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Summary Judgment on Copyright Damages: New Guidance
By Mark G. Tratos and Bethany L. Rabe

A decade after its seminal decision in *Bouchat v. Baltimore Ravens*, the Fourth Circuit’s recent decision in *Dash v. Mayweather*, 731 F.3d 303 (4th Cir. 2013), sheds new light on the issue of copyright damages on summary judgment. The court offered detailed guidance on how best a plaintiff may use experts to prove actual damages. This decision also details three approaches that defendants may use to move for summary judgment against a claim for recovery of infringer’s profits.

*Dash v. Mayweather* arose out of WrestleMania XXIV, a major annual event produced by World Wrestling Entertainment (WWE), sometimes called the Super Bowl of wrestling. Millions of people tune in via pay-per-view to watch the event, which is held before a live audience of nearly a hundred thousand fans. Tickets sell out well in advance of the performance.

For WrestleMania XXIV, which took place in 2009, WWE contracted with famed champion boxer Floyd Mayweather Jr. to appear in a match against Paul “the Big Show” Wight. During that match, Mr. Mayweather entered the ring with the original song “Yep” playing in the background. Anthony Dash, a relatively unknown, part-time disc jockey, producer, and hip hop artist, sued Mr. Mayweather and WWE, claiming that the song “Yep” was Mr. Mayweather’s lyrics over a beat that Dash had created. While Dash’s original complaint alleged statutory damages, because he filed his copyright registration well after the alleged infringement, he was limited to seeking actual damages and infringer’s profits.

Damages Structure of the Copyright Act
Before delving into summary judgment issues raised by the Fourth Circuit, a brief overview of the damages structure of the Copyright Act is useful. A plaintiff seeking damages for copyright infringement under the 1976 Act has two potential methods of recovery: statutory damages, which provide a set statutory range for infringement, and “actual damages and infringer’s profits,” which permit the plaintiff to “recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages.” See 17 U.S.C. § 504. A plaintiff can elect one or the other.

Statutory damages. When Congress adopted the Copyright Act of 1976, it determined that registration of published works would no longer be compulsory. For that reason, Congress sought to create an incentive for registration by denying statutory damages to those who do not timely register their copyright with the copyright office. Registration also requires submission of copies of the work to the Library of Congress, thus ensuring that new works are added to the library’s collection. Denying a plaintiff the ability to
elect statutory damages functions as an incentive because statutory damages do not require proof of actual harm to the plaintiff; a plaintiff who otherwise could not recover—because either (1) his or her work has little actual value (such as a stock photograph) or (2) the defendant’s profits from the infringing work are remote or nonexistent (such as file sharing)—can recover. Statutory damages can be significant, especially if multiple works are infringed, as the damages are up to $30,000 per work for innocent infringement and up to $150,000 per work for willful infringement. See 17 U.S.C. § 504. As noted above, however, not every plaintiff is eligible for statutory damages.

**Actual damages and infringer’s profits.** The other avenue for a plaintiff seeking recovery under the Copyright Act is to seek “actual damages” and “any profits of the infringer that are attributable to the infringement . . .” See 17 U.S.C. § 504. There is no punitive component; these damages seek to restore the plaintiff’s losses and remove the infringer’s gains. These types of damages are sought where the copyright owner is not eligible for statutory damages; where the infringer has made a great deal of profit from the infringement of one work (because statutory damages are awarded on a per-work basis, they may be inadequate if only one work has been infringed); and where the profits are substantial and clearly traceable to the infringement.

Plaintiffs seek recovery of an alleged infringer’s profits to protect their own property, prevent unjust enrichment of the infringer, and remove any incentive for continued infringement. A simple example: I create a painting. Without a license, you sell 20 copies of my painting at $1,000 each. It should be fairly straightforward for me to argue that my damages are $20,000, your gross revenue from the sales. The Copyright Act then shifts the burden to the alleged infringer to prove reasonable offsets to reduce the amount of the potential profit award. As you can imagine, however, this issue can be complicated: What if, instead of selling copies of my painting, you include it in a textbook and sell the textbook? What if the painting appears in the background in a commercial for an unrelated product? Even if we all agree that you have infringed my copyright, how much should I recover? Courts have grappled with these issues extensively.

Actual damages represent the actual harm to the copyright owner. These damages are premised on restoring the copyright owner to his or her position prior to the infringement. For example, a copyright plaintiff might be awarded the value of a licensing fee. In other words, to use another simple example, the fair market value of a license for my work is $500. You used it without a license. I can now recover $500. The simplest cases are situations such as that example, where a party exceeds his or her license. The parties have already established the fair market value of the work; the only thing left to do is the math. Complications arise where the work has no established fair market value and there are few comparable benchmarks available.
**Dash v. Mayweather: Summary Judgment**

In *Dash v. Mayweather*, Dash put forth an expert report that theorized that he was entitled to a portion of Mr. Mayweather’s contracted fee, a portion of WWE’s profits from the event, and actual damages. As Dash had no commercial success with his music and reported no income from his music on his tax returns, his expert relied on the amounts that WWE paid other, well-known artists for the use of their songs in calculating actual damages. The expert’s conclusion was that Dash’s composition had a “maximal value” of $3,000.

The defendants moved for summary judgment, arguing that Dash was entitled to no damages at all. The parties argued that (1) infringer’s profits could not be awarded given that Dash could show no causal link between the alleged infringement and the profits of the defendants and (2) Dash had no non-speculative evidence of any actual damages.

As to infringer’s profits, Dash argued that he was not required to submit specific evidence linking the claimed revenue streams to the alleged infringement and that he need not show that the alleged infringement enhanced the defendants’ profits, only that the allegedly infringed work was used and that the defendants profited. Dash believed this theory so completely that he signed a stipulation stating that the performance of “Yep” at the event had not increased the revenue of WrestleMania XXIV. The court, however, rejected this argument.

