v. MercExchange (2006)

District Court	Federal Circuit
no injunction	injunction granted
no irreparable harm when patentee is willing to license patents	"general rule" is that injunctions should be granted

eBay v. MercExchange (2006)

Because we conclude that neither court below correctly applied the traditional four-factor framework that governs the award of injunctive relief, we vacate the judgment of the Court of Appeals, so that the District Court may apply that framework in the first instance. In doing so, we take no position on whether permanent injunctive relief should or should not issue in this particular case, or indeed in any number of other disputes arising under the Patent Act. We hold only that the decision whether to grant or deny injunctive relief rests within the equitable discretion of the district courts, and that such discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.

eBay v. MercExchange (2006)

How does the eBay opinion shed light on the Federal Circuit's approach to the "four factors"?

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eBay v. MercExchange (2006)



agrees with four-factor test, while noting that "a page of history is worth a volume of logic"



use the four-factor test, no categorical rules



agrees with four-factor test, while noting that "in many instances, the nature of the patent being enforced and the economic function of the patent holder present conditions quite unlike earlier cases."

eBay v. MercExchange (2006)

What will happen to the law of injunctive relief?

Nothing; courts will come out the same way.

Additional litigation over entitlement to injunctive relief.

Fewer injunctions across-the-board.

Fewer injunctions for non-practicing patentees, business methods.

While we generally think that patents are enforced via a property rule (injunctions), eBay might change that.

Also, note situations where liability rules do exist:

- (1) pre-trial, where DOE/obviousness is at issue**
- (2) post-trial, where the public interest is at issue (others?)**
- (3) cases involving the government (see 28 USC 1498)**

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Damages

35 U.S.C. 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. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

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

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Damages Overview

Primary (preferred) method of calculating damages is via a "lost profits" analysis. (Why?)

If lost profits cannot be proven, then the court must award at least a "reasonable royalty".

Reasonable Royalty

Reasonable Royalty

Trio Process Corp v. Goldstein's Sons (3rd Cir 1980)

- Why does Trio need to request reasonable royalties?
- How do you determine the reasonable royalty?
- Shouldn't the reasonable royalty almost always be higher than what the infringer actually would have paid?
 - Is the result in this case sound policy? Is it fair to Trio?

Reasonable Royalty in the FedCir

REASONABLE ROYALTY (1070)

[6] The setting of a reasonable royalty after infringement cannot be treated, as it was here, as the equivalent of ordinary royalty negotiations among truly "willing" patent owners and licensees. That view would constitute a pretense that the infringement never happened. It would also make an election to infringe a handy means for competitors to impose a "compulsory license" policy upon every patent owner.

- Why does it lie?
- How do you lie?
 - Why is it in the industry?
 - Why is it in the industry?
- Why is the reasonable royalty almost always higher than what the infringer actually would have paid? (Is this the right policy?)

Reasonable Royalty at the FedCir

Determination of a "reasonable royalty" after infringement, like many devices in the law, rests on a legal fiction. Created in an effort to "compensate" when profits are not provable, the "reasonable royalty" device conjures a "willing" licensor and licensee, who like Ghosts of Christmas Past, are dimly seen as "negotiating" a "license." There is, of course, no actual willingness on either side, and no license to do anything, the infringer being normally enjoined, as is Stahlin, from further manufacture, use, or sale of the patented product.

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- How do you lie?
 - Why is it in the industry?
 - Why is it in the industry?
- Why is the reasonable royalty almost always higher than what the infringer actually would have paid? (Is this the right policy?)

Lost Profits

Rite-Hite v Kelley (Fed.Cir. 1995) (en banc)



MDL-55	ADL-100	Dock Levelers
patented, infringed	patented, not infringed	not patented
not competitive with infringing product	competes directly with infringing product	complementary good

Rite-Hite v Kelley (Fed.Cir. 1995) (en banc)



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✓	✓	✗

Lost Profits

Modern elements of proof for lost profits:

- (1) demand for the patented good
- (2) absence of acceptable non-infringing substitutes
- (3) ability to capture demand
- (3) amount of profits per sale "would have made"

Non-Infringing Substitutes

Grain Processing Corp. v. American Maize (Fed. Cir. 1999)

Can a product not on the market be a non-infringing substitute? (Why?)

Lost Profits & Price Erosion

- Consider circumstances of infringement:
 - The patentee is charging \$10 per unit, sells 100 units
 - The infringer is charging \$10 per unit, sells 100 units
- What revenues can the patentee claim as 'lost'?
 - \$1000 (\$10 x 100)? More? Less?
 - What would you want to know to determine this?
- Note the modern trend:
 - careful "market reconstruction" for lost profits analysis
 - what would have happened 'but for' infringement

The “Entire Market Value Rule”

Allows for recovery of lost profits on entire product, when patented and unpatented components are sold together.

Does this make sense? Why?

What if I patent a small component (say a spell checking algorithm) of word processing software. Can I receive lost profits on sales of the word processing software? Office suites?

**What about patenting ‘multitouch’?
Are all profits from lost iPhone sales ‘lost’?**

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Willful Infringement & Attorney’s Fees

Attorney's Fees & Court Costs

The general ("American") rule is that each side pays their own costs.

In "exceptional cases," the loser may be required to pay fees and costs.

- willful infringement –
- vexatious litigation –

Enhanced Damages

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Enhanced Damages

When willful infringement is found, courts will almost always grant enhanced (3x) damages.

Willful Infringement

(1) Actual notice of infringement

(2) Failure to exercise "due care"

How can you show your "due care"?

[Does this make sense? Can you think of issues that might arise as a result?]

Knorr-Bremse Systeme v. Dana (Fed. Cir. 2004)

The Court notes the traditional rule for willfulness: a requirement to "exercise due care to determine whether or not she is infringing."

Seeking advice of counsel is considered to be evidence of due care.

Fromson: courts can infer that no opinion was obtained (or that if obtained, was negative).

What is the problem with this approach?

Knorr-Bremse Systeme v. Dana (Fed. Cir. 2004)

The court strips away the "inferences" supporting willful infringement.

No adverse inference if privilege is invoked.

No adverse inference if no opinion is sought.

In re Seagate (Fed. Cir. 2007)

Raises the "bar" for willfulness: "reckless disregard"

No more affirmative duty of care

Reckless: acts in face of unjustifiably high risk

thus, willful infringement: "infringer acted despite and objectively high likelihood that its actions constituted infringement of a valid patent"

In re Seagate (Fed. Cir. 2007)

Post-Seagate Willful Infringement

"infringer acted despite and objectively high likelihood that its actions constituted infringement of a valid patent"

state of mind of infringer is not relevant

must show infringer knew or should have known of risk

NEXT CLASS

THE SUBJECT MATTER OF PATENTS

PATENT LAW & POLICY
PROFESSOR WAGNER

