

Remedies for Patent Infringement: Theory and Practice

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Menu of Possible Remedies for Patent Infringement

- Interim remedies: TROs, preliminary injunctions
- Final remedies
 - Permanent injunctions (property rule)
 - Damages for past harms
 - Lost profits
 - Reasonable royalties
 - Enhanced damages
 - Attorneys' fees
 - Ongoing royalties as a substitute for injunctive relief (liability rule, compulsory licensing)

Property Rules v. Liability Rules

- Advantages of protecting patent rights by means of a property-rule entitlement
 - Section 261: patents as personal property
 - Channels patentee and would-be user into private transactions
 - Patentee and would-be user have informational advantage over court in estimating value of patent
 - Court may face higher error and administrative costs
 - Patentee and would-be user can craft their own remedy
 - Small number of parties
- Advantages of protecting patent rights by means of a liability-rule entitlement
 - Safety valve to protect public interest
 - 28 U.S.C. § 1498
 - Essential medicines
 - Protect against patent holdup
 - Patents on components
 - Inadvertent infringement; surprise
 - Holdup value exceeds inherent value

Injunctive relief post-*eBay*

- Section 283: “The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principle of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”
- *eBay v. MercExchange*, 547 U.S. 388 (2006) (Thomas, J.)
 - Rejects CAFC rule that prevailing patentee is entitled to injunctive relief absent exceptional circumstances
 - But also appears to reject bright-line rule that nonmanufacturing patentees (NMPs) are never entitled to injunctive relief
 - Courts should apply so-called “traditional four-factor test”
 - Roberts-Scalia-Ginsburg: Look to history; “Discretion is not whim”.
 - Kennedy-Stevens-Souter-Breyer:
 - Express concern over patent holdout, business method patents;
 - Greater role for compulsory licensing?

Injunctive relief post-*eBay*, continued

- Lower court interpretations
 - No presumption of irreparable harm?
 - NMPs less likely to obtain injunctive relief?
- Any specific factors that courts *should* be focusing on post-*eBay*?
 - Presence of holdup factors (patent reads on small component of multicomponent end product, cost of design-around high, etc.)?
 - Patentee's legitimate business interest in exclusive licensing?
 - Availability of voluntary licensing through patent pools, etc.?
 - TRIPs article 28?
- Procedural issues
 - Provide parties with an opportunity to negotiate a license post-trial, before resorting to a compulsory license?
 - Right to jury trial on amount of post-trial royalties?

Damages

- Section 284 provides that “[u]pon 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.”
 - Lost profits
 - Reasonable royalties
 - Enhanced damages for willful infringement
- Section 285 provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.”

Damages: Theory

- Different theories as to how courts should calculate lost profits and reasonable royalties.
- See, e.g., Blair & Cotter (2005); Cotter (2008 draft); Heald (2008 draft); Lemley (2008 draft); Opderbeck (2008 draft); and many others.
- Cotter (2008 draft) proposal:
 - Baseline assumption is that damages should render patentee neither better nor worse off as a result of the infringement
 - Departures from baseline are sometimes necessary to avoid either under- or overdeterrence
 - Lost profits: restore patentee to position it would have occupied “but for” the infringement
 - Reasonable royalties:
 - Replicate bargain parties would have struck at the time of infringement, assuming patent validity and infringement. Assumption is necessary to avoid double discounting.
 - This hypothetical bargain should reflect the value of the patented technology in comparison to the next-best alternative
 - Some adjustment upwards, or an award of attorney fees, may be necessary to achieve optimal deterrence
 - Enhanced damages may be necessary to achieve optimal deterrence, if infringement is of a type that is difficult to detect.

Damages: Law

- Lost profits:
 - CAFC has in large part adopted a but-for analysis. See, e.g., *Rite-Hite v. Kelley*, 56 F.3d 1538 (Fed. Cir. 1995) (en banc).
 - Perhaps courts should be less strict about proof? Lemley (2008 draft)
- Reasonable royalties
 - Courts continue to cite the *Georgia-Pacific* factors
 - CAFC says that reasonable royalties may exceed the amount the parties would have negotiated ex ante, or even the defendant's entire expected profit from the use of the patent. Logic?

Damages: Law, continued

- CAFC permits reasonable royalties to be based on a percentage of the entire market value (EMV) of the final product.
 - Good policy, because the parties themselves might have used EMV as a royalty base for purposes of estimating the value of the patent in comparison to the next-best alternative?
 - Bad policy, because it risks inflating the value of the patent in comparison to the next-best alternative?
 - Would more complex valuation techniques lead to greater accuracy in estimating patent value? Would the increase in accuracy, if any, justify the increased cost?
- Enhanced damages: Does *Seagate* more closely align the legal standard with the underlying rationale for enhanced damages?