In defense of his actual damages claim, Dash relied only on his copyright damages expert’s report. The court noted that Dash had no reported income related to music on his tax returns and that Dash had offered no evidence that he had previously sold other musical compositions. In the summary judgment context, once a defendant has properly supported his or her claim that there are no actual damages, the plaintiff must respond by presenting non-speculative evidence that such damages do exist. Finding the evidence of market value speculative, the district court granted summary judgment on damages and closed the case.

**The Fourth Circuit’s Detailed Guidance on Actual Damages**

On appeal, Dash argued that his expert report provided evidence of the beat’s value—namely, a $3,000 lost licensing fee—and that summary judgment against him was erroneous. The Fourth Circuit disagreed, affirming the district court. In its discussion of actual damages, which spanned 34 pages of the opinion, the Fourth Circuit made a number of key points regarding summary judgment, especially with respect to the use of expert reports.

First, in establishing actual damages, the expert should state a minimum as well as a maximum value for actual damages. The opinion spoke directly to future copyright plaintiffs’ counsel: “The possibility that our criticism will prompt attentive plaintiffs’ attorneys to require their experts to expressly state some nominal minimal value for an allegedly infringed work is, frankly, desirable.” The court noted that whether the expert has opined as to the fact of actual damages (whether such damages exist at all) “could easily be avoided by a clear statement that the copyrighted work has some market value.” In short, without a minimum value assigned to the work, a court may well rightly assume that the work has no value.
Second, if the expert must extrapolate from other works’ values—as in the case of a lesser-known or unknown artist—the expert must be clear in his or her reasoning. Here, the Fourth Circuit explained that the expert failed to explain how he selected the benchmarks; failed to indicate whether and to what extent he had considered the differences between the benchmarks and Dash’s composition; failed to address the fact that Dash’s claim was only in the rhythmic instrumental part of the work, not the completed work, whereas the benchmarks were for completed works; and failed to establish that Dash’s particular work, as opposed to music in general, had value for WWE. Undue speculation, the Fourth Circuit warned, is insufficient; a description of the expert’s process of reasoning that led to the conclusion is necessary.

Third, the expert must be clear on timing. The expert did not explain whether the plaintiff’s other productions predated the infringement. If the plaintiff became successful only after the infringement occurred, the value of his other works has little bearing on the value of the infringed work. Because the expert report did not make the dates clear, the court could not rely on the references to prior recognition and accomplishments.

Fourth, and more generally, the court cautioned plaintiffs’ attorneys not to rely only on an expert report where other evidence could stand alone. Here, the fact that the expert referenced some prior contracts and accomplishments was insufficient—the court deemed these references too speculative to create a genuine issue of material fact. The Fourth Circuit suggested that an affidavit from the plaintiff or prior contracts establishing the value of Dash’s other works could have perhaps prevented summary judgment.

Although the Fourth Circuit criticized the expert’s report heavily, it would be a mistake to simply dismiss this case as a case with a bad expert. The onus is on the plaintiff’s counsel to provide the expert with evidence he or she can rely on. If the plaintiff had approached summary judgment with additional admissible evidence, the result could have been different.

A Summary Judgment Road Map for Defendants
In Dash, the Fourth Circuit also took the opportunity to reaffirm its holding in Bouchat v. Baltimore Ravens, 346 F.3d 514 (4th Cir. 2003). In Bouchat, the Fourth Circuit affirmed a grant of summary judgment against an artist on the issue of infringer’s profits. The artist, who was by profession a security guard at an office building, had created a logo for the Baltimore Ravens. The Ravens used the logo without authorization on merchandise and other products. The artist claimed no actual damages and was ineligible for statutory damages. For that reason, the plaintiff was left to pursue profits-based damages against the Ravens. Many iterations of the Bouchat case were litigated for years (the most recent decision issued less than a year ago), but the 2003 Bouchat decision created a widely used summary judgment framework for infringer’s profits cases.

In Dash, the court explicitly laid out the three ways in which a defendant can prevail on summary judgment on the issue of infringer’s profits. This has often been a confusing issue due
to the burden-shifting framework under copyright law: The plaintiff must first show a causal connection between the revenues or profits sought and the infringement; if the plaintiff does so, then the burden shifts to the defendant to prove that those profits are attributable to factors other than the infringement. One of the reasons that *Bouchat* was such a seminal case is that it cleared up much of the confusion regarding how this burden-shifting framework affects summary judgment. The Fourth Circuit laid out these principles even more clearly in the *Dash* case, providing a clearer road map for defendants seeking summary judgment on the infringer’s profits issue.

First, the defendant can argue that the plaintiff cannot show a conceivable connection between the infringement and the claimed revenues. This is a fairly difficult showing because the defendant must be able to show that it is not even “hypothetically possible” that the infringement affected the profits. For example, revenues fixed in advance—such as a contract for a fixed sum signed before the infringement occurred, as Floyd Mayweather had in this instance—would fall into this category.

Second, the defendant can argue that despite a conceivable connection, the plaintiff has not presented sufficient evidence of a causal link between the infringement and the profits. *Bouchat*’s infringing logo used in a video game is an example—it simply “defies credulity,” as the court put it, to imagine someone would buy a video game to get a glimpse of a football team’s logo.

Third, a defendant can seek summary judgment on the grounds that all of the claimed revenues are attributable to factors other than the infringement. The court in *Dash* noted that although the defendant bears the burden on this issue, it can still move for summary judgment if it submits evidence that no reasonable jury could find that any portion of the claimed revenue is attributable to the infringement. The plaintiff must then respond with evidence showing that reasonable minds could differ; if the plaintiff cannot, as *Dash* could not, summary judgment is appropriate.

