

Overview of IP Damages & Injunctions

Houston Intellectual Property Law Association

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Introduction

Lost Profits Damages

Reasonable Royalty Damages

The Law & Economics of Permanent Injunctions – Update on *eBay v. MercExchange*

Sources of Lost Profits

Lost profits on “but-for” sales

- Lost sales of competing products
- Lost sales of convoys products

Lost profits on actual sales

- Reduced profit margins
 - Lower prices
 - Higher costs

Lost Profits – Competing Products

Panduit Corp. v. Stahl Bros. Fibre Works, Inc.

- **Plaintiff must show proof of the following factors:**
 1. Demand for the patented product
 2. Absence of acceptable non-infringing alternatives**
 3. Manufacturing and marketing capacity to exploit demand
 4. Profits it would have made in absence of infringement

** Modified over time to allow recovery based on market share (*State Industries v. Mor-Flo*)

Definition of the Market

What makes an alternative acceptable?

- **Alternative must be “sufficiently similar” ****
 1. Price
 2. Technology
 3. Product features
 4. Quality

** See, e.g., *BIC Leisure v. Windsurfing* and *Crystal Semiconductor v. Tritech*

Definition of the Market (cont.)

When is an alternative available?

- Alternative must be “on the market” or “readily available” to the market **

- **Availability defined in terms of:**
 1. Equipment
 2. Know-how
 3. Experience
 4. Material
 5. Time

** See, e.g., *Grain Processing v. American Maize and Micro Chemical v. Lextron*

Lost Profits – Convoyed Products

Rite-Hite Corp. et al. v. Kelley Co., Inc.

- **Lost profits on collateral sales are awardable if:**
 - The collateral products “function together” with the patented product to achieve a desired end product or result
 - Are not sold together merely for “convenience or business advantage”

Lost Profits – Price Erosion

Crystal Semiconductor v. Tritech

- **Plaintiff must show:**
 - But-for the infringement, “it would have sold its product at higher prices”

 - “The effect of that higher price on demand for the product”

Lost Profits – Other Key Issues

1. Does the patent holder's product have to incorporate the patented technology?

- Not necessarily (*Rite-Hite Corp. et al v. Kelley Co., Inc.*) but be careful...

2. Can a Plaintiff's claim of third party infringement negate inclusion of those third parties as non-infringing alternatives?

- Maybe...

3. Can a patent holder's corporate structure affect its ability to recover lost profit damages?

- Yes (*Poly-America, L.P. v. GSE Lining Technology, Inc.*)**

**See also *Mars, Incorporated, et al. v. Coin Acceptors, Inc.*

Reasonable Royalty – Underlying Basis

“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...”

