

## Enforcement of Patents – Injunctions, Pre-Litigation Techniques, and Strategy

Mitchell G. Stockwell and D. Clay Holloway

This article provides a basic framework for dealing with enforcement of patent rights in light of recent developments in patent litigation. The first section discusses pre-litigation strategy for dealing with demand letters and other pre-suit considerations. The second section discusses preliminary injunctions and the need for addressing preliminary injunction issues early on in litigation strategy. The third section discusses post-suit relief and the interplay between injunctions and damages remedies in light of recent case law.

### I. Pre-Litigation Strategy

#### A. From Cease and Desist Letters to Declaratory Judgment Actions

Typically, when a patentee learns of possible infringement, one option is to open the lines of communication with the alleged infringer via a cease-and-desist or demand letter. In the past, the tone of these letters have spanned the spectrum, from passingly inviting settlement or licensing talks to outright accusations of infringement and threats of litigation. The only real restraint is the possibility that the recipient of the letter—the accused infringer—may launch a declaratory judgment action against the patent owner in a jurisdiction and venue more favorable to the accused infringer. Since the decisions by the Supreme Court in *MedImmune, Inc. v. Genentech, Inc.*<sup>1</sup> and the Federal Circuit in *SanDisk Corp v. STMicroelectronics, Inc.*<sup>2</sup>, the standard for accused infringers to initiate such suits and maintain declaratory judgment action is arguably easier.

The Declaratory Judgment Act provides that “[i]n a case of actual controversy within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.”<sup>3</sup> In deciding whether declaratory judgment jurisdiction is proper, the threshold question is whether an actual controversy exists between the parties.

In *MedImmune*, the question was whether a district court had jurisdiction over a declaratory judgment action brought by a patent licensee against a licensor that the patent was invalid, unenforceable, or not infringed.<sup>4</sup> The licensor argued that an actual controversy did not exist between the parties absent a breach of the license agreement. The Court disagreed and held that a patent licensee does not need to breach its licensee agreement in order to seek a declaration that the patent is unenforceable, invalid, or not infringed.<sup>5</sup> Prior to *MedImmune*, in determining whether an accused infringer met the “actual controversy” threshold for declaratory judgment, the Federal Circuit considered whether the patentee’s conduct created a “reasonable apprehension” on the part of the accused infringer that it will face an infringement suit.<sup>6</sup> *MedImmune* criticized the “reasonable apprehension” test and potentially lowered the threshold for meeting the “actual controversy” requirement for declaratory judgment jurisdiction.

A shift in what constitutes an “actual controversy” for purposes of declaratory judgment subject matter jurisdiction presents important issues for practitioners on both sides of patent litigation. For patentees, a lower threshold makes it more difficult to provide actual notice of patent rights without risking the commencement of a declaratory judgment action. The *SanDisk* court found that the declaratory judgment defendant had made a “studied and

<sup>1</sup> 549 U.S. 118 (2007).

<sup>2</sup> 480 F.3d 1372 (Fed. Cir. 2007).

<sup>3</sup> 28 U.S.C. § 2201(a) (2006).

<sup>4</sup> 549 U.S. at 120-21.

<sup>5</sup> *Id.*

<sup>6</sup> *Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988).

considered determination”<sup>7</sup> in asserting its patent against the plaintiff, giving the accused infringer sufficient grounds to seek a declaratory judgment.

In light of the *MedImmune* decision, the Federal Circuit has heard several cases and made insightful rulings considering actions likely to give rise to declaratory judgment jurisdiction. For example, in *ABB Inc. v. Cooper Industries, LLC*, the Federal Circuit stated that federal question jurisdiction under the Declaratory Judgment Act focuses on the “character of the threatened action, and not of the defense.”<sup>8</sup> Cooper previously sued ABB for patent infringement over electrical equipment and the parties settled that lawsuit with a nonexclusive license that prohibited ABB from sub-licensing.<sup>9</sup> ABB then outsourced manufacturing to Dow and indemnified Dow against claims of infringement.<sup>10</sup> Cooper wrote to Dow saying that outsourcing of manufacture would materially breach the agreement and that it would “vigorously defend its rights.”<sup>11</sup> ABB sued for a declaration of noninfringement. On appeal, the Federal Circuit overturned the lower court’s decision that there was no federal question jurisdiction reasoning “a specific threat of infringement litigation . . . is not required to establish jurisdiction,” and that the letters described above showed an immediate controversy on infringement.<sup>12</sup> Equally important, the defense to infringement offered by ABB was that of license, a state court claim. The Federal Circuit held that the nature of the defense is not where the inquiry focuses; rather, the determination of declaratory jurisdiction focuses on whether the defendant’s “coercive action arises under federal law.”<sup>13</sup>

Conversely, the Federal Circuit held in *Creative Compounds, LLC v. Starmark Labs.*, that competing patents that may give rise to interference claims under 35 U.S.C. § 291, alone, are insufficient to establish federal question jurisdiction under the Declaratory Judgment Act.<sup>14</sup> Creative’s patent on the same amino acid derivative as Starmark’s issued about one month after Starmark’s. After receiving the notice of allowance, Starmark wrote an open letter to industry announcing its forthcoming patent. Creative, reading the letter as threatening, mailed its own letters saying that its patent was about to issue and that Starmark’s patent would not be enforceable in view of Creative’s work.<sup>15</sup> Creative sued Starmark claiming jurisdiction based on its declaration of invalidity and noninfringement. Creative sued Starmark, and Starmark counterclaimed for declaratory judgment of the invalidity of Creative’s patent. Despite the existence of potentially interfering patent claims, the Federal Circuit noted that no jurisdiction existed over Starmark’s claims for declaratory relief because Creative never accused Starmark of infringement.<sup>16</sup>

Therefore, patentees must closely consider the tone and language used in cease and desist letters as well as statements made in letters to industry regarding impending patent rights. While a letter may not constitute grounds for a declaratory judgment action, any assertion that specific activities or planned activities may constitute infringement may give rise to declaratory judgment jurisdiction.