**Conclusion: Fundamentals Are Key**

Copyright is a complex area of law. There is a lengthy and frequently amended statute, judicial gloss on the statute, seemingly arbitrary constitutional landmines (ahem, *Feltner*), and frequent litigation arising from rapidly evolving technology. There is the ever evolving “fair use” exception and the merger doctrine (“OK, so picture a bee made of gold…”). Despite its complexities, however, proving copyright infringement in litigation ultimately boils down to the basics: fundamentals all litigators should know well.

As an initial matter, unless the plaintiff is eligible for statutory damages, the fact that a defendant has infringed the plaintiff’s copyright does not automatically entitle the plaintiff to damages. Liability without causation is the exception, not the rule, in tort law. In copyright, as in other torts, causation is key. The Fourth Circuit spilled little ink analyzing whether *Dash* was entitled to any of WWE’s or Mr. Mayweather’s profits because there was simply no causal connection.
Dash’s stipulation that the public performance of “Yep” at WrestleMania XXIV had no effect on revenues only underscored that point.

As in other litigation, counsel’s realistic evaluation of the claim from the outset also is key. If the client is a new artist without a copyright registration, working with the expert to develop benchmarks and with the client to produce evidence supporting a value of the work may help avoid summary judgment. Conversely, a defendant facing a plaintiff with questionable damages or a weak causal link is wise to tailor discovery to support a motion for summary judgment on damages. Being mindful of these issues from the outset can help ensure accurate client expectations and a fair result. Although copyright cases can be complex, the basics remain the same: Without causation and damages, there can be no recovery; without a right to recover, there is no viable claim.

**Keywords:** litigation, intellectual property, summary judgement, copyright, damages, actual damages, *Dash v. Mayweather*

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Developments in Injunctive Relief in Health Care Patent Cases
By Mark Rachlin

The past spring saw two significant developments relating to injunctive relief in medical patent litigation. An interim order from Chief Justice Roberts injected ambiguity into the analysis of “at risk” launches in Hatch-Waxman cases. In addition, a district court decision involving cardiovascular technology suggested that patent owners should be able to obtain carefully structured preliminary injunctions against direct competitors.

_Teva Pharmaceuticals USA, Inc. v. Sandoz, Inc._
On April 18, Chief Justice Roberts refused to recall the Federal Circuit’s mandate in a Hatch-Waxman case despite the grant of Supreme Court review of the merits of the case. The case involved a challenge to a patent for Teva’s blockbuster multiple sclerosis drug Copaxone. The chief justice’s ruling in effect acted as a refusal to stay the launch of generic versions pending the final level of appeal. The chief justice opened the door to a potential “at risk” launch of generic revisions of the Teva branded drug before the Supreme Court can even hear the merits argument next term. On the merits, the district court had found a patent that expired in 2015 and that covered the drug valid in the face of allegations that the claims were indefinite. _Teva Pharms. USA, Inc. v. Sandoz, Inc._, 876 F. Supp. 2d 295 (S.D.N.Y. 2012). The generic challengers appealed. A Federal Circuit panel reversed and invalidated the patent. _Teva Pharms. USA, Inc. v. Sandoz, Inc._, 723 F. 3d 1363 (Fed. Cir. 2013). The Federal Circuit issued a mandate that ruled the patent invalid and allowed regulatory approval of generic versions of the Teva product after another patent that was not in litigation expired in May 2014.

Teva sought Supreme Court review of the Federal Circuit’s decision. Teva also moved the chief justice as the circuit justice for the Federal Circuit to recall the panel’s mandate while the Supreme Court evaluated whether to hear the patent case. Before a decision on whether the Court would review the merits, Chief Justice Roberts denied the request to recall the mandate. See Lyle Denniston, “Court Won’t Block Teva Rivals,” _SCOTUSblog_, Apr. 18, 2014. Several months later, the Supreme Court granted certiorari and scheduled the case for argument in October 2014. Teva again moved Chief Justice Roberts to recall the mandate invalidating the patents before the Supreme Court could address validity of the patents. Teva argued that interim generic sales before the merits decision posed damage to Teva’s market for Copaxone. Nonetheless, the chief justice again denied Teva’s request to recall the mandate.

In a one-paragraph opinion, Chief Justice Roberts recited a three-part test for a stay of a mandate that required demonstrating (1) “a reasonable probability” that [the Supreme] Court will grant certiorari, (2) a “fair prospect that the Court will reverse the decision below,” and (3) “a likelihood that irreparable harm will result from denial of the stay.” _Teva Pharms. USA, Inc. v. Sandoz, Inc._, No. 13A1003 (No. 13-854) (Apr. 18, 2014) (Roberts, C.J., in chambers). The chief
justice then noted that while Teva met the first two elements, he “was not convinced, however, that [Teva demonstrated] a likelihood of irreparable harm from a denial of a stay.” *Id.* To the chief justice, irreparable harm from an “at risk” launch before the merits ruling was questionable. He based his ruling on the generic manufacturers’ “acknowledge[ment] that, should Teva prevail [before the Supreme Court] and its patent be held valid, Teva will be able to recover damages from [one generic defendant] for past infringement.” *Id.*

The chief justice’s rationale is surprising given his concurrence in the Supreme Court’s decision on patent-based injunctions and lower court cases on stays in Hatch-Waxman cases. In *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394, 126 S. Ct. 1837, 1841 (2006), the Supreme Court decided that the lower courts should not graft presumptions onto the analysis of requests for injunctions in patent cases. Rather, patent cases are subject to traditional equitable principles. Those principles require that a plaintiff seeking a permanent injunction must show

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

126 S. Ct. at 1839.

Agreeing with those principles, Chief Justice Roberts, along with Justices Scalia and Ginsburg, went on to note a long history of granting injunctions upon a finding of infringement in the vast majority of patent cases given the difficulty of protecting a right to exclude through monetary remedies that allow an infringer to *use* an invention against the patentee’s wishes—a difficulty that often implicates the first two factors [irreparable harm and the inadequacy of money damages] of the traditional [injunction] test.

