The Aftermath of eBay: Prospective Relief after the Denial of an Injunction

October 2007

The Supreme Court decision in eBay Inc. v. MercExchange, L.L.C. ("eBay")\(^1\) eliminated the presumption that a patentee who establishes at trial that a valid and enforceable patent has been infringed is entitled to a permanent injunction. The Court held that district courts must apply the traditional four-factor test to determine on a case-by-case basis whether injunctive relief is warranted under the principles of equity.\(^2\) In the year since the decision issued, district courts have denied permanent injunctive relief to a successful patentee for a number of reasons. Although it is too early to determine how the four-factor test mandated by the Supreme Court in eBay will be applied by the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"), every reported post-eBay district court case to date has denied a permanent injunction unless the patentee is a horizontal market competitor with the adjudged infringer. Denial of a permanent injunction to a patentee who has established that his valid and enforceable patent is being infringed raises issues of prospective remedies that trial courts had no need to address prior to eBay, when injunctions were granted routinely absent exceptional circumstances.\(^3\)

This article will briefly summarize the remedies commonly available to patentees following a successful infringement litigation. The article will then review how courts have fashioned relief for future infringement when a permanent injunction is denied. Finally, the article considers the advantages of, and problems inherent in, each of these approaches and discusses various alternative approaches.

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\(^{1}\) 126 S. Ct. 1837 (2006).

\(^{2}\) Id.; see also Simpson Thacher & Bartlett LLP Memorandum, The Changing Landscape of Patent Remedies after eBay available at http://www.simpsonthacher.com/content/publications/pub618.pdf

\(^{3}\) One alternative to the federal courts, not discussed in this article, is the United States International Trade Commission. The ITC is an independent quasi-judicial agency which offers as its only remedy relief akin to an injunction—an order excluding the entry of infringing goods from import into the United States. 19 U.S.C. § 1337(d). It is possible for a patent holder who merely licenses its patents to others and does not compete with the infringer to obtain this order as long as it satisfies the domestic industry requirement. 19 U.S.C. § 1337(a).
AVAILABLE PATENT REMEDIES

The Patent Act provides for the award of 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.”\(^4\) Although the language of the statute encompasses past and future damages, historically, the provision was applied to damages arising from past infringement since, prior to eBay, injunctions were routinely issued to prevent future infringement.\(^5\)

There are generally two forms of compensatory damages: lost profits and reasonable royalty damages.\(^6\) First, traditional damages may be awarded to market competitors based on a “lost-profits” analysis. Generally, courts will award lost profits for patent infringement when the patentee can show that “but for” the infringement, it would have made the sales the infringer made and that the consequent harm is direct and reasonably foreseeable.\(^7\)

In lieu of lost profits, a court can award damages based on a reasonable royalty. For past infringement, the reasonable royalty amount is calculated using a legal fiction based on the result of a hypothetical licensing negotiation between a willing patent owner and willing licensee at the time


\(^5\) Compensatory damages can also be enhanced by up to a factor of three if the infringement was determined to be “willful” or intentional. 35 U.S.C. § 284 (2000); see also Beatrice Foods Co. v. New England Printing & Lithographing Co., 923 F.2d 1576, 1578 (Fed. Cir. 1991) (“Although the statute does not state the basis upon which a district court may increase damages, ‘it is well-settled that enhancement of damages must be premised on willful infringement or bad faith.’”) (citation omitted).

\(^6\) The victor in a patent infringement case may also receive attorney fees. See 35 U.S.C. § 285 (the “court in exceptional circumstances may award reasonable attorney fees to the prevailing party”). Attorney fees may be awarded in cases of willful infringement, applying the identical standard as that applied for enhanced damages under 35 U.S.C. § 284. See A via Group Int’l, Inc. v. L.A. Gear Cal., Inc., 853 F.2d 1557, 1567 (Fed. Cir. 1988). Courts may also award attorney fees when the patentee has committed inequitable conduct or either party has engaged in bad faith litigation. See M arhurkar v. C.R. Bard, Inc., 79 F.3d 1572, 1580 (Fed. Cir. 1996).

