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This Issue: Remedies in Intellectual Property Litigation

Getting the Remedy You Want from the ITC

By Mark J. Abate, Charles H. Sanders, and Calvin E. Wingfield Jr.

Winning is never enough. True success in litigation requires obtaining a remedy that benefits—or avoiding the award of a remedy that harms—the client's business. In the International Trade Commission (ITC), the principal remedy is an order that excludes infringing articles from importation into the United States. All exclusion orders, however, are not the same. Although some only have negligible impact, others solidify or catapult a complainant's position in the marketplace and thus severely weaken a respondent's position.

Managing the effects of litigating at the ITC today requires understanding the Federal Circuit's recent decision in *Kyocera Wireless Corp. v. International Trade Commission*.[1] *Kyocera* has had an immediate and significant effect on the ITC's remedy determinations, changing the accepted wisdom regarding exclusion

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IP Disclosure Obligations in Standard-Setting Organizations

By Scott J. Coonan, Jonathan S. Kagan, and Cathy Moses

The advance of technology over the past two decades has allowed each of us to remain remarkably well connected to one another at all times. We can communicate nearly instantly by email or cell phone, share pictures and movies, conduct video conferences on a moment's notice, and exchange presentations, spreadsheets, and other documents effortlessly, both within our companies and with outsiders. Our ability to maintain this level of connectedness depends largely upon the use of common "standards"—agreed-upon methods or apparatuses for performing particular functions in a defined way—that many companies use to manage the flow of information and to ensure the interoperability of systems and technologies.

The process of defining standards is performed largely by private standard-setting organizations (SSOs). Companies that provide products or services that use a particular standard are often part of the standard-setting process and contribute their knowledge, advice, and opinions to that process. Often, organizations that have developed their own proprietary technologies attempt to incorporate those advances into final published standards. To prevent any one organization from manipulating a standard, many—but not all—SSOs have established rules that require participating organizations to disclose any intellectual property (IP) rights covering the proprietary technologies they

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Message from the Chairs

It is legal lore that lawyers pay less attention to the remedies aspects of a case than liability, often with disastrous consequences. For instance, in a famous case from years ago about a failed merger, legend had it that the defense counsel was so confident in a defense verdict that they spent no effort seeking to rebut the plaintiff's allegation that it lost $10 billion because the merger didn't take place. You can guess the result.

So we're devoting this issue of our newsletter to remedies in intellectual property cases. We think you'll find some terrific ideas for traps to avoid and tips you can use in your cases. For instance, you'll learn that although design patents are usually considered to be poor cousins to utility patents, in terms of remedies, design patents are superior to utility patents in many circumstances. You'll also learn about risks to the enforceability of standards setting organizations' patents, the significant changes recent case law has wrought to patent holders' ability to obtain preliminary and permanent injunctions, and ways to obtain effective relief in International Trade Commission proceedings. Another article addresses the important topic of the accused infringer's indemnification rights under article 2 of the Uniform Commercial Code.

In addition to this newsletter, we hope you are taking advantage of your membership in our committee. For instance, our Patent Litigation Subcommittee will host the second of its teleconferences with federal district judges on Tuesday, June 23, 2009, at 2:00 P.M., Eastern time, and will feature the Honorable Joseph J. Farnan Jr. of the District of Delaware. Our Copyright Subcommittee continues to host its teleconferences for members, giving you opportunities to discuss hot topics in copyright litigation and to network.

We also hope you can join us at the Section's meeting at the ABA Annual Meeting in Chicago, July 30–August 4. As always, there will be several great CLE programs and social events. Our committee will sponsor a program you won't want to miss, entitled "Top 20 Ways to Protect Attorney-Client Privilege and Work Product while Working with Expert Witnesses." In addition, our breakfast meeting will feature a discussion of practical tips for arming jurors to advocate on your client's behalf in intellectual property trials.

For details on these and several other committee activities, see our website at www.abanet.org/litigation/committees/intellectual/home.html. ●

The Standard for Preliminary Injunctions Should Be Abandoned

By Joseph F. Shea, Timothy D. Johnston, and Heather B. Repicky

On February 23, 2009, the Federal Circuit rejected the petition for rehearing en banc in *Abbott Laboratories v. Sandoz, Inc.*[1] and so declined the opportunity to clarify its confusing standard for granting preliminary injunctions. The court has apparently foresworn the maxim "If it ain't broke, don't fix it" and replaced it with its own aphorism—"If it's broke, don't fix it."

In *Sandoz*, Judge Newman and Judge Gajarsa squared off on the meaning of the Federal Circuit's pet phrase "substantial question of invalidity" and its relation to the "likelihood of success on the merits" prong of the traditional preliminary injunction test. Judge Newman stated baldly that the "substantial question" standard is incompatible with the Supreme Court's holding in *eBay, Inc. v. MercExchange, L.L.C.*[2] and the Federal Circuit's own early jurisprudence. Judge Gajarsa, on the other hand, denied any incompatibility and chided Judge Newman for pursuing a nonissue. Having set out contradictory views concerning the utility of the court's unique standard, the *Sandoz* panel mustered only a plurality opinion with no consensus on how the standard should be applied or whether it should be retained. The practical result is that the Federal Circuit remains wedded to its woolly "substantial question" standard, creating even greater uncertainty both for district courts faced with motions for preliminary injunctions and for litigants deciding whether to seek early equitable relief. This confusion, evident long before the Federal Circuit's decision in *Sandoz*, will only be exacerbated by the court's refusal to resolve the issue en banc. Because the grant or denial of a preliminary injunction following *In re Seagate Technology LLC*,[3] may also have significant consequences for the recovery of multiple damages and attorney fees, the Federal Circuit should abandon a formulation that divides even its own bench.

A "Substantial Question of Invalidity"

Congress has expressly authorized district courts to grant injunctions in patent cases "in accordance with the principles of equity," 35 U.S.C. § 283, and, nominally, the Federal Circuit applies the familiar four-part test for injunctive relief.[4] Indeed, the Federal Circuit has long included in its opinions the refrain that the preliminary injunction standard in patent cases is no different than that applied in all other cases.[5] The Supreme Court's holding in *eBay* would seem to have erased any doubt that a standard other than the traditional test controls.

In practice, however, the Federal Circuit has altered the "likelihood of success on the merits" prong of the traditional test. Whenever a defendant raises what the court vaguely terms a "substantial question" of invalidity, the burden shifts to the patentee to demonstrate that the invalidity defense "lacks substantial merit."[6] This approach has had the practical consequence of allowing an alleged infringer to avoid a preliminary injunction by showing something *less than* a likelihood of success on the issue of invalidity. A recent example can be found in *PrintGuard, Inc. v. Anti-Marking Systems, Inc.*[7]

PrintGuard, Inc. v. Anti-Marking Systems, Inc.

In *PrintGuard*, the district court denied the patentee's motion for preliminary injunction, finding a "tension" between the Federal Circuit's "substantial question" standard and the Supreme Court's emphasis in *eBay* on the traditional four-part test.[8] It relied on a numerical example to illustrate the problem:

> Under Genentech, a preliminary injunction should not issue if the defendant raises a "substantial question" concerning validity of the patent—even if the Court were to conclude that the moving party is more likely to succeed on that issue. Consider, for example, a defendant who raises a validity defense that has a 49 percent likelihood of success on the merits; such a defense is plainly "substantial," yet it is not "likely to succeed." Under Genentech, preliminary injunctive relief should not issue in such a case, even though the plaintiff is likely to succeed on the merits.[9]

The district court went on to note that the Federal Circuit reaffirmed the principle of *Genentech* despite the Supreme Court's holding in *eBay* and ultimately concluded that "[w]hatever analytical tension may exist between *eBay* and *Genentech*, this Court is not free to disregard binding circuit precedent. Accordingly, the Court will apply the *Genentech* standard. . . ."[10]

The court did not explain the basis on which it resolved the "tension" between *eBay* and *Genentech* in favor of *Genentech*. One would have thought that the Supreme Court's holdings trump those of the Federal Circuit. In any event, the district court concluded that, under the "substantial question" standard, an alleged infringer can defeat a preliminary injunction even where the patentee has established a likelihood of showing that the patent-in-suit is valid.

One appreciates the district court's unease in applying the "substantial question" standard as it understood it. There was no dispute concerning infringement, and the court characterized the alleged infringer's underlying evidence of an anticipating prior sale as "ambiguous and incomplete."[11] Yet, the court felt constrained to conclude that a "substantial question" of invalidity had been raised: "A factfinder *could*, if he or she chose to credit all of defendant's evidence, *potentially* find the patents-in-suit invalid as anticipated and/or obvious."[12] For this court, the Federal Circuit had so altered the traditional equitable test for a preliminary injunction that the mere "potential" to find invalidity was sufficient to bar the patentee from establishing a likelihood of success on the merits.

Erico International Corp. v. Doc's Marketing, Inc.

Shortly after the denial of PrintGuard, Inc.'s motion for preliminary injunction, the Federal Circuit had occasion to address the "substantial question" standard in *Erico International Corp. v. Vutec Corp.*[13] The court below here, too, expressed confusion as to how to square the Federal Circuit's standard with the traditional four-part test. As in *PrintGuard*, the unenforceability and invalidity challenges were weak. Unlike in *PrintGuard*, however, the lower court entered a preliminary injunction in favor of patentee Erico International Corp., enjoining defendant Doc's Marketing, Inc., from advertising, marketing, selling, or offering for sale its allegedly infringing products. Doc's Marketing moved for reconsideration.

In its decision on Doc's Marketing's motion, *Erico International Corp. v. Doc's Marketing, Inc.*,[14] the district court faced head-on the question of whether the Federal Circuit has created a different preliminary injunction standard in patent cases. Doc's Marketing argued that the district court had applied the wrong legal standard and, in so doing, had imposed too high a burden on Doc's Marketing. The argument put forward by Doc's Marketing, as framed by the district court, was that the Federal Circuit had used the phrase "substantial question" of invalidity to create a different preliminary injunction standard for patent cases, one more "lenient" from the alleged infringer's perspective. Doc's Marketing argued that by "simply asserting a good faith invalidity defense and convincing the PTO to grant a reexamination" of the patent-in-suit, it had shown the patent to be sufficiently "vulnerable" under the Federal Circuit's holding in *Amazon.com, Inc. v. barnesandnoble.com, inc*.[15]

In a thoughtful opinion, the district court struggled to reconcile *Amazon.com* with *eBay*. Its opinion noted that if, in fact, the Federal Circuit did create a unique preliminary injunction standard for patent cases in *Amazon.com*, then *eBay* demands that such a test be improper. The court stated that Doc's Marketing interpreted *Amazon.com* "too broadly" and read too much into the Federal Circuit's "vulnerability" language. It concluded that *Amazon.com* addressed the specific issues that "arise from the interplay between claims of infringement (by a plaintiff) and invalidity (by a defendant), both of which touch upon the plaintiff's ability to demonstrate a 'likelihood of success on the merits.'"[16] For the district court, however, *Amazon.com* was a nonevent in this regard; the Federal Circuit simply pointed out two unremarkable principles about application of the burden of proof at the preliminary injunction stage. These principles "are not unique to patent cases; they apply in any case where a defendant has affirmative defenses available to it which are distinct from its mere denial of a plaintiff's claims."

> ***The "substantial question" of invalidity standard is either redundant of the traditional preliminary injunction test or flatly at odds with it.***

Notwithstanding its efforts at harmonization, the district court pointed out troubling trends that suggest that the Federal Circuit has gone off the rails in its preliminary injunction jurisprudence. The court noted that Doc's Marketing was not alone in its view that the Federal Circuit had created a different preliminary injunction standard. Based on the "substantial question" and "vulnerability" language, "a belief apparently has emerged that only the most minimal showing of invalidity is sufficient to withstand a patentee's request for a preliminary injunction" and that parties were arguing, "with some success, that the *mere assertion* of an invalidity claim is sufficient to suggest that a patent is 'vulnerable' to such a finding and, thus, is sufficient to defeat a request for a preliminary injunction."[17] The district court also reported that, at the 2006 annual meeting of the Federal Circuit Bar Association, the consensus was that "it is futile to *ever* seek a preliminary injunction . . . ."[18] Nevertheless, the court believed that the Federal Circuit could not have intended the "mere assertion of a claim of invalidity" to be sufficient to raise a "substantial question."[19] Such a lenient standard would effectively deprive patent holders of an ancient equitable remedy whose availability is guaranteed by statute.