126 S. Ct. at 1841 (Roberts, C.J., concurring) (emphasis in original).

The chief justice added that while historical practice should not create an automatic entitlement to an injunction or a general rule that an injunction should issue, a court should not work off a “blank slate.” He suggested that courts should exercise their injunctive discretion according to legal standards developed in the case law. *Id.* Quoting Oliver Wendell Holmes, the Chief Justice noted that “a page of history is worth a volume of logic.” *Id.* (quoting *N.Y. Trust Co. v. Eisner*, 256 U.S. 345, 349 (1921)).

The “page of history” relevant to injunctions against “at risk” launches in Hatch-Waxman cases demonstrated a pattern in the Federal Circuit and district courts granting preliminary injunctions against “at risk” launches when the plaintiff has shown a likelihood of success on the merits.
(The test for a preliminary injunction differs from the elements for a permanent injunction by inserting the analysis of a likelihood of success on the merits for the availability of remedies at law in the permanent injunction calculus.) In Hatch-Waxman cases, once the likelihood of success is shown, the courts analyze irreparable harm but usually find the requisite level of harm to support an injunction. For example, in Abbott Laboratories v. Sandoz, Inc., 544 F. 3d 1341, 1361–62 (Fed. Cir. 2008), the court issued a preliminary injunction after finding a substantial likelihood that the defendant infringed a valid patent covering an extended-release antibiotic. Despite two generic competitors already on market, the court found irreparable harm from potential loss of additional market share and price erosion. Further, in Sanofi-Synthelabo v. Apotex, Inc., 470 F. 3d 1368, 1382–83 (Fed. Cir. 2006), the court upheld a preliminary injunction against a continued “at risk” launch of a generic version of the anticoagulant Plavix after expiration of a contractually agreed-to period of generic sale. The Federal Circuit noted that the contract limiting damages for a short period of sale did not prevent a finding of irreparable harm. The court also found evidence of irreparable harm from price erosion even in the face of the allowed generic sales as well as loss of goodwill, potential loss of jobs, and reduction of research clinical trials. Id. See also Pozen Inc. v. Par Pharm., Inc., 800 F. Supp. 2d 789 (E.D. Tex. 2011) (finding irreparable harm after noting that launch of a generic product would significantly affect a branded company’s revenue stream and in turn affect product development and market share).

In the Teva case, the grant of certiorari and the chief justice’s statement that Teva met the required showing of a “fair prospect” of reversal arguably equate with the likelihood of success on the merits in the preliminary injunction test. In refusing to find the impact of an “at risk” launch an irreparable harm because damages are available for past patent infringement, Chief Justice Roberts seems to have “written on a blank slate.” He apparently ignored the decisions in Abbott and Sanofi-Synthelabo. Moreover, his reasoning appears incomplete because the cases recognize other potential indicia of irreparable harm. Under Federal Circuit precedent, “price erosion, loss of goodwill, damage to reputation, and loss of business opportunities are all valid grounds for finding irreparable harm.” Aria Diagnostics, Inc. v. Sequenom, Inc., 726 F.3d 1296, 1304 (Fed. Cir. 2013) (quoting Celsis in Vitro, Inc. v. Cellz Direct, Inc., 644 F.3d 922, 930 (Fed. Cir. 2012)) (quotations and brackets omitted). As noted in Aria, refusing to find irreparable harm because a patent holder could recover lost sales at a later date could improperly convert a patent from a right to exclude to a compulsory licensing regime. 726 F.3d at 1304.

After the chief justice’s refusal to recall the mandate in the Teva case, defendants resisting preliminary injunctions in Hatch-Waxman and other patent cases may try to rely on the Teva ruling to argue absence of irreparable harm. Defendants could argue that there is no irreparable harm because later money damages are available if there is an infringement verdict. Patentees will want to try to rebut that contention by arguing that the chief justice ignored relevant precedent regarding evidence of likely price erosion, lost sales, and loss of market share. Patentees will also want to expand the scope of a court’s irreparable harm analysis. Patentees will want to buttress their arguments for irreparable harm with additional evidence that an injunction is needed to prevent more than just the lost sales. They will want to demonstrate loss of goodwill, loss of jobs, and loss of resources to invent and develop new medical treatments.

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**Edwards Lifesciences AG. v CoreValve, Inc.**

Patentees seeking injunctions in medical cases will also want to study District of Delaware Judge Sleet’s decision in *Edwards Lifesciences AG. v CoreValve, Inc.*, 2014 WL 1493187 (D. Del. Apr. 15, 2014). In that case, the plaintiff Edwards developed and patented a device that allowed doctors to implant artificial aortic valves through catheters. The invention alleviated open heart surgery in patients that could not tolerate chest opening procedures. The Edwards product used a balloon catheter. A larger medical device company, Medtronic, hired former Edwards engineers and developed a valve and catheter system that did not use a balloon. Medtronic sold its device, known as Generation 3, for use in certain high-risk patents starting in 2006 under limited Food and Drug Administration (FDA) approval. Contending that Edwards could have met the entire market demand, Edwards sued Medtronic for patent infringement. In April 2010, a jury found willful infringement and awarded Edwards over $372 million in lost profits and over a million dollars for a reasonable royalty. However, Judge Sleet denied a request for a permanent injunction because Medtronic represented that it would move production to Mexico. The Federal Circuit affirmed the jury award but remanded to allow the district court to take a closer look at Medtronic’s statement that it was moving production out of the country. *Edwards Lifesciences AG v. CoreValve, Inc.*, 699 F.3d 1305, 1315–16 (2012).