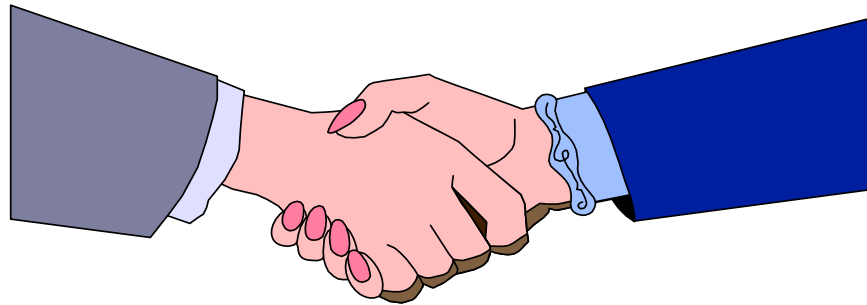
35 U.S.C. 284

Basic Framework

Hypothetical negotiation construct

Georgia-Pacific v. United States Plywood Corp

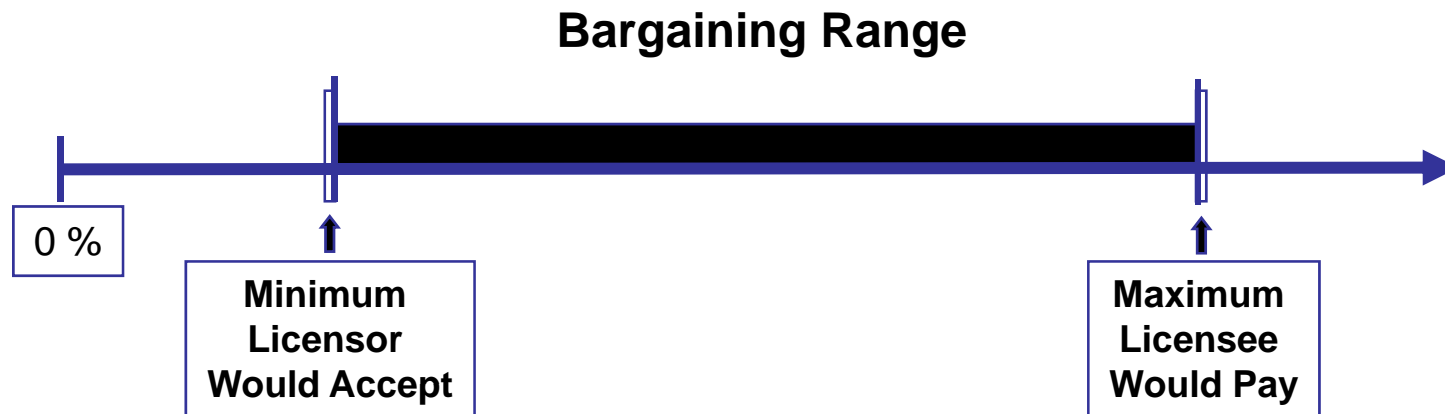
- Arms-length negotiation
- Willing licensor and willing licensee
- At the point of first infringement



Reasonable Royalties – Economist’s Approach

Evaluate boundaries of bargaining range using quantitative methods

Analyze qualitative factors to choose appropriate rate within bargaining range