For accused infringers, the question of whether a cease and desist letter warrants the institution of a declaratory judgment action is not always a clear call, and the infringer should give careful consideration to the decision to bring a declaratory judgment action. Once the accused infringer has notice of the patent, the accused infringer must also consider the desirability of obtaining an opinion of counsel.

## **B. Preliminary Injunction Strategy and Concerns**

There are times when infringement of a patent may cause such injury that the time required for full discovery in litigation will be just as harmful as letting the infringement continue unabashed. Take, for example, a company’s proposed simultaneous release of a new product in competition with a patented product, or the finite use of a process with competitive ramifications with respect to a patented method. These events have the potential of injuring the patent holder in a way that the passage of time will either make the injury seem less harsh or, in some instances, the injury will actually end but the lasting effects will be impossible to measure. Such circumstances suggest the use of the preliminary injunctive mechanism.

---

<sup>7</sup> *Id.* at 1382-83.

<sup>8</sup> 635 F.3d 1345, 1349 (Fed. Cir. 2011).

<sup>9</sup> *Id.* at 1346.

<sup>10</sup> *Id.* at 1347.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at 1348-49.

<sup>13</sup> *Id.* at 1351.

<sup>14</sup> 651 F.3d 1303, 1316-17 (Fed. Cir. 2011).

<sup>15</sup> *Id.* at 1308.

<sup>16</sup> *Id.* at 1316.

Patentees do not often pursue preliminary injunctions. The four-factor test required for obtaining a preliminary injunction is: (1) patentee must show a likelihood of success on the merits, (2) patentee must show irreparable harm should the infringement continue; (3) the balance of hardships must favor the plaintiff; and (4) granting the preliminary injunction will not harm public interest.<sup>17</sup> And while no one factor controls, each being weighed against one another, a patentee plaintiff must prevail on the first two factors.<sup>18</sup> In 2011, the Federal Circuit again considered the standard and analysis in upholding a preliminary injunction and maintained the four-factor test and absolute necessity in showing the first two prongs.<sup>19</sup>

As discussed in more detail in Section II(A), obtaining a preliminary injunction may be even more difficult now than before. Nevertheless, circumstances could present themselves that would make seeking a preliminary injunction wise, if not necessary.

Under the first prong—likelihood of success on the merits—the patentee must both demonstrate there is patent infringement and address any questions of validity that the infringer may present. As compared with the preponderance of the evidence standard applied at trial, succeeding at the preliminary injunction stage requires showing a “substantial likelihood” that the plaintiff will prevail on the merits.<sup>20</sup> If the defendant asserts patent invalidity at the preliminary injunction stage, the patentee cannot rely on the statutory presumption of validity. Instead, if the defendant meets its burden of showing a “substantial question” of invalidity, the burden shifts to the patentee to show the defendant’s argument lacks “substantial merit.”<sup>21</sup> This means a higher burden for the patentee than normal. The Federal Circuit has identified ways to demonstrate validity at the preliminary injunction stage: “[ (1) the] patent has previously been adjudicated valid, [(2)] that there has been public acquiescence to its validity, or [(3)] that there is conclusive direct technical evidence proving its validity.”<sup>22</sup>

Regarding the second prong, courts have done away with the presumption of irreparable harm from patent infringement. Thus, while the *eBay* decision discussed below dealt with permanent injunctions, the effect of the Supreme Court’s decision will also reach this prong of the preliminary injunction analysis making obtaining such relief more difficult. One thing remains unchanged. A patentee that delays in seeking a preliminary injunction injures its claim of irreparable harm.<sup>23</sup>

Given what appears to be an increased difficulty in obtaining preliminary injunctive relief, it will be the exceptional case where injury is immediately apparent and damage beyond monetary makes preliminary injunctive relief available. With that said, delay in pursuing this remedy could be its own death knell, so would-be plaintiffs should work quickly with counsel in deciding whether their circumstance warrants pursuing preliminary injunctive relief.

## II. Post-suit Equitable Remedies: Injunctions and On-Going Royalties

### A. The *eBay* Decision

The 2006 *eBay* decision is central to a claim for injunctive relief. Courts may exercise their **discretion** to grant permanent injunctions if infringement is found.<sup>24</sup> To attain this relief, under *eBay*, a patentee must “demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”

As Chief Justice Roberts noted in his concurrence, traditional application of this test has slanted toward issuance of a permanent injunction:<sup>25</sup>

From at least the early 19th century, courts have granted injunctive relief upon a finding of infringement in the vast majority of patent cases. This “long tradition of equity practice” is not surprising, given the difficulty of protecting a right to exclude through monetary remedies that allow an infringer to use an

<sup>17</sup> *Pfizer, Inc. v. Teva Pharms. USA, Inc.*, 429 F.3d 1364, 1372 (Fed. Cir. 2005).

<sup>18</sup> *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001).

<sup>19</sup> *General Protecht Grp., Inc. v. Levitron Mfg., Co.*, 651 F.3d 1355, 1366 (Fed. Cir. 2011).

<sup>20</sup> *Amazon.com*, 239 F.3d at 1356.

<sup>21</sup> *Genentech, Inc. v. Novo Nordisk, A/S*, 108 F.3d 1361, 1364 (Fed. Cir. 1997).

<sup>22</sup> *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1578 (Fed. Cir. 1983).

<sup>23</sup> *See High Tech Med. Instrumentation v. New Image Indus.*, 49 F.3d 1551, 1557 (Fed. Cir. 1995).

<sup>24</sup> 35 U.S.C. § 283 (2000).