In November 2013, Edwards went back to Judge Sleet. By that time, Edwards was closer to obtaining FDA approval for an improved version of its product, and Medtronic was closer to obtaining full FDA approval for the Generation 3 device. Although Edwards’s patent would have naturally expired in 2014, Edwards believed it was going to obtain two years of patent term extension. In light of the risk that Medtronic would enter the market in 2014 for all aortic valve replacement patients at the same time that Edwards introduced its improved product, Edwards moved the court for a preliminary injunction. Edwards wanted to prevent Medtronic from widely selling the Generation 3 device once FDA gave full approval to Medtronic. However, Edwards’s request for relief contained a carve-out allowing Medtronic to supply devices for difficult-to-treat patients. *Edwards Lifesciences AG v. CoreValve, Inc.*, 2014 WL 1493187 at *2–3 (D. Del. Apr. 15, 2014).

After holding a day-long evidentiary hearing on the public interest implications of an injunction, the court issued a detailed opinion. The court found a likelihood of success on the merits. Edwards had already won on infringement and validity, and Edwards’s claim for patent term extension was supported in the case law. Judge Sleet then found irreparable harm from price erosion and loss of sales, market share, and revenue. His analysis focused on the direct competition between the two parties, which were the only suppliers in the market. The court noted a huge drop in Edwards’s stock valuation after Medtronic announced an accelerated U.S. launch of its device. The court found that Medtronic would be able to take advantage of training that Edwards previously presented to hospitals and leverage Medtronic’s larger size to take sales away from Edwards. Judge Sleet pointed to evidence of Medtronic’s quick capture of sales in Europe as additional support for his conclusion that without an injunction, Edwards would lose sales and market share to Medtronic. Further, Medtronic’s history of undercutting Edwards’s
prices in Europe also supported likely price erosion in the United States. The court refused to accept Medtronic’s statement that Medtronic would price the Generation 3 at a similar amount to the Edwards product. Medtronic lost credibility through its “questionable” earlier representations about moving production to Mexico. Citing Federal Circuit precedent in Celsis and Sanofi-Synthelabo, the court stated that “the likelihood of price erosion should Medtronic enter the market is sufficient to establish irreparable harm.” Edwards Lifesciences, 2014 WL 1493187, at *6. Judge Sleet also relied on Celsis and Sanofi-Synthelabo to find that the balance of hardships favored Edwards. Aortic valves were 70 percent of Edwards’s business but less than 7 percent of Medtronic’s sales. The judge noted that if Medtronic could sell devices for the entire spectrum of valve replacement patients, Edwards’s core right to exclude Medtronic would be meaningless. “Edwards would effectively be forced to compete against its own invention.” Id. at *8.

Also, the court undertook an extensive analysis of the public interest factor. This pitted the policy of using exclusivity to protect investment in research and development against the availability of options in selecting important medical devices. Judge Sleet divided the issue into three categories. The first category concerned extreme-risk patients with very small blood vessels. Medtronic argued that in patients with tiny femoral arteries, only its product and not the Edwards device was appropriate. However, the court found that the improved Edwards product, which was near regulatory approval, would also work in patients with small arteries. The small-artery patient group did not tip the public interest in Medtronic’s favor. Conversely, a second category of patients with very large valves did help Medtronic’s argument. Expert testimony showed that this group of patients benefited from the Medtronic device and that patients with large valves were not candidates for Edwards’s improved product. Based on the need for the Medtronic device in patients with large valves, the court found that despite the existence of the factors favoring injunction, “the public interest require[d] making some accommodations that would grant patients with large annulus sizes access to the …Generation 3.” Id.

Finally, the court addressed Medtronic’s contention that the Medtronic device was safer than the Edwards product and, consequently, all valve replacement candidates should have access to the Generation 3 device. While there were no head-to-head studies comparing the two products, indirect data were available on how each device fared against open heart valve replacement. The court observed that the indirect comparison against open heart surgery favored Medtronic. Further, an expert cardiologist testifying for Medtronic without pay as a patient advocate urged the court to allow access to the Generation 3 device. The expert doctor credibly stressed that the two valves were not interchangeable. He explained that removing access to the Medtronic device “would have a devastating effect . . . that would put at risk a substantial portion of [the] general population with aortic valve disease. . . .” The doctor then warned the court that eliminating a physician’s choice of device and “tying the doctor’s hands behind their backs in delivering care would be a huge mistake.” Id. at *13.

Having heard the evidence about the two valves, Judge Sleet stated that the public interest would be served by allowing “at least some number of Generation 3 devices to be sold on the market.” Id. Nonetheless, citing Sanofi-Synthelabo, the court focused on the “strong public interest in
Judge Sleet stressed that Edwards right to exclude Medtronic was especially important because Medtronic continued to produce and sell its product even after a verdict of willful infringement. Id. The court did not want to reward Medtronic for infringing the Edwards patent and create an incentive for others to infringe patents. Judge Sleet then entered a preliminary injunction preventing sales of the Medtronic valve subject to an accommodation to allow Medtronic to sell devices to patients who could not be helped by Edwards products. Id. However, he temporarily stayed the injunction to allow appeal, and the Federal Circuit continued the stay pending review of the merits. Edwards Lifesciences AG v. CoreValve, Inc., No. 2014-1409 (Fed. Cir. May 7, 2014). A few weeks later, the parties reached a global settlement involving a payment of $750 million to Edwards. Press Release, Edwards Lifesciences Corp., Edwards Lifesciences, Medtronic Agree to Global Transcatheter Valve Litigation Settlement (May 20, 2014).