Reasonable Royalties – Quantitative Methods

Market Approaches

- Analysis of comparable transactions
- Analysis of typical industry licensing terms

Income Approaches

- Incremental benefits/costs of license
- Rules of thumb

Cost Approaches

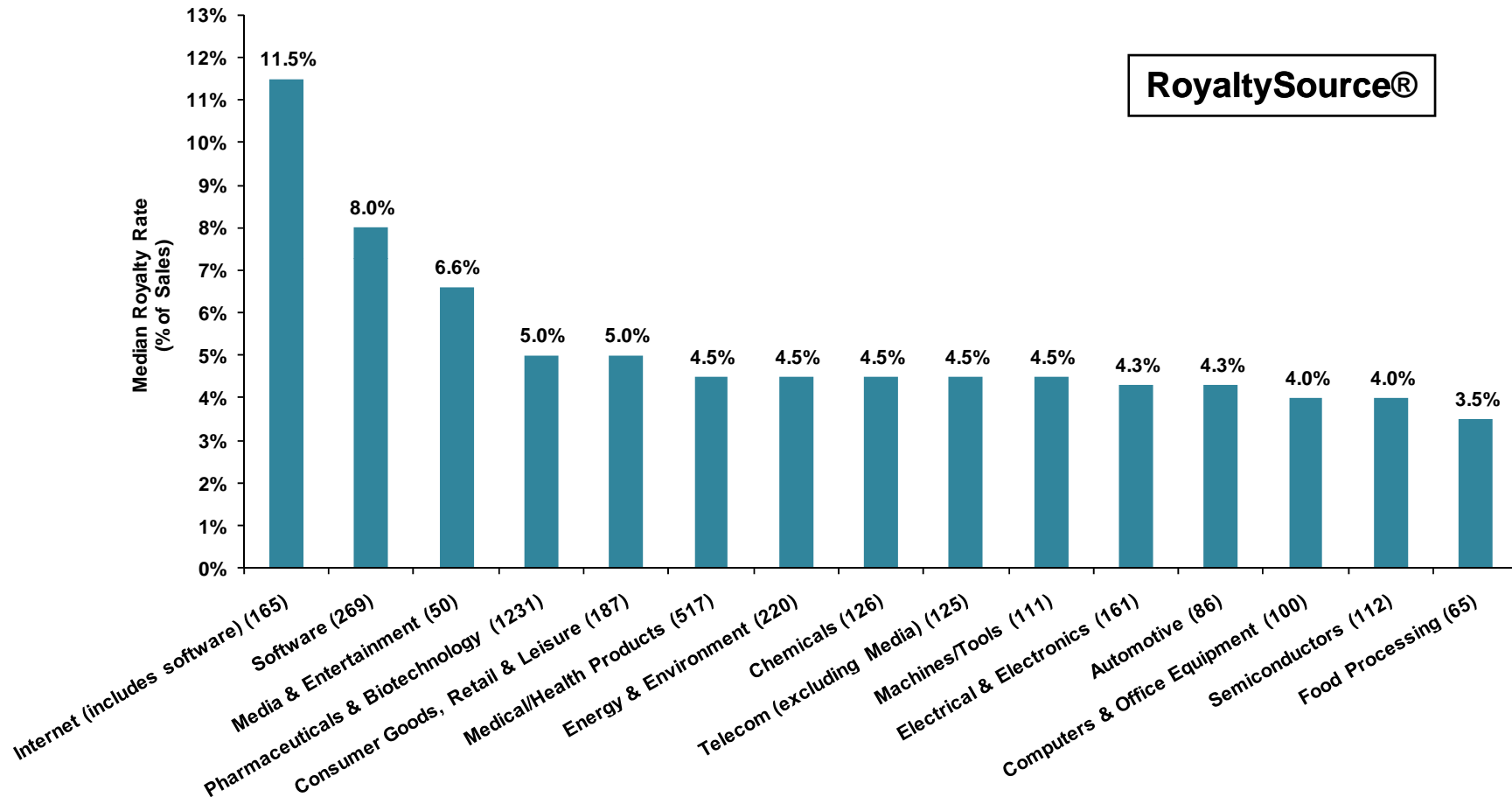
- Cost of avoiding use of intellectual property
- Alternative must be available and acceptable to marketplace
- Includes out-of-pocket costs and opportunity costs