On appeal, the Federal Circuit reversed and vacated the preliminary injunction, finding that Doc's Marketing had raised a "substantial question of invalidity" for the patent-in-suit.[20] It ducked altogether the problem of reconciling *eBay* with its own standard. The panel's majority blandly acknowledged that the district court had "applied the correct four factor test" (albeit, incorrectly), but made no reference to the district court's thoughtful summary of the tensions created by the "substantial question of invalidity" standard itself.[21]

Instead, the Federal Circuit reaffirmed the "substantial question" standard and its earlier vulnerability language: "[A] defendant must put forth a substantial question of invalidity to show that the claims at issue are vulnerable."[22] Far from being chastened by lower courts' and practitioners' concerns about conflicting standards, the Federal Circuit articulated what may be yet another standard, according to which the alleged infringer need only "cast doubt" on the validity of the patent to defeat a preliminary injunction. The court did not explain whether it views "casting doubt" as synonymous with "vulnerability" or as a further tweaking of the likelihood of success standard that increases the patentee's burden and correspondingly decreases the alleged infringer's burden at the preliminary injunction stage. Like much of the vague language in the Federal Circuit's preliminary injunction jurisprudence, *Erico*'s "casting doubt" confuses rather than clarifies.

Abbott Laboratories v. Sandoz

In *Sandoz*, Judge Newman—a longtime critic of the "substantial question" standard—found herself now writing for the majority but could not garner the support of Judge Archer to eliminate the court's odd burden-shifting test.[23] Her scathing critique of the "substantial question of invalidity" analysis was thus dicta, highlighting the panel split, and creating a case seemingly ripe for en banc review.

Judge Newman first stressed that the Federal Circuit's analysis is unlike the standard otherwise uniformly[24] applied in the federal courts and is inconsistent with traditional equitable factors. She concluded: "No circuit has held that it suffices to simply raise a 'substantial question.' Raising a substantial question achieves the threshold requirement of a well-pleaded complaint; it does not demonstrate a likelihood of prevailing." Second, Judge Newman emphasized that the Federal Circuit has strayed not only from its sister circuits but also from the Supreme Court's ruling in *eBay*. She found the "substantial question" standard to be precisely the kind of "unique" test that *eBay* proscribes.[25]

As *eBay* held, as the Federal Circuit's own history demonstrates, and as Judge Newman plainly stated, there is no need for a special preliminary injunction analysis in patent cases. The Federal Circuit's early preliminary injunction cases emphasized the traditional four equitable factors, including the need to show a "reasonable likelihood of success on the merits."[26] In 1992, the court introduced the "substantial question" standard merely as a gloss on the patentee's burden to show a "likelihood of success."[27] When the Federal Circuit found itself called upon to explain what its explanations meant, however, rather than abandon the "substantial question" formulation as a confusing mistake, it chose instead to elaborate increasingly rococo variations, culminating in "clarifications" such as the "vulnerability" language in *Amazon.com* and the "casting doubt" phrase in *Erico*.

Use of such phrases masks the reality that the "likelihood of success" inquiry on validity is a single issue; either the patentee establishes a likelihood of success on validity or the alleged infringer establishes a likelihood of success on invalidity. Both parties cannot simultaneously be likely to succeed on this one issue. Consequently, the alleged infringer should not be able to avoid an injunction by establishing something less than a likelihood of success on invalidity. Yet, in practice, this is precisely what the "substantial question" standard allows an alleged infringer to do.

The Federal Circuit should abandon the "substantial question" standard. The court's tinkering with the long-standing preliminary injunction test has created confusion among lower courts trying to measure the quantum of evidence of invalidity necessary to defeat a motion for preliminary injunction, especially where the patentee has otherwise established a likelihood of success on the merits.

Unforeseen Implications

The denial of en banc review in *Sandoz* suggests, however, that the Federal Circuit has no interest in rectifying its mistake and unambiguously embracing the traditional four-part test for preliminary injunctions in patent cases. As a result, the regimen described by the district court in *Erico* and given effect in *PrintGuard*, according to which the mere potential of invalidity or "the most minimal showing of invalidity" is sufficient to defeat a motion for a preliminary injunction, has gained credence in district courts.

Even as the Federal Circuit makes it more difficult for a patentee to receive a preliminary injunction, it increases the consequences of not receiving one. In *In re Seagate Technology, LLC*, the Federal Circuit observed that a patentee's failed attempt to obtain, or merely its decision to forgo, preliminary injunctive relief will likely demonstrate that the alleged infringement does not meet the requisite recklessness showing under 35 U.S.C. § 284: "A substantial question about invalidity or infringement is likely sufficient not only to avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct."[28]

By linking the "substantial question" standard to the ability to obtain multiple damages, the Federal Circuit has ensured that speculation over the scope and meaning of the standard will assume even greater significance. Since the "substantial question/vulnerability" formulation can be construed to allow an alleged infringer to defeat a preliminary injunction (even where infringement is clear) by demonstrating less than a 50 percent chance of invalidating the patent, it effectively also excuses the infringer from an ultimate finding of willfulness.[29] Such a result constitutes a wholesale rewriting of 35 U.S.C. § 284.

Conclusion

The "substantial question" of invalidity standard (as well as the more recent "casting of doubt" formulation) is either redundant of the traditional preliminary injunction test or flatly at odds with it. In the former case, the "substantial question" standard serves only to confuse and should therefore be abandoned. In the latter case, compliance with the Supreme Court's holding in *eBay* mandates abandoning it. There is only one likelihood of success as to validity. If a patentee establishes that it has a greater than 50 percent likelihood of success on the merits as to validity, *no* question ("substantial" or otherwise) raised by the alleged infringer can overcome the patentee's likelihood of success showing. Accordingly, the Federal Circuit should jettison the "substantial question" standard and reintroduce predictability and consistency into preliminary injunction analysis. ●

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Endnotes

1. Abbott Labs. v. Sandoz, Inc., 544 F.3d 1341 (Fed. Cir. 2008).
2. eBay, Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).
3. *In re* Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007).
4. *See* Oakley, Inc. v. Sunglass Hut Int'l, 316 F.3d 1331, 1339–40 (Fed. Cir. 2003).
5. *See, e.g.*, H.H. Robertson Co. v. United Steel Deck, Inc., 820 F.2d 384, 387 (Fed. Cir. 1987), *overruled on other grounds by* Markman v. Westview Instruments, Inc., 52 F.3d 967, 977 (Fed. Cir. 1995).
6. *See* Genentech, Inc. v. Novo Nordisk A/S, 108 F.3d 1361, 1364 (Fed. Cir. 1997).
7. PrintGuard, Inc. v. Anti-Marking Sys., Inc., 535 F. Supp. 2d 189 (D. Mass. 2008) (in which the authors represented the patentee).
8. *See id.* at 195–97, 204; *see also eBay*, 547 U.S. at 388, 391.
9. *PrintGuard*, 535 F. Supp. 2d at 196.
10. *Id.* at 197 (internal citations omitted).
11. *Id.* at 200.
12. *Id.* at 204 (emphasis added).
13. Erico Int'l Corp. v. Vutec Corp., 516 F.3d 1350 (Fed. Cir. 2008).
14. Erico Int'l Corp. v. Doc's Marketing, Inc., No. 1:05-cv-2924, 2007 U.S. Dist. LEXIS 1367 (N.D. Ohio Jan. 9, 2007).
15. Amazon.com, Inc. v. barnesandnoble.com, inc., 239 F.3d 1343 (Fed. Cir. 2007). *See*

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The Presumption of Irreparable Harm in Trademark Cases

By Marc C. Levy and Katie R. Schwalb

The preliminary injunction is one of the most potent weapons in the trademark litigator's arsenal. The injunction grants the trademark owner a powerful and key remedy it desires, namely, an end to the infringing conduct. Although the remedy is temporary, it frequently leads to a prompt final resolution of the case. Defendants often lack the motivation to invest in the litigation after an adverse ruling on the preliminary injunction. Similarly, for trademark owners, after denial of a preliminary injunction motion, some are not inclined to press forward through trial.

The significance of preliminary injunction motions for trademark litigators flows significantly from the relative ease with which a motion for this extraordinary relief can be pursued. The unique showing required for a preliminary injunction, a showing of irreparable harm, is effectively removed by the nearly ubiquitous presumption of irreparable harm that federal courts apply in trademark cases. In short, nearly all circuits hold that a showing of a probability of success on a claim of infringement, including the key finding of likelihood of confusion, creates a presumption of irreparable harm.

This presumption has now been called into question. In *eBay Inc. v. MercExchange, LLC*,[1] the Supreme Court overturned the Federal Circuit's blanket rule that a permanent injunction should issue in a case of patent infringement absent exceptional circumstances. Since then, a number of courts have noted that *eBay* calls into question the propriety of the presumption of irreparable harm in trademark cases. In this article, we look at the *eBay* decision and how courts have considered it in trademark cases. Finally, we consider the merits of a presumption of irreparable harm given *eBay*. There are important differences between trademark law and patent law. Do those differences justify the presumption of irreparable harm? How courts answer that question will have important consequences for trademark enforcement strategy.

The Supreme Court's Decision in *eBay v. MercExchange*

The *eBay* case began in the United States District Court for the Eastern District of Virginia where MercExchange filed suit for patent infringement against eBay and two other companies. Although a jury found the defendants liable for patent infringement, the district court denied MercExchange's motion for permanent injunctive relief. MercExchange challenged this denial on appeal. The Federal Circuit reversed the denial of injunctive relief, finding "no reason to depart from the general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances."[2] The Supreme Court granted certiorari to review this "general rule" articulated by the Federal Circuit.

Writing for the Court, Justice Thomas stated that before granting injunctive relief, a court must apply the traditional four-factor test in accordance with "well-established principles of equity."[3] A permanent injunction is therefore an appropriate remedy only if the plaintiff demonstrates (1) that it has suffered an irreparable injury; (2) that remedies available at law are inadequate; (3) that an equitable remedy is warranted considering the balances of the hardships; and (4) that the public interest would not be disserved.

The Supreme Court held that both the district court and the Federal Circuit erred by failing to apply traditional equitable principles in deciding whether to grant injunctive relief. Even though the district court recited the traditional four-factor test, it articulated overreaching principles suggesting that a plaintiff could not obtain injunctive relief in a "broad swath of cases." The Federal Circuit allowed the pendulum to swing too far in the other direction by holding that injunctions should be the general rule absent exceptional circumstances. While providing little guidance on applying the traditional four-factor test, the Court rejected any "categorical" rules of relief.

Although the Court based its decision in *eBay* at least in part on statutory interpretation of the Patent Act, the Court stated that traditional principles of equity apply in patent disputes "no less than in other cases governed by such standards."[4]

Presumption of Irreparable Harm in Trademark Infringement Cases after *eBay*

Although the Supreme Court did not explicitly indicate whether its analysis should apply in cases outside the context of patent infringement, several lower courts have suggested that the decision casts a shadow on the long-standing rule that irreparable harm is presumed upon a showing of trademark infringement (or in the case of a preliminary injunction, a showing of likelihood of success on the merits on a claim of trademark infringement).

Most notably, the Eleventh Circuit in *North American Medical Corp. v. Axiom Worldwide, Inc.* held that "a strong case can be made that eBay's holding necessarily extends to the grant of preliminary injunctions under the Lanham Act."[5] The Eleventh Circuit stopped short of stating that the presumption of irreparable injury was equivalent to one of the categorical rules rejected by the Supreme Court in *eBay*.

To date, no court has held that there is no longer a presumption of irreparable harm in trademark cases in light of the *eBay* decision. By contrast, district courts within the Ninth and Second Circuits have upheld and applied the presumption after *eBay*. Other courts that have addressed the issue have expressed some reservations about the continued validity of the presumption but have declined to decide or fully evaluate the issue.

Courts Citing eBay *but Upholding the Presumption*

District court decisions within the Ninth Circuit, such as *Canfield v. Health Communications, Inc.*,[6] have explicitly affirmed the presumption in the face of *eBay*. In *Canfield*, although the defendant argued that the presumption is inappropriate after *eBay*, the court disagreed, citing the Ninth Circuit decision in *Abercrombie & Fitch Co. v. Moose Creek, Inc.*[7] to hold that rulings on injunctive relief in the trademark context are undisturbed after *eBay*. In *Abercrombie & Fitch*, the Ninth Circuit cited the traditional presumption of irreparable harm without reference to *eBay*.

