

# FEDERAL CIRCUIT REVIEW

REMEDIES

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This issue will focus on recent cases concerning remedies for patent infringement. These remedies include injunctive relief and monetary recovery. We begin by exploring developments in Federal Circuit case law concerning a preliminary injunction movant's burden of establishing that it is likely to succeed on the merits of its infringement suit. Next, we will discuss the record on appeal for decisions granting permanent injunction in favor of a prevailing patentee in the wake of the Supreme Court's *eBay* decision. Finally, we will address the availability of lost profits damages when a patent is commercialized not by the patentee, but by the patentee's wholly owned subsidiary.

## ESTABLISHING LIKELIHOOD OF SUCCESS AT THE PRELIMINARY INJUNCTION STAGE

A court having jurisdiction over a patent matter "may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. These principles require a patentee seeking a preliminary injunction to demonstrate: "(1) a reasonable likelihood of success on the merits; (2) irreparable harm if an injunction is not granted; (3) a balance of hardships tipping in its favor; and (4) the injunction's favorable impact on the public interest." *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001).

In *Amazon*, the Federal Circuit has described the standard for determining whether a patentee is likely to succeed on the merits as follows:

If [the defendant] raises a substantial question concerning either infringement or validity, i.e., asserts an infringement or invalidity defense that the patentee cannot prove "lacks substantial merit," the preliminary injunction should not issue. . . .

Vulnerability is the issue at the preliminary injunction stage, while validity is the issue at trial. The showing of a substantial question as to invalidity thus requires less proof than the clear and convincing showing necessary to establish invalidity itself.

*Id.* at 1351 (quoting *Genentech, Inc. v. Novo Nordisk, A/S*, 108 F.3d 1361, 1359, 1364 (Fed. Cir. 1997)). A line of cases from the Federal Circuit has confronted the application of this standard, spawning a dialogue between Judge Newman and Judge Gajarsa over the proper analysis governing the likelihood of success prong of the preliminary injunction analysis.

In *Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006), Abbott sought to preliminarily enjoin Teva from marketing an extended-release formulation of clarithromycin that allegedly infringed two Abbott patents. Teva asserted that the patents were invalid on obviousness grounds. The Federal Circuit concluded that the district court had abused its discretion in granting a preliminary injunction and reversed. Judge Prost, joined by Judge Gajarsa, wrote that Teva had “raised substantial issues as to the validity of each of the asserted claims;” thus, Abbott had failed to demonstrate that it was likely to succeed on the merits. *Id.* at 1332. Judge Newman dissented, arguing that because a patent is presumed valid, its challenger must do more than raise a substantial question of invalidity to prevail at the preliminary injunction stage. *See id.* at 1350.

The same patents and similar defenses were at issue in *Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341 (Fed. Cir. 2008). In *Sandoz*, the district court concluded that the defenses raised by the defendant lacked substantial merit, and that Abbott had established a reasonable likelihood of success on the merits. *Sandoz*, 500 F. Supp. 2d 807, 842 (N.D. Ill. 2007). The Federal Circuit affirmed. *Sandoz*, 544 F.3d at 1345. Judge Newman’s plurality opinion argued against the analysis of *Amazon* and other cases, stating that “the standard is not vulnerability, but likelihood of success on the merits.” *Sandoz*, 544 F.3d at 1363-71. Judge Newman sought to characterize these cases as deviating from the established practice of the Supreme Court and other Circuit Courts of Appeals: “No other court has held that when the attacker has presented a ‘substantial question’ on its side of the dispute—that is, more than a scintilla but less than a preponderance of evidence in support of its side—no injunction pendente lite is available.” *Id.* at 1364. Judge Gajarsa dissented, explaining that the standard adopted by Judge Newman was not consistent with the Federal Circuit’s precedent. *See, e.g., id.* at 1373. Judge Archer declined to join the opinion of either Judge Newman or Judge Gajarsa on this issue, leaving some uncertainty as to the standard the court would apply moving forward.

The Federal Circuit’s subsequent decision in *Altana Pharma AG v. Teva Pharms. USA, Inc.*, No. 08-1039, 2009 U.S. App. LEXIS 10262 (Fed. Cir. May 14, 2009), reaffirmed that a patentee has not established likelihood of success on the merits when the defendant has raised a “substantial question” regarding validity. *Id.* at \*12-13. The court’s opinion, authored by District Judge T. John Ward (sitting by designation), noted that the defendant bears an initial burden of raising a substantial question of invalidity, whereupon the burden shifts to the patentee to show that the defense lacks substantial merit. *See id.* at \*13. The court noted that the defendant’s initial “showing of a substantial question . . . requires less proof than

the clear and convincing showing necessary to establish invalidity itself.” See *id.* (quoting *Amazon*, 239 F.3d at 1359). Judge Gajarsa joined the court’s opinion. Judge Newman filed a brief concurrence indicating her disagreement with, but deference to, the district court’s preliminary findings on invalidity. *Id.* at \*30.