Reasonable Royalties – Qualitative Factors

Georgia-Pacific Factors

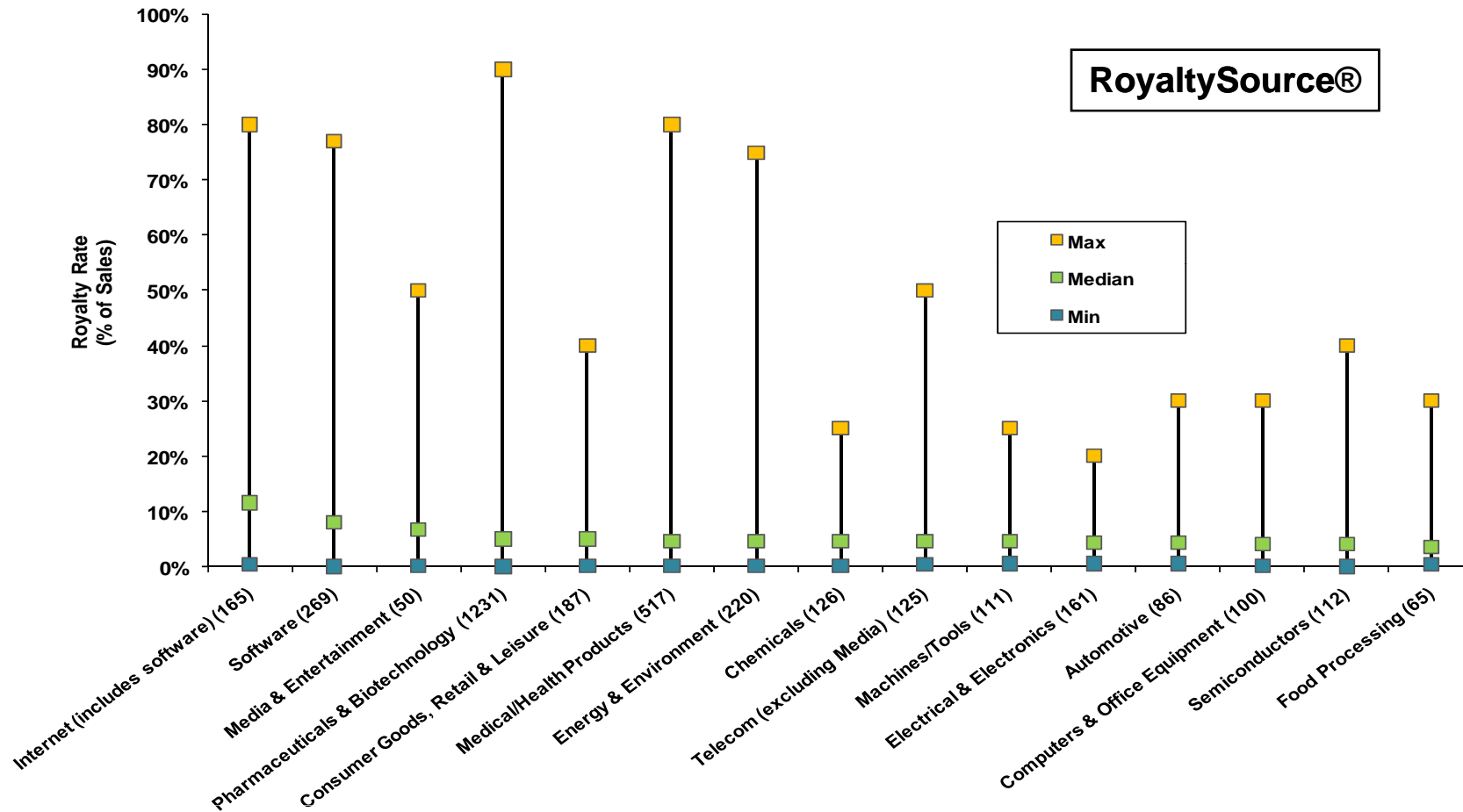
1. Royalties received for licensing patent in suit
2. Rates paid for use of comparable patents
3. Nature and scope of license
4. Licensor's licensing policy
5. Commercial relationship between licensor and licensee
6. Possibility of convoyed sales
7. Duration and term
8. Established profitability
9. Utility and advantage over old modes or devices
10. Nature and character of invention and benefits to users
11. Extent of use
12. Portion of price or profit attributable to invention
13. Customary profit split
14. Opinion testimony of experts
15. Hypothetical negotiation