Several district courts within the Second Circuit have also upheld the presumption of irreparable harm. In *E. Gluck Corp. v. Rothenhaus*,[8] the plaintiff sought a preliminary injunction against defendant's use of the mark "NOW." The court rejected the defendant's argument that *eBay* should be read to abolish the presumption, instead confining the application of the *eBay* decision to permanent injunctions issued under the Patent Act. In the context of preliminary injunctions under the Lanham Act, the court found that the presumption still stands. Likewise in *JA Apparel Corp v. Abboud*,[9] the magistrate judge cited the four-factor test from *eBay* but nevertheless applied a presumption of irreparable harm. In *Patsy's Italian Restaurant v. Banas*,[10] the court similarly acknowledged the "slightly more stringent" standard for issuing permanent injunctions in patent cases, but noted that the Second Circuit has not applied that standard in trademark cases.

To date, no court has held that there is no longer a presumption of irreparable harm in trademark cases in light of the* eBay *decision.

Courts Citing eBay *but Declining to Decide Its Impact*

Many courts that have considered this issue have taken an approach similar to the Eleventh Circuit's in *North American Medical Corp.* by noting that *eBay* casts doubt on the continued validity of the presumption, but declining to make a definitive ruling on the matter. The Tenth Circuit did just this in *Lorillard Tobacco Co. v. Engida*.[11] In *Lorillard*, the plaintiff sought a temporary restraining order against a liquor retailer after the retailer sold packs of counterfeit Newport brand cigarettes. Although the court initially granted the retraining order, it dissolved it after the plaintiff failed to demonstrate a sufficient risk of irreparable harm. On appeal, the plaintiff argued that a prima facie case of trademark infringement entitles the plaintiff to a presumption of irreparable harm. The defendant countered by arguing that *eBay* disapproved of such categorical rules. The Tenth Circuit avoided having to decide the issue by finding that the plaintiff had failed to show that the harm it would suffer in the absence of an injunction outweighed the harm to the defendant if an injunction were granted.

District courts within the Tenth Circuit have similarly avoided ruling on the impact of *eBay*. In *Talisker Corp. v. Prime West Jordanelle, LLC*,[12] the court held that while "it may be true" that *eBay* changes the presumption in trademark cases, the plaintiff in that case had actually shown irreparable harm. In *In-N-Out Burgers v. Chadders Restaurant*,[13] the court noted the agreement of the parties that, after *eBay*, "irreparable harm is no longer presumed from a finding of likelihood of success on the merits of a claim of infringement of trademark or trade dress claim." The court did not, however, indicate whether it agreed with the parties.

Even the Fifth Circuit, the only Circuit *not* to adopt the presumption of irreparable harm, does not read *eBay* to sound the death knell of the presumption in all cases. In *Paulsson Geophysical Services, Inc. v. Sigmar*,[14] the court found that the plaintiff had sufficiently demonstrated irreparable harm, and therefore it had no need to decide the "difficult question" of whether such harm may ever be presumed after *eBay*. District courts within the Third Circuit have also suggested that *eBay* casts doubt on the validity of the presumption.[15]

It is also worth noting that a number of district courts simply continue to apply the presumption in trademark cases, without making any reference to the decision in *eBay*.[16]

Does a Presumption of Irreparable Harm Survive *eBay*?

Thus far, courts have mostly avoided any actual analysis of the viability of the presumption post-*eBay*. Eventually, however, courts will have to reach the issue more squarely. How will they evaluate the question?

The most essential holding of *eBay* is that injunctions in patent cases are subject to principles of equity. Those principles of equity require the application of the four-factor test including proof of irreparable harm. At this level, *eBay* would appear to apply to trademark cases. For under the Lanham Act, the availability of an injunctive remedy is subject to principles of equity.

Still, a presumption of irreparable harm, that is, a presumption of satisfaction of the first factor, is not inconsistent with this holding. In other words, by insisting on application of the four factors, the Supreme Court did not rule out that any one factor could be presumed in an appropriate case. On the other hand, the Court did suggest that "categorical rules[s]" should not be applied. Thus, a court may cite this language to call into question the propriety of the presumption of irreparable harm in trademark cases.

What is there in trademark law that could justify the presumption as a categorical rule? The presumption of irreparable harm in trademark cases stems from a different source than the former presumption in patent cases. In patent cases, the presumption stemmed from the core right granted by the patent, namely, the right to exclude. To give effect to this right, the Federal Circuit held that an injunction is the rule absent exceptional circumstances. In trademark cases, the most prevalent theory behind the presumption relates to the nature of the injury caused by the infringement. The theory is that the intangible harm to the goodwill represented by the mark is nearly impossible to measure.

A common refrain is that the most "corrosive and irreparable harm attributable to trademark infringement is the inability of the victim to control the nature and quality of the defendants' goods."[17]

There is another important source of the presumption of irreparable harm. The injury caused by trademark infringement is not merely private. For the likelihood of confusion that damages the goodwill of the trademark also creates a harm to the public: Consumers are misled into believing that the infringer's goods are connected to or sponsored by the trademark holder. This consumer protection aspect to trademark law is absent from patent law.

Importantly, both of these harms, public and private, are built into the standard of liability in trademark cases. Proof of likelihood of confusion in the marketplace means that there is likely harm to both the goodwill in the trademark and the public's expectations of quality. Thus, proof of liability in a trademark case, unlike a patent case, establishes injuries that arguably can only be effectively remedied by an injunction.

Now, this isn't to say that proof of liability in a trademark case always should establish irreparable harm. There are cases in which the presumption can be effectively rebutted. For example, some courts have held that if a trademark owner waits too long before seeking relief from the court, the presumption of irreparable harm may not apply. But this analysis suggests that there are reasons why a court could conclude that a presumption of irreparable harm makes sense in a trademark case, while it might not in a patent case.

Thus far, courts have not addressed these arguments. In a case in which the harm to the plaintiff appears relatively insignificant, a court can avoid the question by ruling that the balance of equities favors the defendant, as the Tenth Circuit did in *Lorillard Tobacco*. Alternatively, in a case in which a plaintiff makes a strong showing of infringement, a court can find irreparable harm based on that showing even if it does not apply a presumption, as the Fifth Circuit did in *Paulsson*. Thus, while *eBay* may open the door to courts applying more stringent standards to granting injunctions in trademark cases, it does not require that outcome. Courts may still rely on reasons unique to trademark law to conclude that plaintiffs will typically satisfy the irreparable harm requirement upon a strong showing of trademark infringement. ●

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Endnotes

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Injunctions after *eBay*: Is the Outcome as Predictable as It Seems?

By Elizabeth Brann and Amanda Villalobos

In *eBay v. MercExchange*, the Supreme Court found that the four-factor equitable test for permanent injunctions applies equally to patent cases as it does to other types of cases. The Court specifically criticized the application of "expansive principles" to applications for equitable relief, stating that "traditional equitable principles do not permit . . . broad classifications."[1] Notwithstanding the Court's opinion, many have distilled the *eBay* opinion into a single guiding principle: A practicing patent holder can obtain an injunction, but a licensing company cannot. It is unlikely that the Supreme Court intended to send such a message.

Cases Denying a Permanent Injunction Despite the Parties Being Direct Competitors

The District of Delaware has not been afraid to deny patentees permanent injunctive relief against infringing competitors. Namely, Chief Judge Robinson issued two such post-*eBay* decisions.[2] Both cases support the proposition that to obtain an injunction, patentees must proffer actual evidence of irreparable harm, like lost sales or market share, as well as reasons why money damages are inadequate. This is especially true when the patents-in-suit have been subject to preexisting licenses.

Praxair, Inc. v. ATMI, Inc.

In *Praxair, Inc.*, the District of Delaware set a high standard for practicing patent holders to obtain injunctions against their competitors. Praxair and ATMI directly competed in the market for controlled delivery of industrial gas. In fact, they were the only two participants that provide mechanical-based systems. Notwithstanding the fact that the parties were direct competitors, the court found insufficient evidence to demonstrate irreparable harm and the inadequacy of legal remedies, and thus refused to enjoin ATMI from selling its infringing device. Notably, the Supreme Court issued its *eBay* decision almost concurrently with Praxair's filing of its motion for permanent injunction. Although Praxair was allowed to file an amended brief addressing *eBay*, it may not have obtained the information necessary during discovery to support a showing of irreparable harm.

The district court rejected Praxair's argument that it would "likely lose additional market share, profits, and goodwill" due to ATMI's continued sales of infringing product.[3] Praxair did not provide any detail regarding its loss of market share beyond its conclusory statement and further failed to point to any specific sales or market data. Further, Praxair did not identify precisely what market share, revenues, and customers it had lost to ATMI. In criticizing Praxair for failing to provide such evidence, the court cited two cases in which the plaintiff had obtained a permanent injunction at least in part by providing details about either loss of market share or competition for specific customers.[4]

Although the court noted that money damages are generally considered inadequate compensation for a violation of the patent right, the court found that Praxair failed to provide specific reasons why ATMI's infringement could not be compensated for with a grant of money damages. Praxair did not explain why it could not calculate damages going forward or why money damages could not compensate it for its alleged loss of market share or lost research opportunities. Further, both parties stated that the products at issue accounted for only a small part of each companies' overall revenue. The court discounted Praxair's argument that it wished to become a monopoly supplier in the market, stating that such a desire was not unique to Praxair.

On appeal, the Federal Circuit did not address the propriety of the court's decision because Praxair had agreed not to seek injunctive relief against ATMI.[5] In a dissenting opinion, however, Judge Lourie criticized the high burden that the District of Delaware placed on Praxair to obtain an injunction. He faulted the lower court's reliance on the low percentage of the parties' sales attributable to the relevant products: "[I]t is important to recognize that a patent provides a right to exclude infringing competitors, regardless of the proportion that the infringing goods bear to a patentee's total business."[6]

Advanced Cardiovascular Systems, Inc. v. Medtronic Vascular, Inc.

The District of Delaware continued to apply a high standard for granting permanent injunctions in *Advanced Cardiovascular Systems, Inc*. The court refused to grant a permanent injunction to prevent Medtronic from selling its "Endeavor" stent, which had been found to infringe the patent held by Advanced Cardiovascular Systems, Inc. (ACS).

Although ACS and Medtronic were head-to-head competitors in the bare-metal stent industry, the court found a lack of irreparable harm. Again the analysis focused on the loss of market share by the patentee. In this case, the parties disputed the relevant market for determining market share. The court found that, regardless of the market analyzed, ACS could not demonstrate that Medtronic was drawing sales away from ACS because there were other market participants with larger market shares than Medtronic. Furthermore, ACS was unable to identify any specific customers that it had lost or stood to lose as a direct result of Medtronic's sales of the infringing stent.

The court further found that ACS had not demonstrated that money damages were inadequate compensation. ACS argued that it had not licensed its patents in exchange for merely money. Instead, ACS had consistently insisted that any license agreement entered into for the purpose of litigation settlement include a cross-license. The court dismissed this argument, stating that the licenses demonstrated that ACS was willing to forgo its exclusive rights in exchange for compensation. The court held that "permanent injunctions are typically granted in two-competitor situations where the patentee has demonstrated an unwillingness to part with the exclusive right."[7]

As further rationale for not granting an injunction, the court found there was a strong public interest in maintaining diversity in the coronary stent market, citing precedent from both the Federal Circuit and the District of Delaware.[8] Medtronic supported its defense of this element by submitting declarations from four interventional cardiologists who preferred Medtronic's stents.

Both *Praxair* and *ACS* illustrate that patentees, especially in the District of Delaware, need to quantify irreparable harm, including proffering evidence of lost sales or market share to support the grant of an injunction. For example, a patentee may show that it was competing with the accused infringer in a small market for the same customer base.[9] Likewise, patentees need to establish why money damages are inadequate to remedy infringement, especially when the patents-in-suit have already been licensed to other competitors. If a patentee has already granted licenses to competitors, it should consider possible strategies for arguing that its licenses do not demonstrate a willingness to forgo exclusivity for monetary damages.

The District of Columbia has not been afraid to deny patentees permanent injunctive relief against infringing competitors.

Permanent Injunction Where the Parties Are Not Competitors

Only one published case has granted an injunction to a patentee that does not practice the patented invention. The Eastern District of Texas granted such an injunction to an Australian research organization in *Commonwealth Scientific and Industrial Research Organisation v. Buffalo Technology Inc*. The court enjoined Buffalo Technology from selling its indoor wireless products, which infringed a patent held by Commonwealth Scientific and Industrial Research Organisation (CSIRO), a research agency created by the Australian government, similar to the National Science Foundation and National Institutes of Health. The court's discussion of irreparable harm demonstrates that CSIRO's prominence may have been a factor in the court's decision to grant an injunction.