<sup>25</sup> *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

invention against the patentee's wishes—a difficulty that often implicates the first two factors of the traditional four-factor test.<sup>26</sup>

The *eBay* Court held “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 . . .” and not according to the Federal Circuit’s previous “general rule” of issuing permanent injunctions.<sup>27</sup> On the other hand, the Supreme Court emphasized that injunctive relief remained available to “university researchers or self-made inventors” who may have chosen to license their patents:

Most notably, [the district court] concluded that a “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” would be sufficient to establish that the patent holder would not suffer irreparable harm if an injunction did not issue. But traditional equitable principles do not permit such broad classifications. For example, some patent holders, such as university researchers or self-made inventors, might reasonably prefer to license their patents, rather than undertake efforts to secure the financing necessary to bring their works to market themselves. Such patent holders may be able to satisfy the traditional four-factor test, and we see no basis for categorically denying them the opportunity to do so. To the extent that the District Court adopted such a categorical rule, then, its analysis cannot be squared with the principles of equity adopted by Congress.<sup>28</sup>

## **B. Post-*eBay* Cases Addressing Permanent Injunction**

### **1. Moving from “The Presumption” to Market Share Analysis**

As noted above in the context of preliminary injunctions, the Federal Circuit has long held that “where validity and continuing infringement have been clearly established . . . immediate irreparable harm is presumed.”<sup>29</sup> The Federal Circuit never applied the presumption to permanent injunctions, although at least one district court has done so after a full trial on the merits.<sup>30</sup> To the Federal Circuit, of course, there was no need to consider applying the presumption in a permanent injunction context because its “general rule” requiring an injunction to issue in all but exceptional circumstances rendered such a burden-shifting device irrelevant. That ship, however, sailed with the High Court’s decision in *eBay*, and, as the ensuing district court and Federal Circuit cases have shown, loss of market share between two competitors is the order of the day.

With “the presumption” out of the way, the two primary factors for discretionary analysis have become irreparable injury and adequacy of monetary damages. Reviewing the post-*eBay* decisions reveals that a showing of irreparable injury and inadequacy of monetary damages is best accomplished when several factual conditions are present: (1) the patentee and infringer are market competitors; (2) the patentee practices in the market; and (3) the patentee can demonstrate some loss in market share.

*Market Competitors* -- In analyzing facts related to market competitors, the Federal Circuit reversed and remanded the district court’s denial of permanent injunction with an order to enter an injunction in *Robert Bosch LLC v. Pylon Mfg. Corp.*<sup>31</sup> The Federal Circuit disagreed that simply because there may be more than two competitors in the space “cuts against a finding of irreparable harm.”<sup>32</sup> The Federal Circuit went on to hold that a presumption against irreparable harm based on the presence of additional competitors would be inappropriate. “[W]ithout additional facts showing that the presence of additional competitors renders the infringer’s harm reparable, the absence of a two-supplier market does not weigh against a finding of irreparable harm.”<sup>33</sup> The *Bosch* case shows that the courts will take very seriously the competitive nature of not only the parties to the lawsuit, but also the market generally under the irreparable harm prong.

*Practicing or Non-Practicing Patentees* -- Despite the Supreme Court’s caution against the creation of categorical classes of plaintiffs for whom injunction are or are not available, the Federal Circuit clearly has indicated a

<sup>26</sup> *Id.* at 395.

<sup>27</sup> *Id.* at 394.

<sup>28</sup> *Id.* at 393 (citations omitted).

<sup>29</sup> *Smith Int’l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983) (reversing denial of preliminary injunction); accord *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989).

<sup>30</sup> See *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp. 2d 696, 702-03 (D.N.J. 2000) (court issued a permanent injunction after having denied a preliminary injunction, noting that the defendant bore the burden of rebutting the presumption).

<sup>31</sup> 659 F.3d 1142, 1151 (Fed. Cir. 2011).

<sup>32</sup> *Id.*

<sup>33</sup> *Id.*

preference for patentees who practice in the inventive field. Comparing two cases demonstrates this point. In *Voda v. Cordis Corp.*, the Federal Circuit upheld the district court's refusal to grant an injunction because Dr. Voda could not demonstrate irreparable harm or the inadequacy of monetary damages because Dr. Voda pointed to the loss of market share and sales of his exclusive licensee instead of himself.<sup>34</sup> Dr. Voda, the inventor, had exclusively licensed his inventions to SciMed, who commercialized the inventions and practiced the patents. However, Dr. Voda, as would a university, retained the right to sue for infringement. Despite this landscape, the Federal Circuit concluded "[w]e disagree . . . that the denial of a permanent injunction in this case conflicts with *eBay*" and "that the district court did not clearly err in finding that Voda failed to show that Cordis's infringement caused *him* irreparable injury" or that monetary damages were insufficient compensation.<sup>35</sup>

Contrast the *Voda* case with the *i4i Ltd. Partnership v. Microsoft Corp.* case.<sup>36</sup> In *i4i Ltd.*, both the plaintiff and Microsoft had custom XML products and *i4i Ltd.* could point to specific sales and market share it lost to Microsoft as a result of infringement.<sup>37</sup> *i4i Ltd.*, unlike Dr. Voda, offered circumstantial evidence that its product has been rendered obsolete, that it *personally* lost market share, and undertook steps to change its business strategy to survive.<sup>38</sup> The Federal Circuit has been careful to not limit the availability of injunctions to only those practicing the patented invention; rather, the requirement appears to merely be a market participant in the relevant market.<sup>39</sup>

*Loss in Market Share* -- As described above, the Federal Circuit has recognized the importance of facts involving markets with two players. District courts, in turn, have focused on the two player market as satisfying the irreparable harm and insufficiency of monetary damages prongs.<sup>40</sup>

The Federal Circuit has also held that a patentee's willingness to license will not necessarily render evidence of loss in market share inapplicable to the injunction analysis. In *Acumed LLC v. Stryker Corp.*, the patentee-plaintiff had licensed the invention on two prior occasions and thus the infringer sought to argue the inability for the patentee to show irreparable harm and the inadequacy of monetary damages.<sup>41</sup> The panel stated "[t]he fact of the grant of previous licenses, the identity of the past licensees, the experience in the market since the licenses were granted, and the identity of the new infringer all may affect the district court's discretionary decision . . ."<sup>42</sup> The Federal Circuit found the district court weighed all this evidence and determined that monetary damages would only compensate for the past infringement and thus an injunction was proper.<sup>43</sup>