Judge Sleet’s injunction respecting a patentee’s right to exclude but accounting for patient need was not written on a “blank slate.” Several prior cases denied injunctions in medical technology patent suits because of the public interest in having choices of therapies available. An unpublished Federal Circuit opinion suggested that even without a demonstration of any advantages of the infringing product, the need for options prevented injunction. Cordis Corp. v. Boston Scientific Corp, 99 F. App’x 928, 935 (Fed. Cir. 2004). The Federal Circuit noted “a strong public interest support[ed] a broad choice of drug eluting stents even though no published study prove[d] superiority.” Id. (emphasis added). Following that principle, another district judge also noted “[a] strong public interest in maintaining diversity in the coronary stent market.” Advanced Cardiovascular Sys., Inc. v. Medtronic Vascular, Inc., 579 F. Supp. 2d 554, 561 (D. Del. 2008) (Robinson, J.). On the other hand, in Amgen, Inc. v. Hoffman-La Roche Ltd., 581 F. Supp. 2d 160 (D. Mass. 2008) (Young, J.), aff’d in part and rev’d in part without affecting injunction, 580 F.3d 1340 (Fed. Cir. 2009), a district court did not countenance diversity of products as placing the public interest factor in the defendant’s favor absent a showing of clinical advantage. The court remarked that “[a]lthough doctors and patients would probably benefit from additional choice [in red blood cell stimulating drugs], it [was] not clear that the infringing [product] Mircera offer[ed] significant clinical advantages over [Amgen’s products.]”

Similarly, in Bard Peripheral Vascular v. W.L. Gore & Associates, 670 F.3d 1171 (Fed. Cir. 2012), the patent holder directly competed with the defendant in some product lines of artificial vascular grafts. After the defendant introduced evidence showing physician preference and advantages of its devices, the trial court refused to enjoin continued sale of the infringing products because the products were beneficial to the public health. Bard Peripheral Vascular v. W.L. Gore & Assoc., 2009 WL 920300 (D. Ariz.). Instead, the trial court imposed a royalty of 20 percent on directly competing products and 12.5 percent on products that were covered by the patents but that did not compete with the patent holder’s product line. Affirming the royalty rates, the Federal Circuit noted that “[t]he award of an ongoing royalty instead of a permanent injunction to compensate for future infringement is appropriate in some cases.” 670 F.3d at 1192. See also Johnson & Johnson Vision Care v. Ciba Vision Corp., 712 F. Supp. 2d 1285 (M.D. Fla.
2010) (citing the Bard district court decision and noting Bard involved life-saving technology; refusing to grant an injunction in case about contact lenses to avoid consequential medical, practical, and economic issues for large numbers of users of infringing contact lenses).

Conclusion
When viewed in the context of the “page of history” of cases that preceded it, the recent decision in Edwards Lifesciences, unlike the denial of the recall in Teva, appropriately favored the patentee’s right to exclude, given the patentee’s record of success on the merits. In Edwards Lifesciences, Judge Sleet also appropriately provided an exception to protect the public interest for sales of the defendant’s device to patients in need of the infringing product.

Keywords: litigation, intellectual property, injunction, health care, patent, Hatch-Waxman, eBay, Teva Pharmaceuticals, Edwards Lifescience

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Presumption or Proof? Establishing Irreparable Harm in Trademark Cases after eBay

By Mark S. VanderBroek and Lucas A. Westby

For a plaintiff in a trademark suit, an injunction is the essential element of requested relief. Traditionally, when a plaintiff proved trademark infringement by demonstrating a likelihood of confusion of the public (or a likelihood of success in proving infringement, in a preliminary injunction context), courts applied a presumption of irreparable harm, which generally entitled the plaintiff to an injunction. This presumption flowed from (1) the inherent nature of trademark injury, in which a trademark owner loses control over goods and services sold under a confusingly similar mark, resulting in actual or threatened harm to its goodwill and reputation; and (2) the inherent difficulty in quantifying resulting damages. See, e.g., Ty, Inc. v. Jones Grp., Inc., 237 F.3d 891, 902–3 (7th Cir. 2001); Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633, 640 (1st Cir. 1992).

However, in eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388, 391 (2006), the Supreme Court rejected a presumption of irreparable harm in patent infringement cases and held that courts should apply the traditional four-factor test in deciding whether to award permanent injunctive relief (the existence of irreparable injury, inadequacy of remedies at law, balancing of hardships, and public interest). Since eBay, federal courts have struggled and reached conflicting results in determining whether there is still a presumption of irreparable harm in trademark cases. The good news for trademark owners is that while a number of courts have chosen not to apply the presumption or have questioned whether it is still applicable, many of them have tended to make factual findings of irreparable harm relying on the same loss of control, harm to goodwill and reputation, and difficulty in quantifying damages, on which the presumption is or was based.

Trademark Irreparable Harm Rulings since eBay

Since eBay, eight of the twelve regional circuit courts have raised the question of whether the presumption of irreparable harm still applies in trademark cases. However, only four of them appear to have decided that question—inconsistently.