The court described the patent-in-suit as key in the implementation of widely used standards. Indeed, standards 802.11a and 802.1g of the Institute of Electrical and Electronics Engineers (IEEE) embody CSIRO's '069 patent, which was asserted in the suit. At IEEE's request, CSIRO agreed to license the '069 patent on reasonable and nondiscriminatory terms to companies wanting to implement IEEE's 802.11a standard. In 2003, CSIRO had started contacting companies, using those standards to begin licensing discussions, but none of the companies accepted CSIRO's license agreement offer. Buffalo Technology produces and sells wireless local area network products that comply with the 802.11a and 802.11g standards and was the first defendant sued on the '069 patent.

The court found that CSIRO demonstrated irreparable harm from Buffalo's infringement despite the fact that the parties do not compete with each other. The court relied on two key arguments from CSIRO. First, CSIRO demonstrated that its ability to license its intellectual property was important to financing its research and development efforts. Second, according to the court, challenges to the validity of CSIRO's patents' impugn CSIRO's reputation as a leading research entity. Such litigation also forces CSIRO to divert money from research to litigation efforts. Once research opportunities pass, they usually are lost for good. The court rejected Buffalo's arguments that these were past, not future, harms and that forcing Buffalo to take a license would give CSIRO the licensing revenue that it desired.

The court provided three reasons why money damages were inadequate to compensate CSIRO. First, monetary relief alone could not account for the "negotiated business terms typically used by patent holders to control their inventions."[10] Second, citing Justice Kennedy's concurrence in *eBay*, the court noted that Buffalo Technology's infringement was not limited to a minor component of the technology; rather, it implemented the very standards embodied in the '069 patent.[11] Third, any royalty payment, according to the court, would not contain the license terms that CSIRO would demand in a negotiation.

The court noted that a compulsory license would constitute a hardship on CSIRO. The hardship to Buffalo, on the other hand, would be limited to the harm resulting from not being able to sell an infringing product. Therefore, the balance of hardships weighed in favor of CSIRO.

Finally, the court found that the public interest was served by an injunction. According to the court, the public has an interest in a strong patent system. In addition, the technology at issue was widely available and did not implicate health or safety concerns. Further, research institutions such as CSIRO make scientific advances, and the patent system should encourage investment in those institutions. Hence, the court found that granting the injunction furthered the public interest.

The Northern District of California recently criticized the *CSIRO* decision. In *Hynix v. Rambus*,[12] Rambus argued that Hynix's infringement would diminish Rambus's ability to invest in research and development. The court, however, noted that any harm to Rambus was a past harm because Rambus did not receive royalties for Hynix's infringement. The entry of judgment and subsequent award of damages would remedy that damage. To the extent that Rambus was awarded ongoing royalties, Rambus would receive even

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Remedies for the Infringer?

By David Hricik

We do not often give much thought to the availability of remedies for infringers; after all, they're the "bad guys." Usually, counsel for an accused infringer must focus on minimizing damages, not asserting claims. But there are occasions when the accused infringer has been led astray and somehow induced to infringe a patent, copyright, or trademark—for example, by complying with a customer's order. When that is the case, fairness may suggest that the infringer ought to have a claim for contribution or indemnity against the party who "caused" the infringement.

Whatever the moral need to recognize a claim under these circumstances, this article shows that state law recognizes claims by an infringer against a party who caused it to infringe only rarely, and federal law not at all.[1] Thus, there are few remedies for the infringer.

The Lack of Express or Implied Federal Claims in Favor of the Infringer

Federal claims can be either express or implied. However, with respect to the federal intellectual property laws, express claims exist only for those who own the copyright, trademark, or patent. In addition, while other federal statutes contain express rights of indemnity contribution, the federal intellectual property statutes do not. Further, there are only narrow circumstances in which implied rights of contribution or indemnity exist. The few courts that have analyzed the issue have, seemingly in a manner consistent with proper statutory interpretation, rejected implying rights of contribution or indemnity under the trademark and copyright statutes.[2] Thus, if a right of contribution or indemnity exists in favor of an accused or adjudged infringer, it may arise only under state law.

The Limited Right of the Infringer under UCC § 2-312(3)

Most states have codified section 2-312(3) of the Uniform Commercial Code. This provision of the code creates two distinct, narrow causes of action, the contours of which vary dramatically. In full, section 2-312(3) provides:

> Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like but a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications.

Read carefully, the first clause creates a claim in favor of the buyer of a good against "rightful claims" of infringement. The second clause creates a claim in favor of a seller who makes a good to the specifications provided by a buyer.

The courts have generally interpreted the two claims created by section 2-312(3) somewhat more narrowly than its text might suggest. They share at least two common limitations but differ in important respects.

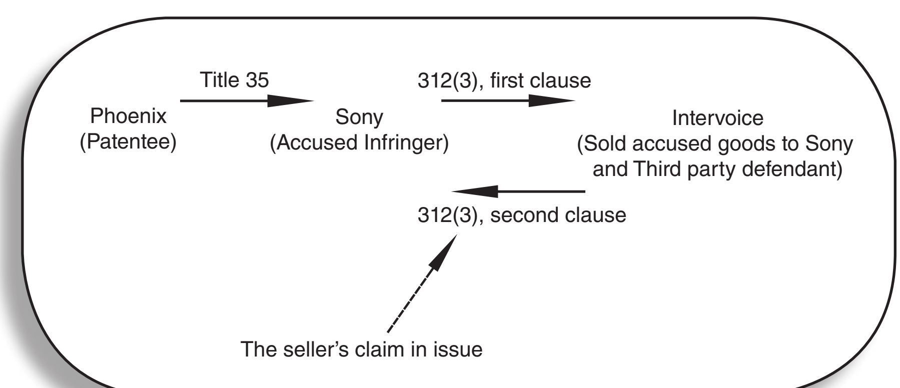
All Federal Intellectual Property Is Covered

First, both clauses cover the same intellectual property rights. The text of the statute speaks broadly as to any claim of "infringement." Although the official comments mention only trademark and patent, courts have held that infringement of copyrights is also covered.[3] Thus, both buyer and seller owe obligations with respect to infringement of any of the federally recognized intellectual property rights.

For Breach to Occur, There Must Be a Claim, and It Must Be "Rightful"

Second, under both clauses, there must be a "rightful claim" of infringement for breach of the warranty to arise. This is clear from the text of the first clause. Under the second clause, "a buyer who furnishes specifications to the seller must hold the seller harmless against any such claim which arises out of compliance with the specifications." The language "any such claim" ostensibly refers back to "rightful claims," and so the same issues concerning what claims are "rightful" discussed above obviously applies.

What is a "rightful claim"? In *Phoenix Solutions, Inc. v. Sony Electronics, Inc.*, the district court held, at least with respect to the second clause of section 2-312(3), that there in fact must be a *claim* filed against the party.[4] Sony provided custom specifications to Intervoice for installation into an interactive voice recognition system. In return, Intervoice made and delivered the systems according to Sony's specifications. Phoenix Solutions, the patentee, sued Sony, claiming that the goods Intervoice delivered were infringing. Sony impleaded Intervoice, asserting a claim as a buyer under the first clause of section 2-312(3). Intervoice then asserted a counterclaim against Sony under section 2-312(3) as a seller of goods made to a buyer's specification. Sony moved to dismiss Intervoice's claim. The following schematic illustrates the case, with the arrows indicating the claims pled.



Although the court concluded that the second clause created a claim in favor of Intervoice against Sony, the court construed the claim narrowly, holding that under section 2-312(3), a seller has a claim against a buyer only if the seller was in fact sued by a third party for infringement.[5] According to the court's interpretation, although Sony had been sued for infringement by a patentee and thus could assert a claim under the first clause against Intervoice for breach of the warranty, Intervoice could not assert a claim against Sony under the second clause because Intervoice had not yet been sued by the patentee. As a result, the court dismissed Intervoice's counterclaim.

This is a fairly cabined view of the word "claim," requiring that a rightful claim be asserted not just with respect to the products made by the seller but with respect to the seller itself. This view arguably is inconsistent with the plain language of section 2-312(3), which can be read as limited to claims asserted with respect to the good at issue as opposed to the party, but it illustrates the narrow nature of any remedy of the infringer.

Although a claim is required for there to be a breach, any claim is not necessarily sufficient: The claim must also be "rightful."

Although a claim is required for there to be a breach, any claim is not necessarily sufficient: The claim must also be "rightful." Clearly, a "rightful claim" exists after a court enters a judgment of infringement. However, it is also clear that, although something less than a final judgment is sufficient as section 2-312(3) refers generally to "claims," something *more* than the mere filing of a lawsuit alleging infringement is required. Precisely how much more than the filing of suit, and how much less than a final judgment, is required to create a "rightful claim" is difficult to say. As the court in *Sun Coast Merchandise Corp. v. Myron Corp.* explained, a "rightful claim" can exist only if comparison of the claims to the accused goods indicated that there was a "substantial shadow" on title.[6] Litigating as to whether a "shadow" exists, and whether any such "shadow" is "substantial," makes the delineation of bright lines impossible.

Case law does provide some additional guidance. In one of the few patent cases addressing the issue, the court in *84 Lumber Co. v. MRK Technologies, Ltd.* acknowledged the difficulties in defining "a rightful claim" of infringement, noting the obvious continuum created by the definition of "rightful claim": "If claims of patent infringement are seen as marks on a continuum, whatever a 'rightful claim' is would fall somewhere between purely frivolous claims, at one end, and claims where liability has been proven, at the other."[7] Although courts agree with that basic concept, they disagree on when a claim has enough merit to be "rightful."

Perhaps setting the highest bar was the court in *84 Lumber*. That court concluded that whether a claim was "rightful" could be determined only by "comparing the scope of the patents at issue with the allegedly infringing products."[8]

In contrast, the court in *Pacific Sunwear of Cal., Inc. v. Olaes Enterprises, Inc.*, a California trademark case, reasoned that the threshold for establishing "rightful" should be lower. The "warranty against rightful claims applies to all claims of infringement that have any significant and adverse effect on the buyer's ability to make use of the purchased goods, excepting only frivolous claims that are completely devoid of merit."[9]

Obviously, under these continuum or "substantial shadow" approaches to determining whether a "rightful claim" exists, an accused infringer could be put in an awkward position if the claim is made while an infringement suit is ongoing. The accused infringer would need to argue that the claim against it is substantial and provide, essentially, proof of likely infringement.

The Warranty Is Limited to Title at Time of Delivery

Both clauses relate only to claims of title, specifically, that the good "shall be delivered free of the rightful claim of any third person by way of infringement or the like . . . ." This has significant limitations with respect to patent infringement. For example, it is settled that section 312(3) is not violated by the use of a good after delivery that infringes a method claim because, at the time of delivery, the machine did not infringe.[10] Likewise, if the goods infringe an intellectual property right that arose after sale, the warranty would not apply, because breach is measured at the time of delivery.

Conclusion

As there are claims in favor of an infringer under section 2-312(3), there are also remedies available for an infringer. But they are few and well circumscribed. This raises two final suggestions, one pertinent to transactional practice, the other to litigation.

First, section 312(3) only applies if the parties have not "agreed otherwise." Nothing would preclude the parties from expanding, altering, or eliminating the warranty.

Second, when litigating these disputes, federal subject matter jurisdiction may exist. If courts cannot determine whether a "rightful claim" exists without construing the claims of the asserted patent, then it may be that any claim under section 312(3) relating to patent infringement creates a substantial federal question and thus permits federal subject matter jurisdiction and, potentially, review by the Federal Circuit.[11]

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Endnotes

1. This article summarizes and updates a much longer article, *Remedies of the Infringer: The Use by the Infringer of Implied Common*

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Calculating Damages Arising from Design Patent Infringement

By Mark Gallagher and Kelly Caputo

It is Saturday night at 2:00 A.M., and the last hand of the firm's annual poker tournament is being dealt. Sitting directly across the table from you is the guy who won the big trial six months ago and has not let anyone forget it. Although a fair sum of money is on the table, you recognize that money is not the real ante. The play of this hand will determine who will now have bragging rights as the "big winner." So you ask yourself, do I need in my hand a straight or a flush?

Fast-forward to Tuesday morning. The jury has been seated, and in representing the plaintiff patent holder, you begin to deliver an opening statement on the damages case. So, what would you like in your hand now—a utility patent or a design patent? The answer may surprise you. This article compares and contrasts the calculation of damages for utility patents and design patents.[1]

As one court noted, "[a]lthough the design patent is not as popularly known as its counterparts, the utility patent and the copyright, design patents perform a distinct function in the federal scheme of legal protection for creative works."[2] Indeed, damages resulting from infringement of a design patent are recoverable under § 284 or under § 289.[3] Therefore, having a design patent in hand opens alternative, and possibly more advantageous, avenues to explore when calculating damages.