In 2012, the Federal Circuit upheld the district court's grant of permanent injunction by viewing the market share in light of the facts surrounding the willful nature of the infringement. In *Merial Ltd v. Cipla Ltd.*, the Federal Circuit noted that permitting infringement to continue "would result in considerable lost market share and price erosion . . . particularly in view of evidence that [defendant's] marketing strategy was geared specifically to target [plaintiff's product] . . ."<sup>44</sup>

This post-*eBay* jurisprudence indicates that in the absence of a presumption of harm and automatic injunction, the trend is that injunctions will be reserved for cases where a patentee can demonstrate personal market loss as the result of a market competitor's continued infringement.<sup>45</sup>

## 2. Key Factors for Guiding Discretion

As referenced above with the *Merial* decision, facts other than those directly related to market and market participation can guide both the district court discretion in granting, and the Federal Circuit's review of, an injunctive remedy.

<sup>34</sup> 536 F.3d 1311, 1329 (Fed. Cir. 2008).

<sup>35</sup> *Id.* (emphasis in original).

<sup>36</sup> 598 F.3d 831 (Fed. Cir. 2010).

<sup>37</sup> *Id.* at 861-62.

<sup>38</sup> *Id.* at 862.

<sup>39</sup> See *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683 (Fed. Cir. 2010) (upholding injunction despite the patentee not practicing the invention, but having other products in the market space).

<sup>40</sup> See *Muniauction, Inc. v. Thomson Corp.*, 502 F. Supp. 2d 477, 482 (W.D. Pa. 2007) (noting "[p]laintiff and defendants are direct competitors in a two-supplier market. If plaintiff cannot prevent its only competitor's continued infringement of its patent, the patent is of little value.") *rev'd in part, vacated in part*, 532 F.3d 1318 (Fed. Cir. 2008); see also *Johns Hopkins Univ. v. DataScope Corp.*, 513 F. Supp. 2d 578, 586 (D. Md. 2007) (noting that the sales by the infringer, the patentees only competition, reduces the market share of the patentee) *rev'd on other grounds*, 543 F.3d 1342 (Fed. Cir. 2008).

<sup>41</sup> 551 F.3d 1323, 1329 (Fed. Cir. 2008).

<sup>42</sup> *Id.* at 1328.

<sup>43</sup> *Id.*

<sup>44</sup> 681 F.3d 1283, 1306 (Fed. Cir. 2012).

<sup>45</sup> Other cases indicate that loss in "foothold" in the market might be sufficient. See *TruePosition Inc. v. Andrew Corp.*, 568 F. Supp. 2d 500, 532 (D. Del. 2008) (the infringer also took "the recognition of being a technology innovator and the first global supplier of the patented technology, and an unquantifiable amount of business opportunities flowing therefrom.")

One such factor is, of course, willfulness.<sup>46</sup> In virtually all areas of law, when considering injunctive relief, “a court need not balance the hardship when a defendant’s conduct has been willful.”<sup>47</sup> “A court balances equities to avoid harsh results that strict application of law could inflict on a blameless party,” but policies that aim to protect innocent defendants and allow them “to show undue harm from strict legal enforcement are not present . . .” in the case of willful conduct.<sup>48</sup> Thus, courts have found that “[a] willful infringer which seeks to profit by copying from others’ creative ideas should not be heard to complain that its interests will be disturbed by an injunction.”<sup>49</sup>

Similarly, in evaluating whether to issue an injunction, a court should be especially sensitive to whether there is evidence of alternatives that the infringer could use. If there are such alternatives, an injunction, even if it allowed a transition period to switch over to the alternative, would be highly appropriate. In the similar context of evaluating an infringer’s “equitable intervening rights” following a change in original claims after reissue or reexamination, courts have been more likely to deny such rights where alternatives exist.<sup>50</sup>

Another key “balancing” test similar to that used by other circuits<sup>51</sup> could emphasize certain irreparable harm facts over the infringer’s claim of hardship. For example, it would seem logical that head-to-head competition between patentee and infringer should tilt strongly in favor of an injunction because the patent owner’s loss of sales and market position would be difficult to correctly value and compensate.<sup>52</sup> Absence of such competition would similarly require either a substitute showing, such as by pointing to a licensee in competition with the infringer, or result in such a factor tilting toward the infringer.

eBay itself identified other areas for guiding discretion. For example, Justice Kennedy’s concurrence expressed concern about situations where a “patented invention is but a small component of the product the companies seek to produce,” in which case “legal damages may well be sufficient . . .” and “an injunction may not serve the public interest.”<sup>53</sup> *z4 Technologies* was denied an injunction in large part based on this factor, addressed under the balance of harms test.<sup>54</sup> Thus, in *z4 Technologies*, the district court found that the feature at issue was not only a small part of Microsoft’s software, it was not the reason customers purchased that software.

### C. Damages, Willful Infringement, and Tailored Injunctive Relief

As described above, the Federal Circuit and therefore the patent bar had long viewed the injunctive relief for patent infringement as automatic. Coupled with either a showing of lost profits or a reasonable royalty, both past and future infringement were accounted for. Following the *eBay* decision, however, the courts were faced with not only addressing when and how injunctions were to issue, but also the remedy for past infringement, and because of the lack of injunctive relief, the remedy for the future infringement.

#### 1. Evolving Damages Models

Practicing patent owners used to forego claims of lost profits and seek only a royalty and injunction. *eBay* requires them to rethink that strategy. Much of the evidence required for lost profits is also evidence needed to show irreparable harm. It may well be that infringers will argue that a patent owner’s failure to prove market harm during trial should preclude such arguments post trial. At a minimum, a patent owner will need to analyze its discovery plan and determine what evidence it needs for post-trial purposes, even if it chooses not to claim lost profits.