Most recently, in *Titan Tire Corp. v. Case New Holland, Inc.*, No. 08-1078, slip op. (Fed. Cir. June 3, 2009), the Federal Circuit acknowledged that the discussion of the likelihood of success standard in its precedents had been “less than entirely clear.” Slip op. at 8. Judge Plager, in an opinion joined by Judge Newman and Judge Gajarsa, began by explaining that the burdens of producing evidence concerning validity at the preliminary injunction stage track those at trial. Because a patent is presumed valid, “the burden is on the challenger to come forward with evidence of invalidity.” *Id.* at 7. Thus, if “the alleged infringer does not challenge validity, the very existence of the patent with its concomitant presumption of validity satisfies the patentee’s burden of showing a likelihood of success . . . .” *Id.* at 6-7. On the other hand, if the alleged infringer does mount a validity challenge, “[t]he patentee, to avoid a conclusion that it is unable to show a likelihood of success, then has the burden of responding with contrary evidence, which of course may include analysis and argument.” *Id.*

The Federal Circuit explained that a “substantial question” of invalidity is a substantive conclusion based on the consideration of all evidence available at the preliminary injunction stage, and not a preliminary determination based solely on the evidence presented by the defendant. *Id.* at 8-10. If the trial court “concludes there is a substantial question concerning the validity of the patent, meaning that the alleged infringer has presented an invalidity defense that the patentee has not shown lacks substantial merit, it necessarily follows that the patentee has not succeeded in showing it is likely to succeed at trial on the merits of the validity issue.” *Id.* at 10 (citing *New England Braiding Co. v. A.W. Chesterton Co.*, 970 F.2d 878, 883 (Fed. Cir. 1992)). In reaching its conclusion, “the trial court . . . must determine if it is more likely than not that the challenger will be able to prove at trial, by clear and convincing evidence, that the patent is invalid.” *Id.* at 12. The *Titan* panel also made sure to “reiterate that the ‘clear and convincing’ standard regarding the challenger’s evidence applies only at trial on the merits, not at the preliminary injunction stage.” The “clear and convincing” standard is a “consideration” but “not an evidentiary burden to be met preliminarily by the challenger.” See *id.*

Although the district court had employed different terminology in its decision, the Federal Circuit held that it did not err in its application of the standard, and affirmed the denial of the preliminary injunction. See *id.* at 18.

### **Cases Referenced**

*Abbott Labs. v. Andrx Pharms., Inc.*, 452 F.3d 1331 (Fed. Cir. 2006)

*Abbott Labs. v. Sandoz, Inc.*, 544 F.3d 1341 (Fed. Cir. 2008); 500 F. Supp. 2d 807 (N.D. Ill. 2007)

*Altana Pharma AG v. Teva Pharms. USA, Inc.*, No. 08-1039, 2009 U.S. App. LEXIS 10262 (Fed. Cir. May 14, 2009)

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*Genentech, Inc. v. Novo Nordisk, A/S*, 108 F.3d 1361 (Fed. Cir. 1997)

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

*Titan Tire Corp. v. Case New Holland, Inc.*, No. 08-1078, slip op. (Fed. Cir. June 3, 2009)

### REVIEW OF PERMANENT INJUNCTIONS IN THE FEDERAL CIRCUIT

Prior to the Supreme Court's decision in *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006), the Federal Circuit applied a "general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it." *Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1247 (Fed. Cir. 1989). *eBay* abolished this "general rule," and clarified that a patentee seeking permanent injunctive relief must demonstrate:

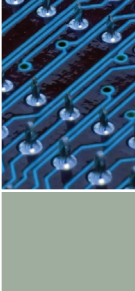
(1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.

*Id.* at 391.

Since *eBay* was decided, the Federal Circuit has reviewed a series of district court rulings granting or denying permanent injunctive relief. In all but one case, the Federal Circuit found that the district court acted within its discretion when evaluating the four *eBay* factors and therefore affirmed.

The Federal Circuit has affirmed the grant of permanent injunctive relief in three cases. See *Acumed LLC v. Stryker Corp.*, 551 F.3d 1323 (Fed. Cir. 2008); *Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683 (Fed. Cir. 2008); *Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295 (Fed. Cir. 2007) (reversing the district court in part because it erred in finding that certain articles infringed). The Federal Circuit affirmed the district court's denial of permanent injunctive relief in *Voda v. Cordis Corp.*, 536 F.3d 1311 (Fed. Cir. 2008) (harm to licensee was insufficient to establish the patentee's irreparable harm, and monetary compensation was adequate). The Federal Circuit also affirmed the dissolution of a permanent injunction, which had been issued prior to *eBay* and dissolved thereafter, on the grounds that the irreparable harm and public interest factors did not weigh in the patentee's favor. *Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008).

However, in *Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008), the Federal Circuit found that the district court abused its discretion when it granted permanent injunctive relief in addition to damages that included an ongoing royalty. Judge Moore explained that



when a patentee requests and receives a royalty that contemplates or is based upon future sales, “it cannot be heard to complain that it will be irreparably harmed by future sales.” *Id.* at 1380.