The Fifth Circuit is the only circuit that has clearly continued to apply the presumption of irreparable harm after eBay. In Abraham v. Alpha Chi Omega, 708 F.3d 614 (5th Cir. 2013), the court cited eBay in identifying the elements necessary to obtain a permanent injunction but then affirmed entry of an injunction in reliance on the presumption, stating “[a]ll that must be proven to establish liability and the need for an injunction against infringement is the likelihood of confusion—injury is presumed.” Id. at 627 (quoting 5 McCarthy on Trademarks and Unfair Competition § 30:2). In Community of Christ Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ’s Church, 634 F.3d 1005, 1012 (8th Cir. 2011), the Eighth Circuit also affirmed a permanent injunction by stating that “in trademark law, injury is presumed once a likelihood of confusion has been established.” However, in that case, the court did not even mention eBay, and a later Eighth Circuit case has questioned, without deciding, whether a presumption of...
irreparable harm still arises after eBay. *Novus Franchising, Inc. v. Dawson*, 725 F.3d 885, 894–95 (8th Cir. 2013).

The Ninth Circuit, on the other hand, holds that eBay forecloses the traditional presumption of irreparable harm in trademark cases, both for permanent and preliminary injunctions. *Herb Reed Enters., LLC v. Fla. Entm’t Mgmt., Inc.*, 736 F.3d 1239, 1250 (9th Cir. 2013). In *Herb Reed*, the court reversed entry of a preliminary injunction—because the district court did not make a factual finding of irreparable harm—and remanded for further consideration. *Id.* However, district courts in the Ninth Circuit have made factual findings of irreparable harm, relying on the trademark owner’s loss of control over its marks and the resulting damage to goodwill. (See cases cited in the chart at the end of this article.) The Sixth Circuit also appears to have held that a trademark plaintiff must demonstrate irreparable harm to obtain a permanent injunction; it found irreparable harm existed where (1) without an injunction, customers would continue purchasing counterfeit items from the defendant’s website instead of the plaintiff’s lawful products; and (2) “there was potential for future harm, and therefore, there was no adequate remedy at law.” *Audi AG v. D’Amato*, 469 F.3d 534, 550 (6th Cir. 2006).

The other four circuit courts that have considered the presumption issue declined to decide it, although some indicated that the presumption may no longer survive in view of eBay. Those courts either remanded the case to the district court, affirmed factual findings of irreparable harm, or decided the case on other grounds. For example, in *North American Medical Corp. v. Axiom Worldwide, Inc.*, the Eleventh Circuit noted that “a strong case can be made that eBay’s holding necessarily extends to the grant of preliminary injunctions [in trademark cases] under the Lanham Act.” 522 F.3d 1211, 1228 (11th Cir. 2008). But it declined to decide that issue, instead reversing the preliminary injunction and remanding to the district court for further consideration. The court noted that the district court

may well conclude on remand that it can readily reach an appropriate decision by fully applying eBay without the benefit of a presumption of irreparable injury, or it may well decide that the particular circumstances of the instant case bear substantial parallels to previous cases such that a presumption of irreparable injury is an appropriate exercise of its discretion in light of the historical traditions.

*Id.*

In *U.S. Polo Ass’n, Inc. v. PRL USA Holdings, Inc.*, 511 F. App’x 81, 85 (2d Cir. 2013), the Second Circuit also declined to decide whether the presumption of irreparable harm applied in light of eBay. It did so, however, because it decided that the district court made a specific factual finding that the plaintiff would be irreparably harmed by ceding control over its reputation and goodwill to defendant. *Id.* The court remarked that a similar finding might be made in many infringement cases but that “it is a factual finding nonetheless, and not simply the product of a legal presumption.” *Id.*
The Tenth Circuit, in *Lorillard Tobacco Co. v. Engida*, 213 F. App’x 654 (10th Cir. 2007), also declined to decide the issue, noting that in that specific case, the plaintiff was unable to show that any harm it would suffer in the absence of an injunction outweighed the potential harm to the defendant if the injunction were granted. *Id.* at 657.

District court decisions since *eBay* similarly have split on the issue of the presumption. For example, in the Eighth Circuit, some courts continue to apply the presumption, while another has done away with it post-*eBay*. See, e.g., *Omaha Steaks Int’l, Inc. v. Frontier Choice Steaks, LLC*, No. C 13-4095-MWB, 2013 WL 6491475, at *1 (N.D. Iowa Dec. 10, 2013) (“In trademark law, injury is presumed once a likelihood of confusion has been established.”); *Anytime Fitness, LLC v. Roberts*, No. 12-CV-02913-SRN-JJG, 2013 WL 1760950, at *6 (D. Minn. Apr. 24, 2013) (“‘Anytime Fitness’s showing of a likelihood of consumer confusion regarding the source of Defendants’ goods or services creates a presumption that Anytime Fitness will suffer irreparable harm if Defendants are not permanently enjoined from infringement the Anytime Fitness trademarks.’”); but see *KTM NORTH AMERICA, INC. v. Cycle Hutt, Inc.*, No. 13-5033-JLV, 2013 WL 1932797, at *1 & * n.2 (D.S.D. May 8, 2013) (holding that presumption is no longer valid and finding that plaintiff established irreparable harm by showing loss of reputation) (citing non-trademark cases).

