

# Remedies Law in the United States: A Disincentive to Innovation?

Fordham IP Conference April 5, 2013  
Remedies Session  
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## Statutory Remedies for Patent Infringement

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- **35 U.S.C. § 281:**

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....

- **35 U.S.C. § 284:**

“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....

## “Old-School” Royalty Analysis

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- The classic analysis is the “hypothetical negotiation” set forth in the case of *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970). For almost thirty-five years, the application of the *Georgia-Pacific* factors was influenced by Judge Markey’s opinion in *Panduit Corp v. Stahlin Bros.*, 575 F.2d 1152 (6<sup>th</sup> Cir. 1978).
- *Panduit* held that “[t]he 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 infringement never happened. It would also make an election to infringe a handy means for competitors to impose a ‘compulsory license’ policy on the patent owner.” *Id* at 1158.
- Once damage is presumed to flow from a loss of exclusivity, there is less of an emphasis on actual damage in the marketplace.

## The *E-Bay* Decision Eroded the Doctrinal Foundation of the *Panduit* case

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- When the Supreme Court in *Ebay v. MercExchange*, 547 U.S. 388 (2006) decided that an injunction should not issue automatically once liability for patent infringement was found, the Supreme Court sanctioned compulsory licenses.
- The injunction standard endorsed by the *Ebay* Court was focused on requiring proof that plaintiff was actually harmed by infringement, and that the balance of hardships favored the patent owner.
- The denial of an injunction necessarily means that the Court has held that money damages are enough to compensate for the infringement.
- But once the Supreme Court held that loss of market exclusivity did not necessarily result in irreparable harm, the impact on damages law was dramatic.

## New Damages Cases – A High Bar for Patentees

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- *Lucent Technologies, Inc. v. Gateway, Inc.*, 580 F. 3d 1301 (Fed. Cir. 2009) – the entire market value rule requires that damages must be apportioned to reflect the contribution of the patented invention to the product as a whole.
- *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860 (Fed. Cir. 2010) – litigation settlements may be the best evidence of a patent’s actual value. Licenses with no relation to the claimed invention cannot be used to calculate a reasonable royalty.
- *Uniloc USA Inc. v. Microsoft*, 632 F.3d 1292 (Fed. Cir. 2010) – “the 25 percent rule” cannot be used to calculate a reasonable royalty. “Expert testimony opining on a reasonable royalty rate must carefully tie proof of damages to the claimed invention’s footprint in the market place.” *Id.* at 1317

# What's New

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- Greater focus on the need to prove actual damage caused by infringement.
- Shift from a licensing expert's perspective to an economist's perspective.

# Acceptable Non-Infringing Substitutes For the Patented Product

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- The *Panduit* court would have concluded that the infringer's choice of an infringing product over other alternatives meant that the other choices would not be an acceptable alternatives.
- An economist assumes that the infringer would behave rationally and find another acceptable substitute.
- The presence of an acceptable non-infringing substitute lowers damages.

# Relevance of Other Agreements

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- Licensing experts traditionally took into account other agreements in the same field.
- Fields were defined broadly—*e.g.*, computer software, semiconductor apparatus.
- Previously, agreements settling litigation were not to be considered, because they did not fit the willing licensor/willing licensee model.
- Now, the most and maybe only other relevant agreements are those specifically directed to the patent in suit, including settlement agreements.
- The absence of relevant agreements negotiated in the real world means that damages must be determined by economists, who, because of their perspective, are capable of saying damages can be zero.

## Changes Driven by NPE Damages Claims

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NPEs used finished product as the royalty base for a patent on one computer chip.



## NPE Damages

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- Recent studies conclude that the NPEs are obtaining damages awards larger than those obtained in suits between competitors brought by patent owners who actually practice the patent.
- This likely reflects the impact of trying cases in jurisdictions where juries lean towards high damages awards and finding for the “little guy.”
- But in trying to limit NPE damages, the Federal Circuit has made it more difficult for all plaintiffs, including competitors, to win more than minimal damages.

## The Impact on All Plaintiffs Is Significant

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- Plaintiff's damages case may never get to a jury. Defendants now have three "bites" at knocking out a damages case: motions for summary judgment/*Daubert* motions and motions in limine before trial, and JMOL motions after trial.
- Although the floor for damages is a reasonable royalty, that number could be very low.
- An overemphasis on one class of plaintiffs has diminished the damages awards of all plaintiffs.
- The different investment model permits NPEs continue to thrive, while the company trying to use its patents to protect its products may lose out.

# Solutions

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- Keep the damages analysis rooted in reality.
- Economics experts for the defense should not be permitted to depart from the doctrinal and statutory foundation for patent damages.
- A reasonable royalty is one that is not too low as well as not too high.
- If the infringer knowingly adopted the technology at issue over other choices, whether or not the infringer knew about the patent, this should be an admission that the technology has some commercial value.
- If the perceived problem is the ability to buy and invest in patents, then regulate that activity, not remedies.

**Thank you**

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