### Cases Referenced

*Acumed LLC v. Stryker Corp.*, 551 F.3d 1323 (Fed. Cir. 2008)  
*Amado v. Microsoft Corp.*, 517 F.3d 1353 (Fed. Cir. 2008)  
*Broadcom Corp. v. Qualcomm, Inc.*, 543 F.3d 683 (Fed. Cir. 2008)  
*eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)  
*Innogenetics, N.V. v. Abbott Labs.*, 512 F.3d 1363 (Fed. Cir. 2008)  
*Richardson v. Suzuki Motor Co.*, 868 F.2d 1226 (Fed. Cir. 1989)  
*Verizon Servs. Corp. v. Vonage Holdings Corp.*, 503 F.3d 1295 (Fed. Cir. 2007)  
*Voda v. Cordis Corp.*, 536 F.3d 1311 (Fed. Cir. 2008)

## RECOVERING LOST PROFITS OF CORPORATE AFFILIATES

A patentee that succeeds in proving infringement at trial is entitled to “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 . . . .” 35 U.S.C. § 284. Case law recognizes that “‘adequate’ damages should approximate those damages that will fully compensate the patentee for infringement.” *Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538, 1545 (Fed. Cir. 1995). Damages are usually calculated based on either the patentee’s lost profits due to infringement or, if such losses are not provable, a reasonable royalty. The standard for proving lost profits was explained by the court in *Panduit Corp. v. Stahl Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir. 1978):

To obtain as damages the profits on sales he would have made absent the infringement, i.e., the sales made by the infringer, a patent owner must prove: (1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of the profit he would have made.

Not every business structure lends itself to favorable analysis under the *Panduit* factors. In *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359 (Fed. Cir. 2008), the Federal Circuit rejected a claim for lost profits by a patentee based upon the operations of its corporate affiliate. Mars held patents relating to coin authentication technology for vending machines, but did not itself manufacture or sell articles embodying the invention. Instead, Mars licensed the patents to its wholly owned subsidiaries, including MEI. MEI paid Mars a royalty based on MEI’s gross sales of the patented products. Mars maintained consolidated financial statements for itself and MEI. See *id.* at 1362-63.

Mars sued Coinco for infringement, seeking—among other things—lost-profits damages for a period of Coinco’s infringement. Before proceeding to a trial on damages, Coinco moved for summary judgment on Mars’s claim of lost profits. With reference to the third and fourth *Panduit* factors, Coinco argued that because Mars did not manufacture or sell any products covered by the patent, Mars could not show either that it had the capability to meet the market demand for the patented products or that it had suffered lost profits. See *Mars*, No. 90-49, 2006 U.S. Dist. LEXIS 77521, at \*10-11 (D.N.J. May 19, 2006). Mars countered that it could readily meet demand through MEI, and that because Mars’s finances were consolidated with those of MEI, profits to MEI “flowed inexorably” to Mars. See *id.* at \*11-14. The district court granted partial summary judgment in favor of Coinco, concluding that Mars did not have the manufacturing capabilities required by *Panduit*, and that the record did not support Mars’s flow-through theory. See *id.* at \*14-16.

The Federal Circuit affirmed. Judge Linn, writing for a panel that included Judge Clevenger and Judge Prost, agreed with the district court that Mars had failed to show that it had lost any profits. Under *Poly-America L.P. v. GSE Licensing Tech., Inc.*, 383 F.3d 1303 (Fed. Cir. 2004), Mars’s corporate affiliation with MEI was not alone sufficient to establish that MEI’s profits were inherently those of Mars. Moreover, the court concluded that there was little merit to Mars’s argument that profits “flowed inexorably” from MEI to Mars. Under their license agreement, MEI was required to make payments to Mars based on MEI’s gross sales, not its profits. Thus, Mars was entitled to payments even if MEI did not earn a profit. See *Mars*, 527 F.3d at 1367. The court declined to rule on whether, if proven, an inexorable flow of profits from subsidiary to parent would be sufficient to permit the parent to recover lost profits. See *id.*

As an alternate route to recovering MEI’s lost profits, Mars had moved for leave to add MEI as a co-plaintiff. The district court denied this motion as futile, and the Federal Circuit affirmed. For the period that Coinco was alleged to have sold infringing products, MEI shared rights to practice the patent in the United States with another Mars subsidiary. See *id.* at 1368. Under Federal Circuit precedent, “non-exclusive licensees do not have constitutional standing to sue,” whether or not joined by the patent holder. *Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 402 F.3d 1198 (Fed. Cir. 2005); see *Morrow v. Microsoft Corp.*, 499 F.3d 1332, 1341 (Fed. Cir. 2007). Consequently, neither Mars nor MEI were entitled to lost-profits damages.

### Cases Referenced

*Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359 (Fed. Cir. 2008); No. 90-49, 2006 U.S. Dist. LEXIS 77521 (D.N.J. May 19, 2006)

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*Rite-Hite Corp. v. Kelley Co.*, 56 F.3d 1538 (Fed. Cir. 1995)

*Schreiber Foods, Inc. v. Beatrice Cheese, Inc.*, 402 F.3d 1198 (Fed. Cir. 2005)



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