\(^7\) A widely applied standard for identifying “but for” causation was set forth in Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152 (6th Cir. 1978). Under the Panduit standard, the patentee must show: (1) that the patented product was in demand; (2) no acceptable non-infringing substitutes were available; (3) the patentee or its licensees possessed the manufacturing and marketing capability to exploit demand; and (4) the amount of profit the patentee would have. Id. at 1156. See also Rite-Hite Corp. v. Kelly Co., 56 F.3d 1538, 1545 (Fed. Cir. 1995) (en banc).
of first infringement. To determine the outcome of this hypothetical negotiation, courts are free to consider a host of factors. The seminal opinion identifying commonly applied factors is Georgia-Pacific Corp. v. United States Plywood Corp.

**APPROACHES TO ASSESSING PROSPECTIVE RELIEF FOR FUTURE INFRINGEMENT POST-EBAY**

Post-ebay, courts that have denied permanent injunctive relief to some successful patentees have had to consider prospective remedies for continuing infringing conduct. This article will analyze the approaches courts have taken and consider refinements of these approaches that may better reflect fair compensation to patent holders.

**Extrapolate Past Damages into the Future**

A majority of the trial courts that have considered and addressed the issue of damages for future infringement have chosen to apply the reasonable royalty established for past infringement to prospective sales. This approach has facial merit in that the jury presumably quantifies the damages

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11. In no reported decision has a court yet awarded prospective lost profits damages following the denial of a request for injunctive relief. Courts typically view lost profits for future sales as “incalculable and irreparable.” z4 Tech. Inc., 434 F. Supp. 2d at 440. But see Commonwealth Scientific and Indus. Research Org. v. Buffalo Tech., No. 6:06-CV-324, 2007 U.S. Dist. LEXIS 43832, at *16 (E.D. Tex. June 15, 2007) (holding that monetary damages for future infringement would be inadequate because, inter alia, “[t]he royalty payment would be extrapolated from a determination of [the defendant’s] past sales, which may not adequately reflect the worth of the patent today[,]”).
for past infringement at trial. Applying the same damage calculation going forward offers the parties some predictability and avoids the time and expense of future litigation. In addition, this alternative serves the interests of judicial economy by minimizing the potential for court involvement in monitoring the conduct of the parties or in presiding over future infringement litigation to assess newly accrued damages.

In Voda v. Cordis Corp., for instance, Judge Leonard in the Western District of Oklahoma denied plaintiff’s request for injunctive relief, finding that plaintiff “failed to demonstrate either irreparable injury or that monetary damages [were] inadequate.” The court also recognized that the defendant “indicated that it will continue to infringe the patents-in-suit,” thus requiring the court to “fashion a remedy for the continuing harm to plaintiff.” The patentee requested that the court sever his claims for monetary damages for post-verdict infringement, but the court denied this request, arguing that severance was unnecessary. The court held that identifying the relief for future infringement required only a “simple mathematical calculation based on defendant’s sales.” The court ordered the infringer to file quarterly reports of sales, implying that it would calculate a royalty for future infringement based on the jury’s determination of a reasonable royalty for past infringement.

Similarly, in Paice L.L.C. v. Toyota Motor Corp., Judge Folsom in the Eastern District of Texas considered plaintiff’s argument that “it will suffer irreparable harm because, unless [d]efendants are enjoined from selling the infringing vehicles, [plaintiff] cannot succeed in its efforts to license its technology.” The court rejected the argument and denied plaintiff’s request for permanent injunction, finding that the patentee failed to establish that injunctive relief was warranted under any of the four relevant factors. The court ordered that, for the remaining life of the patent-in-suit, defendant would be required to pay plaintiff $25 per infringing product sold, with such “royalties

12 See Voda, 2006 U.S. Dist. LEXIS 63623 (utilizing a predetermined royalty rate to extrapolate post-verdict infringement damages); Paice L.L.C., 2006 U.S. Dist. LEXIS 61600 (same); Finisar Corp., 2006 U.S. Dist. LEXIS 76380 (same).


14 Id.

15 Id.

16 Id.

17 Id.

to be paid quarterly and to be accompanied by an accounting of the sales of the infringing products.\textsuperscript{19}

By extrapolating the jury’s reasonable royalty into the future, courts are extending the longevity of the hypothetical negotiation into territory in which it has not previously been used. In so doing, these courts implicitly assume that the result of that hypothetical negotiation continues to be valid after a trial in which the patent is found to be valid and infringed. No court to date has analyzed whether these assumptions are valid and no court to date has instructed a jury to update its analysis of the Georgia-Pacific factors when looking at prospective damages. The hypothetical negotiation used to set a reasonable royalty assumes that the patent is valid and infringed. Thus, the hypothetical negotiation is based on the assumption that plaintiff would win at trial. The fact that plaintiff has in fact won at trial, therefore, does not change the basis for the hypothetical negotiation and would not appear to justify revisiting the royalty rate set out by the jury in awarding damages for past infringement.