Industry Royalty Rates



Source: Licensing Economics Review, December 2008, at 6. Number of observations in parentheses; total sample size = 3,525.

Royalty Rates – Variation Within Industry



Source: Licensing Economics Review, December 2008, at 6. Number of observations in parentheses; total sample size = 3,525.

Factors Affecting Royalties

Legal strength of the IP ↑

Profitability of products embodying the IP ↑

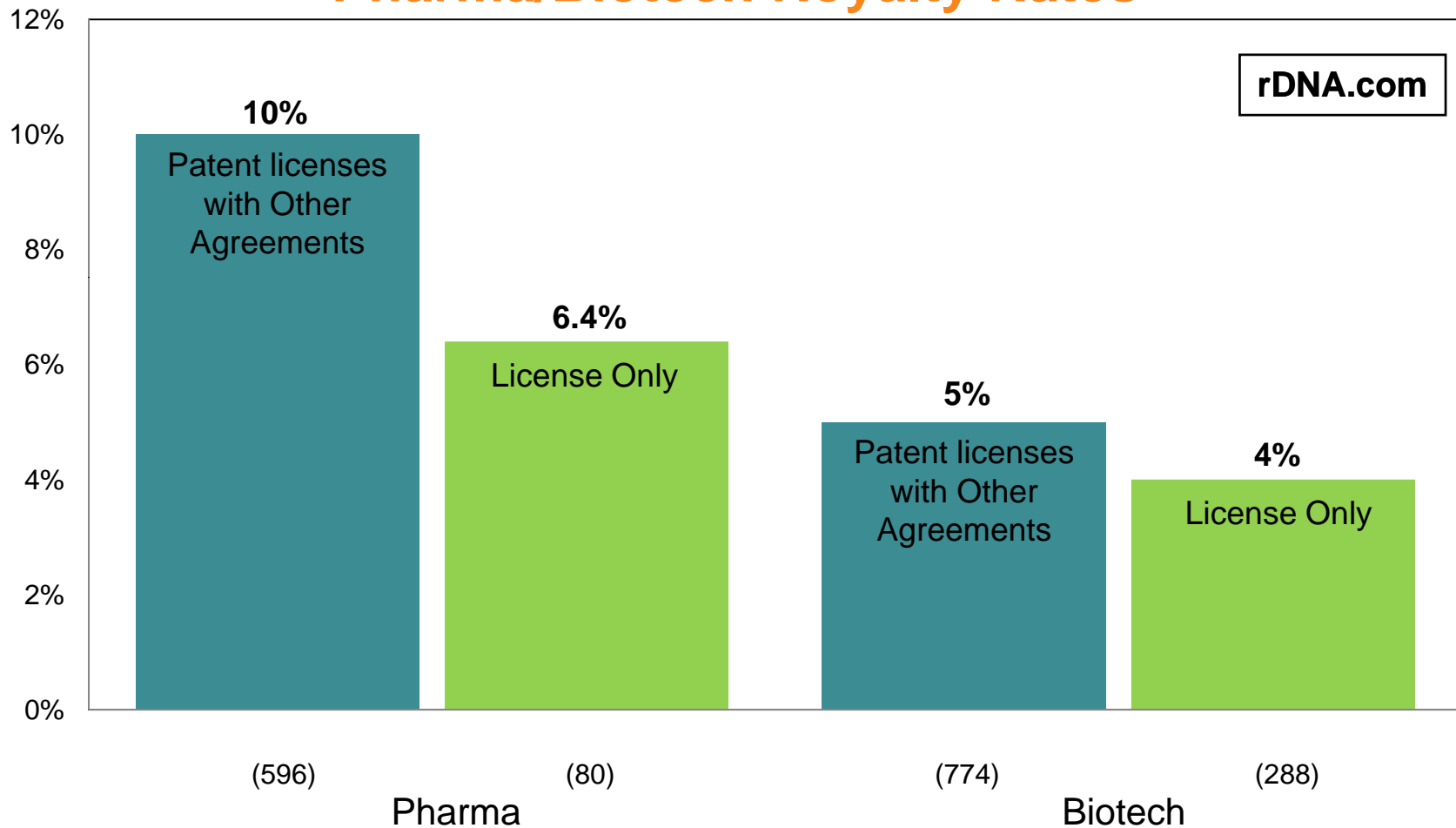
Exclusivity of rights transferred ↑

Later stage of development of the IP ↑

Non-competitive relationship between licensor and licensee ↓

Absence of additional provisions such as supply and joint collaboration ↓

Pharma/Biotech Royalty Rates



Notes: "Patent licenses with Other Agreements" have overall median of 6.0% and sample size of 1,370. "License Only" licenses have overall median of 5.0% and sample size of 368.

Reasonable Royalties – Other Key Issues

- 1. In the case of bundled products or system sales, what should be included in the royalty base?**
- 2. What is the appropriate date of the hypothetical negotiation in the presence of long lead time for product development?**
- 3. Should expert's analysis be limited to information known at the time of the hypothetical negotiation?**

Law & Economics of Permanent Injunctions

Four-Factor Test

- **For injunction, patent holder must show:**
 1. Irreparable Injury (If No Injunction)
 2. No Adequate Remedy at Law
 3. Balance of Hardships Favors Patent Holder
 4. Public Interest Not Disserved by Injunction

eBay v. MercExchange



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Location: Muncie, Indiana
United States / Indianapolis

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eBay v. MercExchange – Case Background

2003: Federal jury found that eBay infringed with its “buy it now” feature

- **\$29.5m in damages**
- **Court imposed no injunction**
- **Judge Friedman noted a trend by the Patent Office to award patents in haste**

2005: Appeals Court upheld the finding and damages

- **Imposed injunction**
- **Cited a “general rule that courts will issue permanent injunctions against patent infringements absent exceptional circumstances”**

eBay v. MercExchange - Case Background (cont.)

May 15, 2006: Supreme Court vacated the injunction

- **Said injunctions should not be granted automatically in patent cases**

- **Required application of traditional four-factor test for determination of availability of permanent injunction**
 - Said the District Court was too restrictive in its interpretation of test

 - Said the Appeals Court was too expansive in its interpretation of test

Subsequent District Court Cases

Since the May 15, 2006 Court decision:

- **95 patent cases have applied *eBay v. MercExchange***
- **Permanent injunction was granted in 69 cases (73%)**
- **Permanent injunction was denied in 26 cases (27%)**
- **Prior to *eBay*, the grant rate for permanent injunctions was 84%**

Source: Univ. of Houston Law Center's Patstats at <http://www.patstats.org/Patstats2.html>;
<http://www.patstats.org/Patstats3.html> (data as of June 19, 2009); LexisNexis. Cases through August 4, 2009 represented above.