A defendant must also take care with positions advanced in defending lost profits and reasonable royalty claims. One common defense is that readily-available alternatives exist. This, says the accused, shows that the

<sup>46</sup> See n. 44, *supra*.

<sup>47</sup> *United States v. Marine Shale Processors*, 81 F.3d 1329, 1358 (5th Cir. 1996).

<sup>48</sup> *Louis W. Epstein Family P’ship v. KMART Corp.*, 13 F.3d 762, 770 (3d Cir. 1994) (no error in refusing to consider hardship in enjoining defendant who willfully infringed easement).

<sup>49</sup> *E.F. Johnson Co. v. Uniden Corp. of Am.*, 623 F. Supp. 1485, 1504 (D. Minn. 1985) (citation omitted).

<sup>50</sup> E.g., *Halliburton Co. v. W. Co. of N. Am.*, 10 U.S.P.Q. 2d 1973, 1983 (W.D. Okla. 1989) (that defendant could easily convert equipment to noninfringing processes weighed heavily against equitable intervening rights), *aff’d*, 935 F.2d 281 (Fed. Cir. 1991).

<sup>51</sup> The Ninth Circuit’s standard in preliminary injunction cases requires a plaintiff to show either “a combination of probable success on the merits and the possibility of irreparable injury” or “that serious questions are raised and the balance of hardships tips sharply in its favor.” *Dollar Rent A Car, Inc. v. Travelers Indem. Co.*, 774 F.2d 1371, 1374-75 (9th Cir. 1985).

<sup>52</sup> See *Purdue Pharma L.P. v. Boehringer Ingelheim GmbH*, 237 F.3d 1359, 1368 (Fed. Cir. 2001) (finding irreparable harm due to “the likelihood of price erosion and loss of market position without corresponding market expansion”); *3M Unitek Corp. v. Ormco Co.*, 96 F. Supp. 2d 1042, 1051 (C.D. Cal. 2000) (“The sale of the defendant’s product will, most definitely, hurt plaintiffs’ market share and profitability. This is the case in almost all patent cases where two competing products will be competing in the market”).

<sup>53</sup> *eBay*, 547 U.S. at 396-97.

<sup>54</sup> *z4 Techs. v. Microsoft Corp.*, No. 6:06-CV-142, 2006 WL 1676893, at \*4 (E.D. Tex. Jun 14, 2006).

patentee's invention is not really driving the sale, so lost profits are unavailable.<sup>55</sup> Or, says the accused, the parties would recognize such alternatives and, in their hypothetical negotiation, reach a royalty far lower than the patentee's proposal. Putting on such evidence at trial may now come back to bite the infringer who loses her case and seeks to resist an injunction. In post-trial proceedings, the infringer will want to establish the contrary assertion that enjoining infringing sales will create hardship, yet at trial it will have asserted essentially the opposite—and very well may be estopped from trying to change positions.<sup>56</sup> Indeed, the district court in NTP's case against RIM expressed concern over such inconsistency when it expressed surprise that, as RIM was telling the market it had a viable work-around, it was simultaneously telling the court that the "foundations of Western civilization will be shaken" if an injunction issued.<sup>57</sup>

Simply put, the shift in the damages remedy requires both sides to reconsider their goals and tactics. The mere prospect that one could possibly avoid an injunction requires more careful consideration of responses to a damages claim.

#### a. "Compulsory Licensing"

Immediately following the *eBay* decision, the courts faced numerous arguments both for and against compulsory licensing. A compulsory license is a court-imposed license that authorizes the infringer to continue its conduct, presumably upon some payment of monies to the patentee. The denial of an injunction is not tantamount to a compulsory license because the patentee can simply assert a new cause of action for the continuing infringement. For example, in *z4 Technologies, Inc. v. Microsoft Corp.*,<sup>58</sup> the court denied an injunction and then severed the patentee's "causes of action for post-verdict infringement," requiring Microsoft to file reports on its infringing sales.

Before *eBay*, true compulsory licenses were exceedingly rare and oft criticized.<sup>59</sup> Yet, within just a few months after *eBay*, two cases had considered compulsory licensing. In one case, Judge Clark in the Eastern District of Texas granted a compulsory license, ordering DirectTV to pay the patentee, Finisar, a slightly enhanced royalty from what the jury had found at trial.<sup>60</sup> In the other case the district court ordered "taking additional evidence and argument respecting the availability of . . . more equitable alternatives (e.g., a compulsory license)."<sup>61</sup>

The Federal Circuit had opportunity to review the issue of compulsory licensing in *Paice LLC v. Toyota Motor Corp.*<sup>62</sup> The district court in *Paice* denied injunctive relief following the jury verdict and instead applied the \$25 dollar per unit royalty rate used by the jury in determining the reasonable royalty for past damages. The Federal Circuit on review agreed with the denial of an injunction, but determined the district court committed error in adopting the jury's rate and that the district court needed to conduct its own analysis of the surrounding economic factors, which are likely different from the factual landscape that existed before trial.<sup>63</sup> The Federal Circuit later expounded on this point when the district court did just what appeared to be proper under *Paice*. In *Amado v. Microsoft*, the district court judge trebled the \$0.04 per unit royalty found by the jury to \$0.12.<sup>64</sup> The Federal Circuit again remanded the case saying that the automatic trebling was an insufficient analysis and that pertinent factors included likelihood of success on appeal, infringer's ability to comply with an injunction even if no injunction is warranted, the reasons why an injunction was not issued, and impacts these have on the parties bargaining positions. On remand, the district court in *Paice* quadrupled damages, and in *Amado* the damages stayed at trebled.