**Collect Damages for Prospective Infringement in a Separate Action**

Another approach to calculating prospective damages is for the court to address relief for past and prospective infringement in separate actions. In appearance, this is the approach adopted by Judge Davis in the Eastern District of Texas in \textit{Z4 Tech., Inc. v. Microsoft Corp.}\textsuperscript{20} In that case, Judge Davis rejected plaintiff’s argument that it had “made tremendous efforts to commercialize its invention prior to suit and that its failure to succeed was partly due to Microsoft’s infringement.”\textsuperscript{21} The court found plaintiff could be “compensated for any harm it suffers in the way of future infringement at the hands of Microsoft by calculating a reasonable royalty for Microsoft’s continued use of the [infringing] technology.”\textsuperscript{22} Judge Davis then ordered Z4 to file a new complaint alleging causes of action for post-verdict infringement. In effect, Judge Davis awarded plaintiff compensatory damages based on a reasonable royalty for future infringement (to be paid quarterly), but required plaintiff to seek this relief through the severed action. The ruling separates claims for past and prospective infringement even though the court, in actuality, appears merely to have followed the dominant trend and imposed a reasonable royalty for future infringement.

Judge Davis’ severance of the “future” claims, however, suggests an approach where a patent holder may be required to sue the adjudged infringer in a later filed separate action and collect the appropriate relief (compensatory damages) that have accrued over the period between lawsuits.

\textsuperscript{19} Id. at *19-20.

\textsuperscript{20} 434 F. Supp. 2d 437.

\textsuperscript{21} Id. at 440.

\textsuperscript{22} Id. at 441.
This approach would permit a patent holder to seek lost profits as a measure of damages for post-verdict infringement even if the patentee only sought reasonable royalties for past damages. It may also allow the patentee to seek a different royalty rate for post-verdict damages. However, to do this, the patentee would have to overcome a res judicata objection to any attempt to relitigate the reasonable royalty rate set at trial, which facially extends from the date of first infringement forward.

A Compulsory License

At least one court has imposed a compulsory license to permit future infringement. In Finisar Corp. v. DirecTV Group, Judge Clark of the Eastern District of Texas “granted a compulsory license” from plaintiff to defendants for the remaining life of the patent at issue, at “an ongoing royalty of $1.60” per infringing device. However, a compulsory license raises several issues that are not raised by a prospective award of royalty damages.

While both remedies seek to capture the same damages for the prospective infringement and both permit the infringer to choose between continuing to practice the patent for a fee or halt infringement, the compulsory license has several fundamental differences. First, the “license” may give rise to cross-licensing obligations. In addition, a compulsory license extinguishes a patentee’s right to seek enhanced damages for continuing infringement since, once “licensed” the defendant is no longer an infringer.

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24 A court-imposed compulsory license may be subject to one or more legal challenges. While 35 U.S.C. § 284 permits a court to grant relief “adequate to compensate for [] infringement,” no provision of the Patent Act explicitly grants a court the authority to force a party to license its property.

25 Both Judges Clark and Folsom have acknowledged some of these issues by inviting the parties in Finisar and Paice to negotiate “more comprehensive or convenient terms” in a formal license, in light of the court’s directives. Paice, L.L.C., 2006 U.S. Dist. LEXIS 61600, at *20; see also Finisar Corp., 2006 U.S. Dist. LEXIS 76380, at *5 (“It is anticipated that, as sophisticated entities with experience in licensing agreements, the parties may wish to agree to more comprehensive or convenient terms.”). Presumably, a “more comprehensive” license negotiated by “sophisticated entities” would consider, inter alia, the ramifications of cross-licensing or “most favored nation” obligations that may be triggered by a mandatory license.
The Role of Enhancement in Prospective Damages

Although an adjudged infringer who continues its infringing activity is a “willful” infringer, no reported decision has yet discussed the role of enhanced damages in setting prospective damages. Indeed, in Voda, the jury found that the defendant infringed each of the patents-in-suit and that the infringement was willful. The court considered in the same opinion both the appropriateness of enhanced damages for the past willful infringement and injunctive relief as a prospective remedy. Judge Leonard conducted a lengthy analysis of the willfulness arguments before awarding over $3 million in enhanced damages for defendant’s past infringement. When the court turned to the issue of injunctive relief, however, it did not even consider enhancing prospective damages for the future infringement based on willfulness.