Subsequent District Court Cases – Permanent Injunction Granted

1. **Wald v. Mudhopper (W.D. Okla. 2006)**
2. **Telequip Corp. v. Change Exch. (N.D. N.Y. 2006)**
3. **TiVo v. EchoStar (Dish Network (E.D. Tex. 2006)**
4. **Floe v. Newmans' Mfg. (D. Minn. 2006)**
5. **Litecubes v. Northern Light (E.D. Mo. 2006)**
6. **3M v. Avery Dennison (D. Minn. 2006)**
7. **Smith & Nephew v. Synthes (W.D. Tenn. 2006)**
8. **Rosco v. Mirror Lite (E.D.N.Y. 2006)**
9. **Black & Decker v. Robert Bosch Tool (N.D. Ill. 2006)**
10. **Visto v. Seven Networks (E.D. Tex. 2006)**
11. **Transocean Offshore Deepwater Drilling v. Globalsantafe Corp(S.D. Tex. 2006)**
12. **Innogenetics v. Abbott (W.D. Wis. 2007)**
13. **International Rectifier v. Ixys (C.D. Cal. 2007)**
14. **Genlyte Thomas v. Architectural Lighting (D. Mass. 2007)**
15. **Novozymes v. Genecor (D. Del. 2007)**
16. **Atlanta Attachment v. Platt (N.D. Ga. 2007)**
17. **Amado v. Microsoft (C.D. Cal. 2007)**
18. **Verizon v. Vonage (E.D. Va. 2007)**
19. **Ortho-McNeil Pharm. v. Mylan Lab. (D. N.J. 2007)**
20. **Harris Research v. Perrine (D. Utah 2007)**

Subsequent District Court Cases – Permanent Injunction Granted (cont.)

21. **800 Adept v. Murex Securities (M.D. Fla. 2007)**
22. **O2 Micro v. Beyond Innovation (E.D. Tex. 2007)**
23. **MGM Well Services v. Mega Lift Systems (S.D. Tex. 2007)**
24. **Proveris Scientific v. Innovasystems (D. Mass. 2007)**
25. **Lexion v. Northgate (N.D. Ill. 2007)**
26. **Brooktrout v. Eicon Networks (E.D. Tex. 2007)**
27. **Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology (E.D. Tex. 2007)**
28. **Sanofi-Synthelabo v. Apotex (S.D.N.Y. 2007)**
29. **Diomed v. Angiodynamics (D. Mass. 2007)**
30. **Muniauction v. Thomson (W.D. Pa. 2007)**
31. **Johns Hopkins University, et al. v. Datascope (D. Md. 2007)**
32. **Allan Block Corp. v. E. Dillon & Co. (D. Minn. 2007)**
33. **Baden Sports v. Kabushiki (W.D. Wash. 2007)**
34. **Martek v. Nutrinova (D. Del. 2007)**
35. **Accumed v. Stryker (D. Or. 2007)**
36. **Celerity v. Ultra Clean (N.D. Cal. 2007)**
37. **DePuy v. Medtronic Sofamor (D. Mass. 2007)**
38. **MPT v. Marathon Labels (N.D. Ohio 2007)**
39. **Broadcom v. Qualcomm (C.D. Cal. 2007)**
40. **Acticon v. Heisei (S.D.N.Y. 2008)**

Subsequent District Court Cases – Permanent Injunction Granted (cont.)

41. **Fresenius Med. Care v. Baxter Int'l (N.D. Cal. 2008)**
42. **Power-One v. Artesyn (Emerson) (E.D. Tex. 2008)**
43. **Collegenet, Inc. v. XAP Corp. (D. Or. 2008)**
44. **Monsanto v. Parr (N.D. Ind. 2008)**
45. **Blackboard v. Desire2Learn (E.D. Tex. 2008)**
46. **Kowalski v. Ocean Duke (D. Haw. 2008)**
47. **Trade Techs. Int'l. v. eSpeed (N.D. Ill. 2008)**
48. **F.O.B. Instruments Ltd. v. Krown Manufacturing (D. Md. 2008)**
49. **Mannatech v. Glycoproducts Intern (N.D. Tex. 2008)**
50. **Emory University v. Nova Biogenetics (N.D. Ga. 2008)**
51. **True Position v. Andrew Corp. (D. Del. 2008)**
52. **Pressure Points Medical Supplies v. Quan Emerteq (E.D. Tex. 2008)**
53. **Gemtron v. Saint-Gobain (W.D. Mich. 2008)**
54. **Amgen v. Roche Holding (D. Mass. 2008)**
55. **Becton Dickinson v. Tyco Healthcare (D. Del. 2008)**
56. **Extreme Networks v. Enterasys Networks (W.D. Wis. 2008)**
57. **Callaway Golf v. Acushnet (D. Del. 2008)**
58. **Smith & Nephew v. Arthrex (D. Or. 2008)**
59. **Power Integrations v. Fairchild Semiconductor Intern. (D. Del. 2008)**
60. **Funai Elec. V. Daewoo Electronics (N.D. Cal. 2009)**