Congress has taken pains to establish punitive remedies against willful infringement that allow for treble damages and attorneys' fees.<sup>65</sup> Even if the infringer was not found willful during the course of the case, an infringer that chooses to continue its infringement—without negotiating a reasonable license—must necessarily be considered

<sup>55</sup> See *Grain Processing Corp. v. Am. Maize-Prods. Co.*, 185 F.3d 1341 (Fed. Cir. 1999).

<sup>56</sup> "[W]here a party assumes a certain position in a legal proceeding, and succeeds in maintaining that position, he may not thereafter, simply because his interests have changed, assume a contrary position. . . ." *Johnson v. Lindon City Corp.*, 405 F.3d 1065, 1069 (10th Cir. 2005) (citation omitted).

<sup>57</sup> Grant Gross, *RIM to Patent Case Judge: BlackBerry Too Important to Shut Down*, PC WORLD (Feb. 24, 2006, 1:00pm), available at <http://www.pcworld.com/article/124868/article.html>.

<sup>58</sup> 434 F. Supp. 2d at 444.

<sup>59</sup> Compare *Shatterproof Glass Corp. v. Libbey-Owens Ford Co.*, 758 F.2d 613, 616, 628 (Fed. Cir. 1985) (noting that the district court had denied permanent injunction and imposed a compulsory license), with *Fromson v. W. Litho Plate & Supply Co.*, 853 F.2d 1568, 1574 (Fed. Cir. 1988) ("Because courts routinely denied injunctions to such patentees, infringers could perceive nothing to fear but the possibility of a compulsory license at a reasonable royalty, resulting in some quarters in a lowered respect for the rights of such patentees and a failure to recognize the innovation-encouraging social purpose of the patent system.").

<sup>60</sup> *Finisar Corp. v. DirecTV Grp., Inc.*, No. 1:05-CV-264 (E.D. Tex. July 7, 2006) (final judgment order).

<sup>61</sup> *Keg Techs., Inc. v. Laimer*, 436 F. Supp. 2d 1364, 1371 (N.D. Ga. 2006).

<sup>62</sup> 504 F.3d 1293 (Fed. Cir. 2007).

<sup>63</sup> *Id.* at 1317.

<sup>64</sup> 517 F.3d 1353, 1362 (Fed. Cir. 2008).

<sup>65</sup> 35 U.S.C. § 285, 285 (2000).

willful. Numerous courts have ruled that post-trial infringement is willful and entitles the patentee to treble damages and attorneys' fees. A court that imposes a compulsory licensing regime may deny the patentee access to the enhanced damages remedies Congress authorized.

Assume, however, that a court is willing to take the plunge and consider a compulsory license. The following are factors the court may consider in deciding whether the case at hand presents a "rare" circumstance appropriate for such a remedy:

- (1) *Opportunity to Work the Invention*: Other countries that allow compulsory licensing typically do so only after the patent owner has had ample time to "work" the invention by commercializing a product or licensing the patent. Equitably, it makes sense that the patent owner should have the first opportunity to reap the benefit—in terms of profits or a licensing relationship—from working the invention.
- (2) *Future Transfer*: Similarly, if the patentee has a realistic chance of selling the patent rights to a competitor of the infringer and has not had ample opportunity to do so before the lawsuit is resolved, a compulsory license might be denied. Encumbering the patent "real estate" with a compulsory license could seriously damage the patentee's ability to extract full value for the transfer, just as would trying to sell your home with an easement. At minimum, however, the court should take this issue into account in setting a compulsory license, either by limiting it in time or affording additional compensation.
- (3) *Standards and Interoperability*: In some industries, especially software and electronics, standardization and interoperability is key. A patented invention may be deemed an essential predicate to advancing those goals, and the industrial and societal objective of fostering standard protocols may outweigh the patentee's desire to extract maximum possible value out of potential infringers.<sup>66</sup> Moreover, where actual third party infringers exist, setting a fair compulsory licensing scheme could actually reap more benefits for the patent owner without forcing all parties to go through high transaction costs. Similarly, where there is evidence that third parties have not adopted, but are interested in using the invention, that factor could weigh toward a license since such a scheme could encourage development of new technology as different firms put their own improvements into play to differentiate their product in the market.
- (4) *Administrative Burden*: Counterbalancing the standards issue, however, is that of the administrative burden inherent in a court imposing a compulsory licensing scheme. For example, in the DirectTV case, Finistar argued that technology changes could result in the use of multiple set-top boxes or electronics therein that could complicate payments and lead to disputes. Also, suppose the infringer does develop a non-infringing alternative, yet the patentee disputes that issue. Should the court's contempt power be available or not? A court who presided over a trial with especially contentious parties might consider whether a compulsory licensing scheme will truly abate or multiply subsequent litigation before imposing a license or structuring its administration.
- (5) *Improvements by the Infringer*:<sup>67</sup> If the infringer has contributed to the art by embodying in the accused product its own patented technology that represents an improvement, that fact may favor a compulsory license. Thus, the so-called "TRIPPs" agreement allows member countries to grant a compulsory license only if "the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent."<sup>68</sup> A number of other provisions apply, including allowing the patentee access through a cross-license to the infringer's improvement patent.
- (6) *Patentee's Conduct*: Inappropriate conduct by the patentee, such as antitrust or patent misuse, has in the past been grounds for denying patent enforcement altogether or imposing a compulsory license. Suppose, however, a court finds that the infringer has not shown clear and convincing evidence of

<sup>66</sup> In the antitrust area, there is a similar "essential facilities" doctrine by which courts allow the public to access a monopolist's essential facility. Teague I. Donahey, *Terminal Railroad Revisited: Using the Essential Facilities Doctrine to Ensure Accessibility to Internet Software Standards*, 25 AIPLA Q.J. 277 (1997).

<sup>67</sup> For an article arguing that compulsory patent licensing should apply to situations involving improvement and blocking patents, see Joseph A. Yosick, Note, *Compulsory Patent Licensing for Efficient Use of Inventions*, 2001 U. ILL. L. REV. 1275 (2001).