Damages relating to patent infringement are generally addressed in § 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 for the use made of the invention by the infringer, together with interest and costs as fixed by the court . . . the court may increase the damages up to three times the amount found or assessed.

Damages relating to design patent infringement specifically are addressed in § 289:

> Whoever during the term of a patent for a design, without license of the owner, (1) applies the patented design, or any colorable imitation thereof, to any article of manufacture for the purpose of sale, or (2) sells or exposes for sale any article of manufacture to which such design or colorable imitation has been applied shall be liable to the owner to the extent of his total profit, but not less than $250, recoverable in any United States district court having jurisdiction of the parties.
>
> Nothing in this section shall prevent, lessen, or impeach any other remedy which an owner of an infringed patent has under the provisions of this title, but he shall not twice recover the profit made from the infringement.

With this framework, a court can consider at least three theories when determining the appropriate damages award in connection with design patent infringement: (1) the infringer's profits pursuant to § 284; (2) lost profits pursuant to § 289; and (3) a combination of lost profits and reasonable royalty pursuant to § 284 and § 289.

As a general matter, for patent holders to recover their lost profits, they must prove that it was more likely than not that, but for the infringement, they would have made the infringer's sales. One of the most common standards for making this showing, which will be familiar to those who practice in the intellectual property damages arena, is the "*Panduit* test." Under this test, the patent owner must establish four factors: "(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) [the patent holder's] manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit [the patent holder] would have made." [4]

When actual damages, such as lost profits, cannot be proven, the patent owner is entitled to at least a reasonable royalty.[5] A reasonable royalty is an amount that a person, desiring to manufacture and sell a patented item, as a business proposition, would be willing to pay as a royalty, and at the same time have the ability to make and sell the patented article in the market to return a reasonable profit. Determination of a "reasonable royalty" after infringement, like many devices in the law, rests on a legal fiction.[6] Created in an effort to "compensate" when profits are not provable, the "reasonable royalty" device conjures a "willing" licensor and licensee who, like the Ghost of Christmas Past, are dimly seen as "negotiating" a "license" at the time the infringement began.[7]

In calculating a reasonable royalty, 15 different factors aid the court in its evaluation: (1) royalty rates received from prior licenses by the licensor; (2) prior rates paid by the licensee; (3) the nature and scope of the license, such as whether it is exclusive or nonexclusive; (4) the licensor's licensing policies; (5) the commercial relationship between the licensor and licensee; (6) the existing value of the invention to the licensor as a generator of sales; (7) the duration of the patent and term of the license; (8) the established profitability of the product made under the patent; (9) the utility and advantages of the patent property over older modes or devices; (10) the benefits to those who have used the patented invention; (11) the extent to which the infringer has used the invention; (12) reasonable royalties within the industry; (14) opinion testimony by experts; and (15) the amount that the licensor and licensee would have agreed upon in voluntary negotiations.[8] Looking at these factors, the court in *Georgia-Pacific* found that, in a hypothetical negotiation, the patent holder would be "reasonable in taking the position that it would not accept a royalty significantly less than the profit it was making."[9]

Looking at damages under § 289, the plaintiff patent holder has the burden of establishing infringing sales made by the defendant as the starting point of damages. From that number, the defendant then has the opportunity and burden to identify and quantify variable costs associated with those sales to mitigate the damages amount. Notably, fixed or indirect costs are not considered.[10] The advantage given by § 289 is removing the need to establish a reasonable probability that, but for the infringement, the patent holder would have made the infringer's sales. This can work to the advantage of a patent holder that is not manufacturing or marketing a product.

In any case, "the measure of damages is an amount which will compensate the patent owner for the pecuniary loss sustained because of the infringement . . . and the award may be split between lost profits as actual damages to the extent they are proven and a reasonable royalty for the remainder."[11] There enters the possibility of fashioning a damages award consisting of lost profits pursuant to § 284 and a reasonable royalty or an equivalent equal to the lost profits as contemplated by § 289.

The significant takeaway is that, under § 284, it seems the infringer is permitted to argue that some portion of the sales and profit results from factors other than the patented feature, while under § 289, the patented design itself is, in fact, driving the sales, and an apportionment is not appropriate.

To illustrate this point, we look at some figures from an actual design patent damages case. Of course, to reach damages for purposes of this example, it is assumed that the patent at issue has been determined valid and infringed.

The plaintiff patent holder is a small company operating from a simple office, and its owner is the principal sales representative. The company purchases products that incorporate the patented design from an overseas company, and sales of the products have consistently yielded a profit. To increase profitability, the company prefers to have the manufacturer ship products directly to the customer. Because it is unable to use this arrangement for all product sales, the plaintiff maintains a small warehouse and incurs some warehousing and shipping-related costs.

The defendant infringer is a much larger corporation, and the product at issue rounds out one of its product lines. The defendant sells its products through an internal sales force that earns a small commission on the sales. The defendant also purchases its products overseas and endeavors to ship them directly to its customers. It cannot do this in all cases and stores some product in a warehouse.

The plaintiff has several products that incorporate the patented design, and selling prices range from $67 to $126 per unit. The weighted average selling price calculates to $88.70 per unit. The plaintiff's weighted average gross margin (calculated as sales minus cost of goods sold) is $41.57 per unit. Gross margin as a percentage of sales is 46.86 percent.

The defendant's selling price ranges from $31 to $84 per unit, and its weighted average selling price calculates to $47.06 per unit. The defendant's weighted average gross margin is $16.45, or 34.96 percent, per unit. For purposes of this discussion, it is assumed that the defendant sold 10,000 units that infringe the plaintiff's patent.

For patent holders to recover their lost profits, they must prove that it was more likely than not that, but for the infringement, they would have made the infringer's sales.

Using the figures above, had the plaintiff sold the defendant's 10,000 units, the plaintiff would have generated sales of $887,200 and earned a gross profit of $415,742. Instead, the defendant had sales of $470,574 and a gross profit of $164,513. Notably, the plaintiff does not have any expenses below the gross profit line, whereas the defendant can claim selling and warehousing-related costs associated with the sales of the infringing product in an amount of, let's say, $25,000.

Unfamiliar with design patents, the defendant's damages expert agrees the defendant earned a profit of $139,513. However, the defendant's expert posits that the patented design did not drive sales, and lost profits were therefore not an option. Instead, a royalty of 5 percent of the defendant's sales, or $20,787, is reasonable, or as an alternative calculation and a maximum damages amount, the expert applies the 5 percent to the plaintiff's sales, resulting in a damages figure of $44,350.

In response, the plaintiff's expert comments, "Why would the plaintiff accept a royalty of 5 percent using either company's sales figures under § 284 when, under § 289, the plaintiff would be entitled to a lost profits figure of $139,513 or, calculated on a percentage basis, a royalty of 29.65 percent?" Based on plaintiff's expert's calculation, the royalty floor is now 29.65 percent. Further, the plaintiff's expert comments that his client is entitled to a royalty figure closer to the gross margin percentage it would have earned had it made the sales, or 46.86 percent.[12]

A hypothetical negotiation envisions a figure acceptable to both parties. In this case, if we assume the parties split the difference, the defendant's 29.65 percent and the plaintiff's 46.86 percent suggest a "reasonably agreed upon" royalty of 38.25 percent. However, multiplying 38.25 percent by the defendant's sales results in a royalty payment of $192,512. A figure in excess of the defendant's profit is certainly not an amount the defendant will swallow.

So, what are the defendant's options? Well, any option clearly hinges upon defining what "profit" really means and how it is calculated. Is profit under design patent law comparable to accounting net profit before tax, net profit after tax, or incremental profit (calculated as selling price minus variable expenses)? Each can provide a very different figure.

First, consider net profit after tax. The Supreme Court in *Hanover Shoe, Inc. v. United Shoe Machinery Corp.* said:

> The Court of Appeals evidently felt that since only after-tax profits can be reinvested or distributed to shareholders, [plaintiff] was damaged only to the extent of the after tax profits that it failed to receive. The view of the Court of Appeals is sound in theory, but it overlooks the fact that in practice the Internal Revenue Service has taxed recoveries for tortious

deprivation of profits at the time the recoveries are made.[13]

Citing *Hanover Shoe*, the plaintiff in *Nike, Inc. v. Wal-Mart Stores, Inc.* asserted that a damages award should be based on pretax profits, and the court agreed:

> [An] award of only the infringers' post-tax profits would leave the appellants in possession of their tax refunds, and that if the appellants still enjoy a profit the award can not be their "total profits" as mandated by the statute. . . . The statute requires the disgorgement of the infringers' profits to the patent holder, such that the infringers retain no profit from their wrong.[14]

The court in *Schnadig* was more direct in holding that § 289 is "an 'additional remedy'" for design patentees, describing the section's purpose as follows:

> [I]ts apparent purpose is to place the patentee in the shoes of the infringer. By recovering an infringer's pre-tax profits, the patentee will in fact be treated as though he had gained the profits from the exploitation of his patent. We find this to be the result intended by the statute, and accordingly, we reverse the district court's ruling that only after-tax profits can be recovered under 35 U.S.C. § 289.[15]

Next, consider the fact that classification of a certain expense as fixed or variable can vary upon the facts and circumstances of the case. In one case, the court reviewed a trial court's determination that labor as a component of manufacturing costs was a fixed cost based upon "the business practice of [the company] to pay its employees for an eight hour . . . day, five days a week . . . . and [company]'s cost of labor [having] been steady with respect to sales over the period in question."[16] In practice, ask whether the facts and circumstances of the case call into question the classification of direct labor as variable or fixed. The determination can, of course, have an impact on any damages calculation.

Then, look to determine what expenses can be deducted to arrive at profit. The court in *Schnadig* looked at the lower court's ruling that "a portion of fixed costs may be considered as an expense in computing the total profit which the patentee may recover."[17] The parties had "agreed that the expenses which vary directly with productive activity should be deducted in determining total profits, and have stipulated to the amount of these variable expenses.'"[18] There remained a question as to the classification by the parties of expenses generally categorized as overhead. The court noted:

> Neither case law nor logic provides a clear rule for the proper treatment of fixed expenses in computing an award of profits. Theoretically, a fixed expense is one that does not fluctuate with the volume of business. However, we recognize that the real world of business does not offer pure laboratory conditions which allow a given expense to be so clearly isolated . . . the fixed expenses are as necessary to the infringing production as are the variable expenses, and should be similarly treated. The basic truth that no article of manufacture can be profitable in a real sense if it cannot bear its proportionate share of the fixed costs is hardly new.[19]

Ultimately, the court came up with a benchmark finding, that "approximately two-thirds of the fixed costs allocable to the infringing production may be used to reduce the profit attributable to the infringement is reasonable."[20]

Standing before the jury, ready to make your opening statement in a damages case, you want a design patent in hand, along with an understanding of its advantages, which you can easily convey to the layperson assessing your client's damages. A significant advantage of a design patent in the damages arena is that the design itself is credited with driving the sales, and, as a result, no apportionment of the sales is assignable to other factors. Looking at our case example, the profit recovered under § 289 exceeded the royalty suggested by defendant's expert. So, can the defendant's profits calculated as a percentage of sales be used to effectively set a base royalty? And what costs are ultimately deductable in calculating a profit in a design patent case? These questions remain as open-ended as the facts of each case of infringement. As we await further guidance from the courts, look to the benefits of the design patent and the relevant statutes, and if you are defense counsel, look to your expert to dissect and classify expenses and costs. ●

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Endnotes

1. For an informative discussion of the background and origins of the design patent, *see* Nike, Inc. v. Wal-Mart Stores, Inc., 138 F.3d 1437 (Fed. Cir. 1998); and Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1167 (6th Cir.1980).
2. *Schnadig*, 620 F.2d at 1167.
3. Catalina Lighting, Inc. v. Lamps Plus, Inc., 295 F.3d 1277, 1290 (Fed. Cir. 2002).
4. Panduit Corp. v. Stahlin Bros. Fibre Works, Inc., 575 F.2d 1152, 1156 (6th Cir. 1978). Although the *Panduit* test is accepted and relied upon heavily by the courts, it is not an exclusive standard for determining lost profits. *See* State Indus. v. Mor-Flo Indus., 883 F.2d 1573, 1577 (Fed. Cir.1989).
5. Georgia-Pacific Corp. v. U.S. Plywood Corp., 318 F. Supp. 1116, 1121 (S.D.N.Y. 1970), *modified*, Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers, Inc., 446 F.2d 295 (2d Cir. 1971).
6. *Panduit Corp.*, 575 F.2d at 1159.
7. *Id.*
8. *See Georgia-Pacific*, 318 F. Supp. at 1120.
9. *Id.* at 1127.
10. *See* John O. Butler Co. v. Block Drug Co., 620 F. Supp. 771, 778 (N.D. Ill. 1985); Schnadig Corp. v. Gaines Mfg. Co., 620 F.2d 1166, 1175 (6th Cir. 1980).
11. State Indus. v. Mor-Flo Indus., 883 F.2d 1573, 1577 (Fed. Cir. 1989).
12. "[T]o refuse to award reasonably foreseeable damages necessary to make [the patent holder] whole would be inconsistent with the meaning of § 284." Rite-Hite Corp. v. Kelley Co., 56 F.3d 1538, 1547 (Fed. Cir. 1995).
13. Hanover Shoe, Inc. v. United Shoe Mach. Corp., 392 U.S. 481, 502–3 (1968).
14. *Nike, Inc.*, 138 F.3d 1437, 1448 (1998).
15. *Schnadig*, 620 F.2d at 1174.
16. Kalman v. Berlyn Corp., 914 F.2d 1473, 1478 (Fed. Cir. 1990) *aff'd*, 988 F.2d 129 (Fed. Cir. 1993).
17. *Schnadig*, 620 F.2d at 1171.
18. *Id.*
19. *Id.* at 1172.
20. *Id.* at 1175.