Subsequent District Court Cases – Permanent Injunction Granted (cont.)

61. **Ariba v. Emptoris (E.D. Tex. 2009)**
62. **U.S. Philips v. Iwasaki Elec. (S.D.N.Y. 2009)**
63. **Global Traffic Technologies v. Tomar Electronics (D. Minn. 2009)**
64. **Joyal Products v. Johnson Elec. Of North America (D. N.J. 2009)**
65. **Tate & Lyle Technology v. AIDP (C.D. Ill. 2009)**
66. **Kowalski v. Mommy Gina Tuna Resources (D. Haw. 2009)**
67. **Mass Engineered Design v. Ergotron (E.D. Tex. 2009)**
68. **Wyers v. Master Lock Co. (Colo. 2009)**
69. **Transamerica Life Insurance et al. v. Lincoln National Life Insurance (N.D. Iowa 2009)**

Subsequent District Court Cases – Permanent Injunction Denied

1. **z4 Techs. v. Microsoft (E.D. Tex. 2006)**
2. **Paice v. Toyota (E.D. Tex. 2006)**
3. **Finisar Corp. v. Directv (E.D. Tex. 2006)**
4. **Voda v. Cordis (W.D. Okla. 2006)**
5. **Sundance v. Demonte Fabricating (E.D. Mich. 2007)**
6. **IMX v. Lending Tree (D. Del. 2007)**
7. **Praxair v. ATMI (D. Del. 2007)**
8. **Heuft Systemtechnik v. Indus. Dynamics (C.D. Cal. 2007)**
9. **MercExchange v. eBay, Inc. (E.D. Va. 2007)**
10. **Respironics v. Invacare (W.D. Pa. 2008)**

Subsequent District Court Cases – Permanent Injunction Denied (cont.)

11. **ResQ v. Lansa (S.D.N.Y. 2008)**
12. **Nichia v. Seoul Semiconductor (N.D. Cal. 2008)**
13. **Ecolab, Inc. v. FMC Corp. (Minn. 2008)**
14. **Cygnus Telecom v. World Port Comm. (N.D. Cal. 2008)**
15. **Avid Ident. Systems v. Philips Electronics (E.D. Tex. 2008)**
16. **Grantley Patent Holding v. Clear Channel Comm. (E.D. Tex. 2008)**
17. **Akamai v. Limelight (Mass. 2008)**
18. **Advanced Cardiovascular v. Medtronic Vascular (D. Del. 2008)**
19. **American Calcar v. American Honda Motor (S.D. Cal. 2008)**
20. **Orion IP v. Mercedes-Benz USA (E.D. Tex. 2008)**
21. **Telecordia Technologies v. Cisco Systems (D. Del. 2009)**
22. **Hynix Semiconductor v. Rambus (N.D. Cal. 2009)**
23. **Trinc v. Radial Wheel (E.D. Mich. 2009)**
24. **Bard Peripheral Vascular v. W.L. Gore (D. Ariz. 2009)**
25. **Hypoxico Inc. v. Colorado Altitude Training (S.D. N.Y. 2009)**
26. **Medtronic Sofamor Danek et al. v. Globus Medical (E.D. Pa. 2009)**

Key Economic and Legal Issues

Competition between patent holder and infringer matters

- **Permanent injunction more likely for direct competitors – but not automatic**
- **No permanent injunction more likely for non-competitors – but not automatic**
- **Definition of “competition” unclear - How? How Much? When?**

Key Economic and Legal Issues (cont.)

Impact of future infringement must be considered

- **License agreement negotiated by the parties is the preferred remedy**

- **Future royalty should reflect post-judgment considerations**
 - Validity, enforceability and infringement
 - Willfulness
 - Change in economic considerations