<sup>68</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C, Apr. 15, 1994, 33 I.L.M. 81. Note that the infringer should probably be required to point to the existence of a patent since that can help avoid complicated, albeit secondary proof issues if the patentee wants to argue there was really no true improvement.

inequitable conduct, but the court believes there was some level of inappropriate activity in securing the patent. A court might reasonably consider that issue in considering a request for injunctive relief. In a somewhat similar equitable context of determining whether to enhance damages after a finding of willfulness, courts will consider an infringer's conduct in litigation in raising weak defenses.

- (7) *Intervening Rights*: Courts might also take a page from the equitable "intervening rights" doctrine embodied in reissue and reexamination practice that allows courts to protect the infringer's investment and business that was developed before the claims were changed in post-grant proceedings.<sup>69</sup> For example, suppose a patentee obtains allowance of one set of claims, sees the infringer's product and strategically modifies their claims to cover the infringer's activity. The Federal Circuit has held that "there is nothing improper, illegal or inequitable in filing a patent application for the purpose of obtaining a right to exclude a known competitor's product from the market; nor is it in any manner improper to amend or insert claims intended to cover a competitor's product the applicant's attorney has learned about during the prosecution of a patent application."<sup>70</sup> Yet commentators have criticized abusive continuation practice, noting that such "practice seems fundamentally unfair, since a competitor who was legitimately the first to invent a particular device or process may be held to have infringed on a patent claim written after (and indeed because of) that invention. It also seems inconsistent with the fundamental economic justification for the patent system, which is to encourage new inventions."<sup>71</sup> Enjoining truly innocent infringement activity that began before and which inspired creation of the patentee's final claims seems to go against the notion of protecting a truly innocent infringer's legitimate investment interests and securing to the inventor a monopoly for her invention.

Of course, many, if not all, of these factors might also be considered in deciding whether to grant or deny injunctive relief in the first instance.

#### **b. Higher Orders of Proof and New Evidence**

With an increased focus on damages because injunctive relief is not always available as the settlement leverage it once was, the courts have probed and, in some instances, eliminated some damages analyses. One of the most notable was the complete abolishment of the so-called 25% rule. In *Uniloc USA, Inc v. Microsoft Corp.*, the Federal Circuit announced that using as a starting point for the determination of a reasonable royalty of 25% of the infringer's profits was improper methodology.<sup>72</sup> Since *Unilock*, district courts (often cases where appellate judges sit by designation) have taken to striking damages theories when the methodologies do not sufficiently tie the damages figures to patented products or comparable products.

For example, in *IP Innovation v. Red Hat, Inc.*, Judge Rader of the Federal Circuit struck the plaintiff's expert report when his "methodology however does not show a sound economic connection between the claimed invention and [the] broad proffered royalty base."<sup>73</sup> Judge Posner of the Sixth Circuit Court of Appeals in the now infamous "*Dummkopf* Opinion" in the *Apple v. Motorola* smart phone battle, destroyed experts for both sides for failing to engage in what he deemed appropriate economic analysis and methods.<sup>74</sup> Specifically, Judge Posner disagreed with both parties' use of testimony from either their own party or the opposing party as the sole metric for relevant issues such as cost of design around, cost of implementing features, or development as a whole. In doing so, Judge Posner brought the case to a screeching halt and signaled the likely further increase in costs associated with demonstrating patent damages in the future.

All is not lost, however, for parties seeking patent damages, nor should potential defendants take solace in the perceived shift in animosity toward high damages verdicts. The Federal Circuit did let stand the \$240 million dollar jury verdict in *i4i Ltd.*<sup>75</sup> The Federal Circuit noted that the challenges to the damages analysis in that case were issues of weight and not admissibility.<sup>76</sup> The Federal Circuit was restricted, or handcuffed depending on your perspective, by the fact that Microsoft failed to properly preserve its challenges to admissibility post-verdict.

<sup>69</sup> 35 U.S.C. §§ 252, 307 (2000).

<sup>70</sup> *Kingsdown Med. Consultants, Ltd. v. Hollister, Inc.*, 863 F.2d 867, 874 (Fed. Cir. 1988).

<sup>71</sup> Mark A. Lemley & Kimberly Moore, *Ending Abuse of Patent Continuations*, 84 Boston Univ. L. Rev. 63, 78 (2004).

<sup>72</sup> 632 F.3d 1292 (Fed. Cir. 2011).

<sup>73</sup> 705 F. Supp. 2d 687, 689 (E.D. Tex. 2010).

<sup>74</sup> No. 1:11-CV-08540, 2012 WL 1959560 (N.D. Ill. May 23, 2012).

<sup>75</sup> See n. 36, *supra*.

<sup>76</sup> *Id.* at 853-54.

On one hand, courts are taking a harder look at the damages analysis. On the other hand, a once taboo piece of evidence thought important, especially in cases dealing with non-practicing entities, appears now to be fair game. The Federal Circuit in *ResQNet.com v. Lansa, Inc.*, opened the door to allowing the use of license agreements entered into prior to the settlement of threatened or actual litigation.<sup>77</sup> The Federal Circuit completely shifted gears and announced that such agreements may be the most reliable evidence of the value of a patent.

Of course this means that not only are the agreements themselves information to be targeted in discovery, but everything involved with them – negotiations, drafts, strategies, and policies have all become the target of discovery and dispute. In *Tyco Healthcare Group v. E-Z Em. Inc.*<sup>78</sup>, the district court noted that *ResQNet* “suggests that the underlying negotiations are relevant to the calculation of a reasonable royalty” and in *Clear with Computers, LLC v. Bergdoff Goodman, Inc.*<sup>79</sup>, the court found “the settlement communications are likely to be key in determining whether the settlement agreements accurately reflect the inventions’ value or were strongly influenced by a desire to avoid or end full litigation.”