The threat of enhanced damages, while not as strong of a deterrent as a permanent injunction, may preserve for the patentee some of the negotiation leverage afforded by the threat of a permanent injunction by making the act of future infringement sufficiently costly so that the adjudged infringer will have little or no economic incentive to continue infringing. Moreover, the specter of prospective enhanced damages may promote judicial efficiency by motivating the parties to negotiate license agreements prior to litigation. If the accused infringer knows that, after a trial, a “reasonable” licensing rate may be tripled, the cost/benefit of litigating versus settling changes.

CONCLUSION

Although few courts have considered the issue of alternative prospective damages, among those that have, the clear trend appears to be to apply the reasonable royalty damages, as determined by the jury for past infringement, to future infringement. No court has yet considered whether the royalty rate for future infringement should be recalibrated to reflect the new information collected since “first infringement.” Moreover, no court has yet considered the application of enhanced damages to the willful infringement that gives rise to prospective damages. Patentees should consider opposing the imposition of a compulsory license and instead, seek a mechanism for collecting damages prospectively. This approach avoids the complexities introduced by a license and preserves the patentee’s ability to recover enhanced prospective damages.

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26 35 U.S.C. § 284; see also Beatrice Foods Co. v. New England Printing & Lithographing Co., 923 F.2d 1576, 1578 (Fed. Cir. 1991) (“Although the statute does not state the basis upon which a district court may increase damages, ‘it is well-settled that enhancement of damages must be premised on willful infringement or bad faith.’”) (citation omitted).


28 Id. at *6-20.

29 Id.
For further information concerning the eBay case, please feel free to contact members of the Firm's Intellectual Property Department, including:

George M. Newcombe (650-251-5050 gnewcombe@stblaw.com)
Henry B. Gutman (212-455-3180 hgutman@stblaw.com)
Robert A. Bourque (212-455-3595 rbourque@stblaw.com)
Kerry Konrad (212-455-2663 kkonrad@stblaw.com)
Jeffrey E. Ostrow (650-251-5030 jostrow@stblaw.com)
Lori Lesser (212-455-3393 less@stblaw.com)
Harrison J. Frahn IV (650-251-5065 hfrahn@stblaw.com)
Patrick E. King (650-251-5115 pking@stblaw.com)
# APPENDIX

## POST-eBay DISTRICT CASES DENYING PERMANENT INJUNCTIONS

<table>
<thead>
<tr>
<th>CASE NAME</th>
<th>POST-VERDICT RELIEF GRANTED</th>
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<tr>
<td>3. IM X, Inc. v. LendingTree, L.L.C., No. 03-1067, 2007 U.S. Dist. LEXIS 1972 (D. Del. Jan 10, 2007)</td>
<td>Court declines to effectively impose a compulsory license for the remaining life of the patent absent more information regarding the effect of infringement on plaintiff’s business and the effect of a permanent injunction on the public and marketplace. Court is inclined to allow the plaintiff to provide additional evidence with respect to the four-factor test.</td>
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<td>CASE NAME</td>
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<td>5. Voda v. Cordis Corp., No. CIV-03-1512-L, 2006 U.S. Dist. LEXIS 63623 (W.D. Okla. Sept. 5, 2006)</td>
<td>Court held that only issue left to decide regarding post-verdict infringement is a simple mathematical calculation based on defendant’s sales and the reasonable royalty found by the jury at trial. Court ordered defendant to file quarterly reports accounting for infringing sales.</td>
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<td>8. z4 Tech. Inc. v. Microsoft Corp., 434 F. Supp. 2d 437 (E.D. Tex. 2006)</td>
<td>Court acknowledged that an efficient method for determining post-verdict monetary damages is needed and ordered parties to brief the issue. Court also ordered defendant to file quarterly reports accounting for infringing sales.</td>
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