Getting the Remedy You Want from the ITC

Continued from cover

orders, but the decision's full ramifications are not readily apparent from its holding. Since *Kyocera*, the commission has begun a broader reexamination of its analytical framework for awarding remedies. It is important to understand the ramifications of *Kyocera* and craft litigation strategies for responding to this changed—and still very unpredictable—landscape.

Available Remedies in the ITC

The ITC's authority to issue injunctive relief emanates from 19 U.S.C. § 1337, which authorizes the commission to issue exclusion orders, which are injunctions against unfair importation into the United States, and cease-and-desist orders against domestic entities engaged in unfair methods or acts.[2] The commission can issue two types of exclusion orders—a limited exclusion order (LEO) or a general exclusion order (GEO). A LEO is enforceable against those parties named in the investigation, and a GEO is enforceable against anyone. Section 1337 provides that a LEO is the default remedy, and the far-reaching relief afforded by a GEO is granted only upon satisfying a higher burden of proof. The requirements for obtaining a GEO are directed toward conditions in the marketplace that complainants must establish: "(A) [it] is necessary to prevent circumvention of an exclusion order limited to products of named persons; or (B) there is a pattern of violation of [the section] and it is difficult to identify the source of infringing products."[3]

Commission Action Pre-*Kyocera*

The commission has interpreted § 1337 to afford it broad discretion in fashioning a remedy and, in the past, has been guided by a few seminal commission opinions in making remedy determinations. In one such opinion, *Certain Airless Paint Spray Pumps and Components Thereof* (*Spray Pumps*), the commission established a framework for assessing whether to grant a GEO, stating that a complainant must establish (1) "a widespread pattern of unauthorized use of its patented invention" and (2) "certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles."[4] The commission also specifically identified "a Commission determination of unauthorized importation into the United States of infringing articles by numerous foreign manufacturers" as "evidence which might be presented to prove a widespread pattern of unauthorized use of the patented invention."[5] In addition, the commission provided a nonexclusive list of types of "evidence which might be presented to prove the 'business conditions'" justifying the grant of a GEO:

(1) an established demand for the patented product in the U.S. market and conditions of the world market;
(2) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;
(3) the cost to foreign entrepreneurs of building a facility capable of producing the patented article; and
(4) the cost to foreign manufacturers of retooling their facility to produce the patented articles.[6]

In practice, the *Spray Pumps* test proved difficult to satisfy, so complainants sought to maximize the relief obtainable through a LEO. In particular, complainants sought to exclude "downstream products," which are products that incorporate the infringing articles. Excluding downstream products is particularly important when there is only minimal importation of the infringing article, such as a semiconductor chip, but mass importation of articles incorporating it, such as cell phones.

The commission addressed this issue in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories* (*EPROM*), deciding that downstream products could be excluded under a LEO and setting forth several factors to govern whether such relief should be granted:

(1) the value of the infringing articles compared to the value of the downstream products in which they are incorporated;
(2) the identity of the manufacturer of the downstream products, *i.e.*, whether it can be determined that the downstream products are manufactured by the respondent or by a third party;
(3) the incremental value to the complainant of the exclusion of downstream products;
(4) the incremental detriment to respondents of exclusion of such products;
(5) the burdens imposed on third parties resulting from exclusion of downstream products;
(6) the availability of alternative downstream products that do not contain the infringing articles;
(7) the likelihood that the downstream products actually contain the infringing articles and are thereby subject to exclusion;
(8) the opportunity for evasion of an exclusion order that does not include downstream products; and
(9) the enforceability of an order by Customs.[7]

These factors were nonexclusive and represented an attempt to balance the complainant's interest in obtaining exclusion of downstream products against the potential of such an exclusion order to harm third parties and disrupt legitimate trade in products that were not found to directly violate § 1337.

In *EPROM*, the manufacturing respondent (or one of its subsidiaries also named in the investigation) manufactured both the infringing articles and the downstream products incorporating them. But commission precedent since *EPROM* extended its application to situations where the downstream products were manufactured by third parties not named as respondents in the investigation. Accordingly, the commission awarded some LEOs excluding downstream products made by third parties who were not named as respondents on the basis that these products incorporated infringing articles made by named respondents.

Kyocera v. International Trade Commission

The scope of LEOs—in particular, whether the commission had the authority to issue LEOs that cover downstream products of non-respondents—was a central issue in

Kyocera. The appeal stemmed from one of the more high-profile ITC investigations—*Certain Baseband Process Chips & Chipsets, Transmitter & Receiver (Radio) Chips, Power Control Chips, & Prods. Containing Same, Including Cellular Telephone Handsets* (*Baseband Process Chips*).[8] In that investigation, Broadcom accused Qualcomm's semiconductor chips of infringement. The ITC administrative law judge determined Qualcomm's chips infringed a Broadcom patent, and the commission affirmed that decision.

However, Qualcomm imported very few chips into the United States and for that reason, Broadcom sought a LEO that would have excluded downstream products containing those chips, including cell phones. Qualcomm and a number of intervenors (various cell phone manufacturers and service providers) argued that the LEO should not extend to downstream entities. The intervenors raised an argument that § 1337 did not permit a LEO to cover downstream products made by third parties who had not been found to violate § 1337. Both the administrative law judge and the commission rejected this argument, and the commission issued a LEO covering downstream products.

On appeal, the Federal Circuit agreed with Qualcomm and the intervenors and vacated the exclusion order. The court reviewed § 1337 and determined the commission had overstepped its statutory authority to create a remedy that broadens the scope of relief beyond what is explicitly provided by the statute. The relevant part of § 1337 provides: "The authority of the Commission to order an exclusion from entry of articles *shall be limited to persons determined by the Commission to be violating this section* unless the Commission determines that [a GEO is warranted]."[9] The court interpreted this language as only granting the commission authority to exclude products of a *named* party (or respondent), unless the complainant has met the higher statutory burden required to obtain a GEO.[10]

The court's decision does not mean that a complainant cannot obtain relief against downstream products in the ITC. As the court noted, Broadcom could have obtained such relief if it had named the downstream entities in its complaint or sought a GEO. But *Kyocera* has made obtaining relief against downstream products more difficult. Prior to *Kyocera*, complainants could only name the manufacturers of infringing products as respondents and rely on *EPROM* to seek a LEO covering downstream products of nonrespondents. Now a complainant must name as respondents downstream entities (who may also be the complainant's customers) or meet the higher burden required to obtain a GEO.

Commission Action Post-*Kyocera*

In *Kyocera*, the Federal Circuit emphasized the supremacy of the statutory text in § 1337. It appears that the commission has taken that message and run with it to the point where the analysis for all of its remedy determinations (LEOs and GEOs) begins and ends with the statutory language.

Now, post-Kyocera, a complainant must name as respondents downstream entities (who may also be the companies customers) or meet the higher burden required to obtain a GEO.

In *Certain Hydraulic Excavators and Components Thereof* (*Hydraulic Excavators*), the commission followed the administrative law judge's recommendation, which was based in part on *Spray Pumps*, and issued a GEO. Though the commission did not rigidly apply the *Spray Pumps* test, it suggested that its previous GEO jurisprudence was still relevant: "Consideration of some factual issues or evidence examined in *Spray Pumps* may continue to be useful for determining whether the requirements of Section 337(d)(2) have been met."[11] However, the commission shifted its focus to the statutory language, finding that the complainant satisfied the statutory requirements by showing a "pattern of violation" ("identify[ing] thousands of gray market excavators . . . in the [United States] . . . and hundreds if not thousands of customers") and "difficult[y] . . . identify[ing] the source of infringing products" ("numerous foreign sources of the gray market excavators[,] unauthorized dealers[,] and brokers offering for sale for importation and/or importing [infringing goods]").[12]

In retrospect, this shift was a harbinger of the commission's now apparent divorce from its pre-*Kyocera* GEO jurisprudence, which for decades centered around *Spray Pumps*, and renewed focus on the statute. In its recent opinion in *Certain Ground Fault Circuit Interrupters*,[13] the commission found infringement of four patents by seven different products, violations by four foreign manufacturers and ten domestic distributors and resellers, a history of name changes by the foreign manufacturing respondents, and the use of shell companies by respondents to import into the United States.[14] Despite these factual findings—all of which traditionally weighed in favor of granting a GEO—and its statements in *Hydraulic Excavators*, the commission refused to follow the administrative law judge's recommendation to issue a GEO[15] and instead granted a LEO.

This rigid application of § 1337's text in assessing remedy issues post-*Kyocera*, however, goes well beyond the holding of *Kyocera* and has also become apparent in other ways. For instance, in *Certain GPS Devices and Products Containing Same* (*GPS Devices*),[16] the commission explicitly stated its belief that neither § 1337 nor *Kyocera* prohibits the exclusion of infringing products *imported* by non-respondents. As three commissioners alluded to in a paper filed along with the opinion in *GPS Devices*, to read the statute any other way—for instance, so that changing importers could circumvent a LEO—would render existing LEOs superfluous. It would also put a remarkably heavy burden on complainants to learn early of the identity of each named respondent's importers and move to amend the complaint and notice of investigation to add them as respondents.

These decisions highlight the commission's broader reexamination of its framework for analyzing remedy issues in view of the Federal Circuit's focus on the statutory language of § 1337 in *Kyocera*. It is unclear whether the commission's renewed focus on the statutory language is a temporary reaction and whether this statutory focus will affect other areas of the commission's decision making besides remedy issues.

An ITC Investigation Post-*Kyocera*

Kyocera has highlighted the importance of the complainant's choice of respondents in structuring an investigation in the ITC. To determine who to name as a respondent, a complainant should consider its position in the marketplace and how the remedies available in the ITC could help solidify or strengthen its position in the marketplace. Both the identities of and the number of named respondents factor heavily in the commission's impressions of a complainant's representations about the state of the market. Hence, for those complainants who previously would have sought a LEO covering downstream products of non-respondents, they must choose between naming all known manufacturers of downstream products (often customers and potential customers) or seek a GEO.

One strategy complainants may use to reduce the inherent tension in suing its customers is to enter into a consent order with them shortly after the investigation is instituted. The consent order would allow complainants to quickly terminate the investigation as for its customers if the customers agree to be subject to any exclusion order the commission issues. Thus, the complainant may increase chances of obtaining effective relief while sparing its customers the expense of litigating. Not only could this smooth relations between the complainant and its customers, but also reduce the complexity of the investigation.

Complainants who forgo suing downstream entities because they are actual or potential customers and instead decide to pursue a GEO may nevertheless face an uphill battle. The commission has long believed that complainants should name all infringers, and the commission may refuse to grant a GEO on the basis that the complainant should have named the downstream entities and thus would have been able to obtain effective relief under a LEO. Even more, arguing for a GEO subjects complainants to a now ill-defined statutory test that even before *Kyocera* was difficult to meet.