### c. The New Order of Apportionment

As just the few cases described above indicate, the damages inquiry is becoming more and more dependent upon being able to determine and quantify the true value of a patent. For example, in *Lucent Technologies, Inc. v. Gateway, Inc.*, the reasonable royalty analysis was followed and the Federal Circuit agreed that in some cases the entire market value of a product that incorporates a patented feature might be the appropriate base.<sup>80</sup> The court used language suggesting an apportionment-type analysis in concluding that the rate used would only be appropriate when the “multiplier accounts for the proportion of the base represented by the infringing component or feature.” Similar language exists in the *ResQNet* opinion stating that the measure of damages “must carefully tie proof of damages to the claimed invention’s footprint in the market place.”<sup>81</sup> Thus, the trend is clearly no longer finding what the damage penalty should be, but rather what the value of the invention is to the market place and nothing more.

## 2. New Burdens in Willful Infringement.

The *Seagate* decision and its implications on willful infringement are addressed more fully elsewhere, but the interplay of willful infringement and damages has recently been affected by the Federal Circuit’s decision in *Bard Peripheral Vascular, Inc. v. W.L. Gore & Associates, Inc.*<sup>82</sup> In that decision, the court held that the objectively reasonable behavior prong is to be addressed as an issue of law warranting de novo review by the trial and appellate court. While the district court can leave issues of fact and mixed issues of law and fact for resolution by the jury, such as patent validity and infringement, the overall inquiry as to the objective reasonableness of defenses lies with the court.

The practical effect of this ruling is to conflate the underlying inquiry into whether the infringement indeed was willful with the court’s authority to enhance the damages under 35 U.S.C. § 284. Courts already applied the so-called *Read* factors in determining whether to enhance the damages based on a willfulness finding as an exceptional case. In that analysis, the courts were already permitted to consider factors outside the view of the jury such as strength of claim construction position, summary judgment position, or extra-record facts such as reexamination. Despite a jury finding of willful infringement, the courts were already equipped to refrain from trebling a verdict based on such facts and often did so. What is left is a two stage attempt for an accused infringer to avoid the practical import of a willfulness verdict. A defendant may now challenge the underlying willfulness finding as being legally deficient and, if unsuccessful, use the same argument and plead equitable minimization of the effect under the *Read* factors.

## 3. Interplay Between Damages and Tailored Relief

Courts have held that customer relationships should be protected by injunctive relief.<sup>83</sup> Thus, evidence that the patentee and accused infringer sell through different channels of trade might be helpful in persuading the court to issue an injunction more narrowly tailored to the true harm. Or, an accused infringer might establish that a

<sup>77</sup> 594 F.3d 860, 871-72 (Fed. Cir. 2010).

<sup>78</sup> No. 2:07-CV-262 (TJW), 2010 WL 774878 (E.D. Tex. Mar. 2, 2010).

<sup>79</sup> 753 F. Supp. 2d 662, 664 (E.D. Tex. 2010).

<sup>80</sup> 580 F.3d 1301, 1339 (Fed. Cir. 2009).

<sup>81</sup> 594 F.3d at 869.

<sup>82</sup> 682 F.3d 1003 (Fed. Cir. 2012).

<sup>83</sup> *Polymer Techs. v. Bridwell*, 103 F.3d 970, 975-76 (Fed. Cir. 1996) (“Competitors change the marketplace. Years after infringement has begun, it may be impossible to restore a patentee’s . . . exclusive position by an award of damages . . . Customers may have established relationships with infringers.”).

broader relationship with certain customers, e.g., a preferred vendor status, justifies tailoring an injunction so as to allow sales to those customers. And, both parties would do well to consider whether pressing for an injunction that allows for a transition period makes sense.

A patentee—especially a non-practicing one—can bolster its case for an injunction if it allows for some transition period, thus weakening or depriving an infringer of hardship claims.<sup>84</sup> Similarly, an adjudicated infringer should not reflexively resist voluntarily ceasing its infringement or paying stiffer penalties for continuing infringement as it transitions to a new technology. Microsoft, for instance, used this tactic to its advantage in its battle with z4 Technologies, where it presented a carefully-thought out, multi-year plan for phasing out the infringing technology.

More to the point, a declaration that an infringer will simply continue its behavior will support a patent owner's efforts to obtain treble damages—either because the jury already concluded it was willful or because the court concludes it was willful to not take steps to abate its infringement. Indeed, if an infringer were simply to declare its intent to continue infringing and make no efforts at a design around or transition out of the market, one would be hard pressed to conclude that the patentee was not entitled to treble damages.<sup>85</sup>

### III. Conclusion

Patent cases now require careful planning and positioning for a patentee to obtain an injunction. On both sides of the case, practitioners must reevaluate everything from considering the impact of the type of damages claims asserted to the scope of injunctive relief sought.

---

<sup>84</sup> E.g., *Schneider (Eur.) AG v. Scimed Life Sys, Inc.*, 852 F. Supp. 813, 861-862 (D. Minn. 1994), *aff'd*, 60 F.3d 839 (Fed. Cir. 1995) (transition period applied only to physicians and institutions who exclusively used the infringing product, and required infringer to pay a 15% royalty rate on its sales during the period).

<sup>85</sup> See *Del Mar Avionics, Inc. v. Quinton Instrument Co.*, 836 F.2d 1320, 1328 (Fed. Cir. 1987) (enhanced damages and attorneys' fees appropriate where the infringer continued to manufacture and sell infringing products after the suit was filed). Without the prospect of either injunctive relief or treble damages, an infringer might well conclude that willful infringement makes more economic sense than negotiating a license early in the dispute. See, e.g., *Panduit Corp. v. Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1158 (6th Cir. 1978) ("the infringer would have nothing to lose, and everything to gain if he could count on paying only the normal, routine royalty non-infringers might have paid. As said by this court in another context, the infringer would be in a 'heads-I-win, tails-you-lose' position.") (citation omitted).