Conclusion

Since *Kyocera*, the commission has renewed its focus on the language of § 1337 and has begun a broader reexamination of its analytical framework for all remedies determinations. This understandably has caused ITC practitioners to reassess their litigation strategies on everything from choosing parties to name as respondents, choosing the remedy to seek, and presenting evidence to establish the necessity of that remedy. ●

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Endnotes

1. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1310 (Fed. Cir. 2008).
2. 19 U.S.C. § 1337(d) & (f) (2006).
3. § 1337(d).
4. Inv. No. 337-TA-90, USITC Pub. No. 1199, 216 U.S.P.Q. 465, 473 (Nov. 1981).
5. *Id.*
6. *Id.*
7. Inv. No. 337-TA-276, USITC Pub. No. 2196, 1989 ITC LEXIS 122, at *252–53 (May 1989).
8. Inv. No. 337-TA-543, 2007 ITC LEXIS 663 (June 7, 2007).
9. 19 U.S.C. § 1337(d)(2) (emphasis added).
10. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1310, 1356 (Fed. Cir. 2008).
11. Inv. No. 337-TA-582, Comm'n Op., slip op., 17 (Fed. 3, 2009).
12. *Id.* at 18–19.
13. Inv. No. 337-TA-615, Notice of Comm'n Final Determination of Violation of Section 337; Termination of Investigation; Issuance of Limited Exclusion Order and Cease-and-Desist Orders (March 9, 2009). The authors of this article represented the complainant Pass & Seymour, Inc., in this investigation.
14. *Id.*
15. Inv. No. 337-TA-615, Recommended Determination on Remedy and Bonding (Dec. 12, 2008).
16. Inv. No. 337-TA-602, slip op. (Jan. 27, 2009).

IP Disclosure Obligations

Continued from cover

are attempting to have incorporated into a standard. Similarly, those SSOs frequently have regulations that prevent companies from asserting their IP in an effort to prevent the use of that technology if it ultimately becomes part of a standard.

Organizations holding patents or patent applications on standards-related technologies now face additional obligations if they participate in SSOs. Two recent Federal Circuit decisions—*Rambus Inc. v. Infineon Technologies* and *Qualcomm Inc. v. Broadcom Corp.*—have created an implied obligation of disclosure for entities participating in SSOs, and have held that undisclosed patents and applications may be rendered unenforceable if the patent holder or applicant fails to comply with this implied obligation. Organizations interested in standards development would be well advised to understand these opinions, with their enhanced disclosure obligations and strong remedies, before participating in an SSO.

Standard-Setting Organizations

SSOs are formed to create, develop, refine, interpret, and issue a common set of standards that can be used across an industry. Some of the most prominent SSOs in the technical arena are the World Wide Web Consortium, the Institute of Electrical and Electronics Engineers, and the Internet Engineering Task Force. The International Organization for Standardization, International Electrotechnical Commission, and International Telecommunication Union are three well-known, international standards bodies. Although the end product of an SSO varies with the purpose and makeup of the body, a "standard" has been defined as "a document, established by consensus and approved by a recognized body, that provides for common and repeated use, rules, guidelines, or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context."[1]

There are a variety of costs and benefits associated with SSOs. Viewed from one perspective, SSOs may be considered anticompetitive, because they prevent certain technologies from being developed. As the Supreme Court recognized in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*, "[a]greement on a product standard is, after all, implicitly an agreement not to manufacture, distribute, or purchase certain types of products."[2] In addition, an SSO with a large membership can be more politicized and thus slower to issue standards that are in keeping with current developments. On the other hand, the standards set by SSOs can produce significant benefits. Industry members can spread the costs of research and development across a greater number of consumers, and the setting of standards reduces the risk that resources will be invested in a product that ultimately may not gain widespread acceptance. Consumers may benefit because uniform standards encourage interoperability of products and technologies, which may lead to further innovation. For example, the stated goal of the World Wide Web Consortium is to "ensure long-term growth for the Web." Toward that end, it has published more than 110 open, nonproprietary Web standards or recommendations, including internationally recognized standards for HTML (HyperText Markup Language) and CSS (Cascading Style Sheets), since 1994.

Most SSOs, particularly large, established ones, have written bylaws or policies outlining their members' responsibility to disclose relevant IP.[3] Requiring participants to disclose relevant IP avoids what one court has termed "patent holdup," whereby a patent owner can prevent industry participants from adopting a standard by demanding supracompetitive royalties.[4] Patent holdup makes the standard-setting process inefficient because "[i]ndustry participants who have invested significant resources developing products and technologies that conform to the standard will find it prohibitively expensive to abandon their investment and switch to another standard."[5]

SSOs generally require participants to disclose IP of which they are aware that may be implicated by a standard being developed.[6] But what participants are asked to disclose—for example, issued patents only or issued patents plus pending applications—varies widely among standard-setting bodies. There are differences in how broadly participants must construe their disclosure obligations. The American National Standards Institute and many of its member organizations *require* disclosure of "essential" patents that cover a standard, but only *encourage* the disclosure of patents that are "related to" or "associated with" a standard under development.

The rules of various SSOs also differ when it comes to the requirements for patents that are incorporated into an issued standard. Depending on the SSO, participants may be required to assign their rights to the SSO, grant royalty-free licenses (allowing the patent owner to assert its rights only against products that do not embody the standard), or, most commonly, grant licenses on reasonable and nondiscriminatory terms.[7] Of those SSOs that require members to license on those terms, few explain what those terms mean—particularly, what type of royalty is "reasonable"—or how a licensing dispute would be resolved.[8]

In sum, the divergent and vague policies of SSOs related to their participants' IP and disclosure obligations make it imperative to study each organization's rules before deciding whether to join.

Federal Circuit Cases Imposing a Duty to Speak

Recently, the Federal Circuit addressed the issue of SSO participants who failed to disclose, during the standard development process, ownership of patents that covered the standard but then sought to enforce the undisclosed patents against implementations of the standard. In the first case, the court held that participants in an SSO had an implied duty to disclose IP rights but that the patent owner—or alleged "ambusher"—had not breached the duty. In the second and more recent decision, the court held that the duty to disclose had been breached and that the appropriate remedy was to hold unenforceable the patents in question—those that the SSO participant had failed to disclose—against all products that complied with the standard.

The Rambus *Decision*

The implied disclosure obligation for entities participating in SSOs has its origins in the 2003 case of *Rambus Inc. v. Infineon Technologies*. Infineon alleged that Rambus committed fraud by not disclosing patent rights to an SSO in which it was a participant. Rambus was a member of the Joint Electron Devices Engineering Council (JEDEC), which was associated with the Electronic Industries Alliance (EIA). Both JEDEC and EIA had a written patent policy encouraging the adoption of standards free from patented items or processes, and both required members to disclose patents and patent applications related to the standardization work of its committees.

Before Rambus joined JEDEC, it had filed an application (the '898 application) with claims directed to dynamic random-access memory (DRAM). When the U.S. Patent and Trademark Office claimed that the '898 application included multiple independent inventions, Rambus filed a series of divisional and continuation applications based on the '898 application. Rambus then became a member of JEDEC. During the time that Rambus was a member, JEDEC adopted a standard for synchronous dynamic random-access memory (SDRAM). Rambus then left JEDEC and, after its departure, filed additional divisional and continuation applications based on the '898 application. JEDEC later adopted and published a standard for double data-rate SDRAM (DDR-SDRAM), the successor to SDRAM.[9]

In 2000, Rambus sued Infineon for infringing four patents that issued from the applications that Rambus filed after it left JEDEC. Infineon counterclaimed for fraud under Virginia state law, alleging that Rambus committed fraud by not disclosing to JEDEC its patents and patent applications "related to" the SDRAM and DDR-SDRAM standards. The jury found that Rambus had committed fraud during the standardization process for both standards, but the court entered judgment as a matter of law in favor of Rambus on the DDR-SDRAM fraud verdict, because Rambus had left JEDEC prior to JEDEC's adoption of the SDRAM standard. Infineon appealed.

On appeal, the Federal Circuit addressed two questions: (1) whether Rambus had a duty to disclose its IP rights; and (2) if it did have a disclosure duty, whether Rambus breached that duty. To analyze the first question, the Federal Circuit examined the written policies of JEDEC and EIA, and concluded that those policies did not expressly impose a duty on members to speak. The Federal Circuit held, however, that because JEDEC members acted as if the policies contained an obligation to disclose proprietary rights, Rambus had such a duty. In determining the scope of the duty, though, the court held that a JEDEC participant's duty to disclose a patent or application arose only when a license under its claims reasonably might be required to practice the standard. To hold otherwise would "render the JEDEC disclosure duty unbounded" because "[u]nder such an amorphous duty, any patent or application having a vague relationship to the standard would have to be disclosed."[10] The court criticized the EIA/JEDEC disclosure policy as having "a staggering lack of defining details" and counseled that "[w]hen direct competitors participate in an open standards committee, their work necessitates a written patent policy with clear guidance on the committee's intellectual property position."[11]

Although the law on this subject continues to develop, the cases to date have made clear that membership in an SSO comes with real costs, in addition to the benefits that many companies already see.

The Federal Circuit then found that Rambus did not breach its duty to disclose. Although it might have violated business ethics for Rambus to attempt to cover the SDRAM standard while a member of JEDEC, the Federal Circuit found an absence of substantial evidence that a license from Rambus would reasonably be required to practice the SDRAM standard. It also affirmed the grant of judgment as a matter of law on the DDR-SDRAM fraud verdict because there was no evidence that Rambus had patents or applications related to the DDR-SDRAM standard that should have been disclosed.[12]

The Qualcomm *Case*

The Federal Circuit expanded its holding from the *Rambus* case in the 2008 case of *Qualcomm Inc. v. Broadcom Corp.*, in which it held that patents that an SSO participant failed to disclose, in violation of its duty to the SSO, were unenforceable against all products that complied with the adopted standard. Both Qualcomm and Broadcom were members of the Joint Video Team (JVT), which was formed to enhance standard video-coding performance. The JVT was created by two standard-setting bodies, the International Telecommunication Union Telecommunication Standardization Sector and the International Organization for Standardization/International Electrotechnical Commission.

In 2003, the JVT released the H.264 standard for video technology. Qualcomm then sued Broadcom for infringement of two patents, the '104 and '767 patents, based on Broadcom's manufacture and sale of H.264-compliant products. Broadcom counterclaimed that the '104 patent was unenforceable due to inequitable conduct and that both patents were unenforceable because Qualcomm had waived its right to assert them due to its misconduct. The district court ultimately rejected the inequitable conduct counterclaim but accepted the waiver argument and held the patents unenforceable.

The Federal Circuit upheld the majority of the district court's findings, expressly affirming the district court's holding on waiver but limiting the broad unenforceability remedy. The panel first concluded that Qualcomm had a duty to disclose, based upon the written policies of JVT and its parent organizations and upon the conduct of the other JVT members. The Federal Circuit then determined the scope of the disclosure duty. The JVT policies referred to "IPR [intellectual property rights] 'associated with' any standardization proposal or 'affecting the use' of JVT work."[13] The court concluded that the scope of the disclosure duty was the same as that in *Rambus*: Participants were required to disclose patents that reasonably might be necessary to practice the H.264 standard. The Federal Circuit also affirmed the district court's finding that Qualcomm breached that duty by failing to disclose the '104 and '767 patents. Interestingly, the court seemed persuaded by Broadcom's argument that, if Qualcomm "truly believe[d] that the asserted patents do not meet the 'reasonably might be necessary' standard, then it necessarily lacked a Rule 11 basis to bring this litigation in the first place."[14]

The Federal Circuit expressly affirmed the district court's finding that Qualcomm's misconduct—participating in the H.264 standard-setting process while hiding two patents that reasonably might be necessary to practice the standard, and then suing a fellow JVT participant whose products complied with the standard—constituted waiver of its right to assert the '104 and '767 patents.

In deciding the appropriate remedy, the Federal Circuit agreed with the district court that Qualcomm's misconduct was analogous to patent misuse and inequitable conduct. The panel noted that the proper remedy in a case of patent misuse is to render a patent unenforceable until the misconduct can be purged. Therefore, "[a] district court may in appropriate circumstances order patents unenforceable as a result of silence in the face of an SSO disclosure duty, as long as the scope of the district court's unenforceability remedy is properly limited in relation to the underlying breach."[15] The court vacated the district court's remedy of permanent unenforceability of the two patents and held that the "broadest permissible unenforceability remedy in the circumstances of the present case would be to render the '104 and '767 Patents (and their continuations, continuations-in-part, divisions, reissues, and any other derivatives thereof) unenforceable against all H.264 compliant products."[16]

Finally, the Federal Circuit upheld the district court's determination that Broadcom was entitled to its attorney fees under 35 U.S.C. § 285. The district court had based its award of fees on both Qualcomm's "bad faith participation" in the JVT and its litigation misconduct during discovery, motion practice, and post-trial proceedings. The panel held that Qualcomm's litigation misconduct was sufficient standing alone to support the "exceptional case" determination but that it was not error for the district court to consider the related JVT misconduct.

Ramifications for SSO Participants

Organizations that participate in SSOs need to be aware of both the express disclosure obligations imposed upon them by the rules of each relevant SSO, as well as the implied obligations created by the *Rambus* and *Qualcomm* decisions. Pursuant to these cases, it seems clear that if a standard implicates an SSO participant's patents or applications, that entity must evaluate whether a license from it would reasonably be necessary to practice the standard. If so, the consequences imposed in the *Qualcomm* case strongly suggest that the organization should disclose those patents and applications before any standard is adopted. A failure to follow this practice, in light of *Qualcomm*, could result in a waiver by the non-disclosing entity that would prevent it from asserting patent rights against products that comply with the standard and may result in that patentee's being required to pay attorney fees to the opposing party, should the patent holder attempt to assert its patents.

Although the law on this subject continues to develop, the cases to date have made clear that membership in an SSO comes with real costs, in addition to the benefits that many companies already see.

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Endnotes

1. Int'l Org. for Standardization/Int'l Electrotechnical Comm'n Guide 2:2004.
2. Allied Tube & Conduit Corp. v. Indian Head, Inc., 486 U.S. 492, 500 (1998).
3. Mark A. Lemley, *Intellectual Property Rights and Standard-Setting Organizations*, 90 Cal. L. Rev. 1889, 1904 (2002) (studying the bylaws of 43 technology SSOs).
4. Broadcom Corp. v. Qualcomm Inc., 501 F.3d 297, 310 (3d Cir. 2007).
5. *Id.*
6. Most SSOs do not require participants to search their patent portfolios to find potentially relevant patents and, instead, allow participants to rely on their reasonable belief as to what IP rights they have. Lemley, *supra* note 5, at 1905.
7. *See* Lemley, *supra* note 5, at 1905–6.
8. *Id.* at 1906.
9. Rambus Inc. v. Infineon Technologies, 318 F.3d 1081, 1084–86 (Fed. Cir. 2003).
10. *Id.* at 1101.
11. *Id.*
12. In 2002, the Federal Trade Commission filed a complaint against Rambus, alleging anticompetitive conduct based on its conduct as a JEDEC member. The D.C. Circuit concluded that the FTC failed to establish its monopolization claim. Rambus Inc. v. FTC, 522 F.3d 456 (D.C. Cir. 2008). The Supreme Court recently denied certiorari.
13. Qualcomm Inc. v. Broadcom Corp., 548 F.3d 1004, 1017 (Fed. Cir. 2008).
14. *Id.* at 1019.
15. *Id.* at 1026.
16. *Id.*

Injunctions after *eBay*

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more money. The *Hynix* decision criticizes *CSIRO* for recognizing the fundamentally retrospective nature of this harm and failing to explain how it contributes to a finding of irreparable harm in the future. The only explanation, according to the *Hynix* court, is that failing to enjoin the accused infringer would encourage others to infringe the patent, causing irreparable harm to the patentee's research and development efforts. Accordingly, the *CSIRO* decision improperly forces the accused infringer to pay for harm caused by others. Therefore, it is unclear whether the *CSIRO* reasoning will be adopted widely to grant permanent injunctions to non-practicing entities.

Conclusion

The *Praxair*, *ACS*, and *CSIRO* decisions represent strict applications of the four-factor test to injunctions in patent infringement cases. They highlight the need to include detailed, specific evidence in support of an application for or opposition to a permanent injunction. If a patentee fails to do so, the remedy for infringement may be limited to money damages and a compulsory license.

With respect to demonstrating irreparable harm, it is important for a patentee to provide specific evidence of lost sales or revenue, such as an example of a lost account, due to the defendant's infringement. A mere allegation that the defendant is in competition with the plaintiff likely will not suffice. With respect to the adequacy of monetary damages, the decisions highlight two key arguments. First, defendants should focus on the plaintiff's prior licensing activity. A patentee's licenses can be used quite effectively to demonstrate that the patentee is willing to part with its patent right in exchange for money. Second, courts will look at the importance of the patented technology to the accused product. If the patented technology is essential to the accused product, an injunction is more likely to issue.

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Endnotes

1. eBay v. MercExchange, 547 U.S. 388, 393 (2006).
2. *See* Praxair, Inc. v. ATMI, Inc., 479 F. Supp. 2d 440 (D. Del. 2007); Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc., 579 F. Supp. 2d 554 (D. Del. 2008). The Federal Circuit has reversed a permanent injunction grant where the patentee sought and obtained compensation for future damages from its competitor. *See* Innogenetics, N.V. v. Abbott

Labs., 512 F.3d 1363 (Fed. Cir. 2008).

3. *Praxair, Inc*., 479 F. Supp. 2d 440, 443–44 (D. Del. 2007).

4. *Id.* (citing Novozymes A/S v. Genencor Int'l, Inc., 474 F. Supp. 2d 592 (D. Del. 2007) and Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp., No. Civ. A. 03-2910, 2006 U.S. Dist. LEXIS 93408 (S.D. Tex. Dec. 27, 2006)).

5. *Praxair, Inc.*, 543 F.3d 1306, 1328 n.18 (Fed. Cir. 2008).

6. *Id.*

7. Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc., Civ. No. 98-80-SLR, 579 F. Supp. 2d 554, 560 (D. Del. Sept. 26, 2008).

8. *Id.* at 561 (citing Cordis Corp. v. Boston Scientific Corp., 99 Fed. App'x 928 (Fed. Cir. 2004); Cordis Corp. v. Boston Scientific Corp., No. Civ. A. 03-027, 2003 U.S. Dist. LEXIS 21338 (D. Del. Nov. 21, 2003)).

9. *See* Transocean Offshore Deepwater Drilling, Inc. v. Globalsantafe Corp., No. Civ. A. 03-2910, 2006 U.S. Dist. LEXIS 93408 at *13 (S.D. Tex. Dec. 27, 2006) (The patentee successfully demonstrated that the accused infringer was competing for the same small customer base.).

10. Commonwealth Scientific and Indus. Research Organisation v. Buffalo Tech. Inc., 492 F. Supp. 2d 600, 605 (E.D. Tex. 2007).

11. *Id.* at 605–06 (citing eBay v. MercExchange, 126 S. Ct. 1837, 1842 (2006) (Kennedy, J., concurring).

12. Hynix v. Rambus, 2009 U.S. Dist. LEXIS 13530 (N.D. Cal. 2009).

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Doc's Marketing at *8.

16. *Id.* at *21–22.

17. *Id.* at *25 (emphasis added).

18. *Id.* at *25 n.6 (emphasis in original).

19. *See id.*

20. *See Erico Int'l Corp. v. Vutec Corp.*, 516 F.3d 1350, 1352 (Fed. Cir. 2008).

21. *See id.* at 1354.

22 *Id.* at 1356.

23. Judge Archer joined Judge Newman in the holding but not in Part I on validity or Part VI addressing the "substantial question" standard. Judge Gajarsa found Judge Newman's critique of the "substantial question" standard in Part IV wholly irrelevant. Abbott Labs. v. Sandoz, Inc., 544 F.3d 1341, 1373 (Fed. Cir. 2008). Citing *Genentech* and its progeny, Judge Gajarsa invoked the vulnerability language from *Amazon.com* to argue that the preliminary injunction should be lifted. *Id.* at 1372–73.

24. *Id.* at 1364.

25. *Id.* at 1365.

26. *See id.* at 1368 ("Federal Circuit precedent developed to match the rest of the nation") (collecting cases).

27. *See* New England Braiding Co. v. A.W. Chesterton Co., 970 F.2d 878, 883 (Fed. Cir. 1992).

28. *In re* Seagate Tech., LLC, 497 F.3d at 1374.

29. Post-*Seagate*, at least one district court has granted partial summary judgment of no willful infringement based on this court's language concerning the role of "substantial question" as evidence of a lack of recklessness. Lucent Techs., Inc. v. Gateway, Inc., 07-CV-2000-H, 2007 U.S. Dist. LEXIS 95934, at *17–19 (S.D. Cal. Oct. 30, 2007). In that case, the court found dispositive the Patent and Trademark Office's finding of a "substantial new question of patentability" in granting a request for reexamination.

Remedies for the Infringer?

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Law Federal Rights, State Law Claims, and Contract to Shift Liability for Infringement of Patents, Copyrights, and Trademarks, 28 Tex. Tech. L. Rev. 1026 (1997), available at http://ssrn.com. To be technically precise, this article addresses *claims* in favor of the infringer, not *remedies*, as such.

2. *See* Jack Frost Labs., Inc. v. Physicians & Nurses Mfg. Corp., 35 U.S.P.Q. 2d 1631, 1634 (S.D.N.Y. 1995) (trademark case); Polygram Int'l Pub., Inc. v. Nevada/TIG, Inc., 855 F. Supp. 1314, 1334 (D. Mass. 1994) (copyright case); Santana Prods., Inc. v. Bobrick Washroom Equip., Inc., 69 F. Supp. 2d 678 (M.D. Pa. 1999) (trademark case holding no claim for contribution under Lanham Act).

3. *See* Dolori Fabrics, Inc. v. Limited, Inc., 662 F. Supp. 1347, 1358 (S.D.N.Y. 1987) (copyright case); Pure Country Weavers, Inc. v. Bristar, Inc., 410 F. Supp. 2d 439 (W.D.N.C. 2006) (copyright case holding that the UCC claim was not preempted by the Copyright Act); Acushnet Co. v. G.I. Joe's, Inc., 2006 WL 2729555 (D. Or. Sept. 22, 2006) (trademark case).

4. Phoenix Solutions, Inc. v. Sony Elec., Inc., No. C 07-02112 MHP, 2008 WL 552475 (N.D. Cal. Feb. 27, 2008).

5. *Id.* at *3.

6. SunCoast Merchandise Corp. v. Myron Corp., 393 N.J. Super. 55; 922 A.2d 782, 795 (App. Div. 2007).

7. 84 Lumber Co. v. MRK Tech., Ltd., 145 F. Supp. 2d 675, 680 (W.D. Pa. 2001). *See generally* Linear Corp. v. Applied Materials, Inc., 152 Cal. App. 4th 115 (Cal. Ct. App. 2007) (collecting other cases discussing "rightful claim").

8. *84 Lumber Co.*, 145 F. Supp. 2d 675, 680 (W.D. Pa. 2001).

9. Pacific Sunwear of Cal., Inc. v. Olaes Enters., Inc., 167 Cal. App. 4th 466, 481 (Cal. Ct. App. 2008).

10. *See, e.g.*, Motorola, Inc. v. Varo, Inc., 656 F. Supp. 716, 718–19 (N.D. Tex. 1986); Chemtron, Inc. v. Aqua Prods., Inc., 830 F. Supp. 314, 315 (E.D. Va. 1993).

11. *See 84 Lumber Co.*, 145 F. Supp. at 680 (W.D. Pa. 2001) (holding there was a substantial federal question on facts presented). *But see* Linear Corp. v. Applied Materials, Inc., 152 Cal. App. 4th 115 (Cal. Ct. App. 2007) (holding there was no substantial federal question under facts presented).

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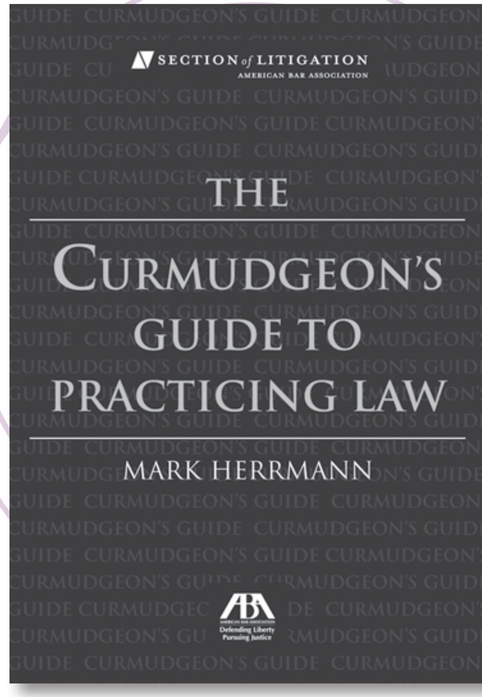

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