To find irreparable harm, courts may draw inferences about the impact of confusion or likely confusion on the relevant markets. See *165 Park Row, Inc. v. JHR Dev., LLC*, 2:12-CV-00106-NT, 2014 WL 442554, at *5 (D. Me. Feb. 4, 2014) (discussing witness testimony regarding persistence of confusion for which it would be difficult to measure resulting lost sales; also mentioning trademark holder’s loss of control over its reputation and goodwill and need to file additional future lawsuits to vindicate its rights if permanent injunction not granted); *Microban Prods. Co. v. API Indus., Inc.*, No. 14 CIV. 41 KPF, 2014 WL 1856471, at *20–21 (S.D.N.Y. May 8, 2014) (“Courts have found irreparable harm to exist in situations where there is a likelihood of confusion between the marks, and where the reputation and goodwill cultivated by the party seeking the injunction would be out of the party’s control because of the infringement.”); *adidas AG v. adidascrazylight2.com*, No. 13-21230-CIV, 2013 WL 1651731, at *7 (S.D. Fla. Apr. 16, 2013) (“The operation of Defendants’ websites displaying Plaintiffs’ Marks and the sale of Defendants’ inferior goods to consumers is likely to cause irreparable damage to Plaintiffs’ respective reputations if they continue because Plaintiffs will not have the ability to control the quality of what appears to be their products in the marketplace.”). But not all courts find irreparable harm. See, e.g., *Buzz Bee Toys, Inc. v. Swimways Corp.*, No. CIV. 14-1948 JBS/KMW, 2014 WL 2006799 (D.N.J. May 15, 2014) (discussing lack of witness testimony and other evidence to support finding of irreparable harm in retail market).

**Practical Impact and Tips for Trademark Cases**

A good argument can be made that a presumption of irreparable harm in trademark cases is appropriate and not inconsistent with the letter or spirit of the Supreme Court’s *eBay* decision. As Professor McCarthy states in his well-regarded trademark treatise,
the reason for the trademark presumption of irreparable injury is that once a probability of proving likelihood of confusion at trial is shown, the trademark owner’s business goodwill and reputation are at risk. Because of the likelihood that confused persons will mistakenly attribute to plaintiff defects or negative impressions they have of defendant’s goods or services, the plaintiff’s reputation is threatened; it is in the hands of the defendant.

A likelihood of damage to reputation is by its nature “irreparable.” Like trying to un-ring a bell, trying to “compensate” after the fact for damage to business goodwill and reputation cannot constitute a just or full compensation. This distinguishes trademark cases from the neighboring areas of patent and copyright law.


However, at this point, a lawyer litigating a plaintiff’s trademark case outside the Fifth Circuit cannot count on a presumption being applied. As a result, he or she has to be prepared to submit evidence and argument to support a factual finding of irreparable injury. This has not proven to be difficult in most cases, as illustrated by the cases discussed in this article and the accompanying chart. In fact, the same evidence showing success on the merits in proving a likelihood of confusion will often support a finding of irreparable harm through loss of control of the marks and resulting harm to reputation and goodwill that cannot be adequately compensated by monetary damages.

Evidence of actual consumer confusion, or of inferior goods or services offered under the infringing marks, will help in proving irreparable harm by showing a strong threat of damage to the plaintiff’s reputation. Evidence that the parties are competitors will also help to prove the ongoing threat of lost sales and customer relationships that would be difficult to quantify. On the other hand, if these factors are not present, a trademark defendant can argue that the risk of harm is less and should not be considered irreparable. A defendant should also focus on ways to quantify or calculate damages that could adequately compensate the plaintiff, which could refute a showing of irreparable harm at least at the preliminary injunction phase.

Conclusion
The nature of trademark rights, and of the type of harm suffered from infringement of those rights, means that damages are often inherently difficult to quantify and thus will often support a factual finding of irreparable harm even in the absence of a presumption. Thus, eBay should not alter the outcome of most trademark cases, and an injunction should continue to be a court’s remedy of choice in a large majority of cases in which infringement is proven.
The following chart identifies whether and how each circuit court has addressed whether the presumption of irreparable harm applies in trademark cases after eBay, and notes additional illustrative district court cases in certain circuits.

**Trademark Cases Addressing Irreparable Harm Since eBay**

<table>
<thead>
<tr>
<th>Circuit Court Status</th>
<th>Cases</th>
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| 1st Undecided        | *Swarovski Aktiengesellschaft v. Bldg. No. 19, Inc.*, 704 F.3d 44, 54 (1st Cir. 2013) (noting that “there is ‘no principled reason why eBay should not apply’ to a request for a preliminary injunction to halt trademark infringement, despite the difference in context,” but declining to rule on the presumption of irreparable harm where district court had not adequately considered the issue).

*Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc.*, 645 F.3d 26, 31 (1st Cir. 2011) (declining to decide whether eBay applied because the plaintiff had delayed excessively in seeking injunctive relief).

| 2nd Undecided        | *U.S. Polo Ass’n, Inc. v. PRL USA Holdings, Inc.*, 511 F. App’x 81, 85 (2d Cir. 2013) (declining to decide issue of presumption because the district court found, as a factual matter, that the plaintiff would be irreparably harmed by ceding control over its reputation and goodwill).

*Microban Prods. Co. v. API Indus., Inc.*, No. 14 CIV. 41 KPF, 2014 WL 1856471, at *20–21 (S.D.N.Y. May 8, 2014) (finding irreparable harm because the potential for damage to the plaintiff’s reputation and goodwill was out of its control). |
| 3rd No circuit court decision | *Buzz Bee Toys, Inc. v. Swimways Corp.*, No. CIV. 14-1948 JBS/KMW, 2014 WL 2006799, at *22 (D.N.J. May 15, 2014) (after eBay, no presumption applies, and plaintiff unable to show it was likely to suffer irreparable harm).

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<thead>
<tr>
<th>Circuit</th>
<th>Decision Status</th>
<th>Case</th>
<th>Citation</th>
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<tbody>
<tr>
<td>4th</td>
<td>No circuit court decision</td>
<td>Rebel Debutante LLC v. Forsythe Cosmetic Grp., Ltd., 799 F. Supp. 2d 558, 580 (M.D.N.C. 2011) (“the court will not discard the commonly-applied presumption of irreparable harm in preliminary injunction proceedings involving a trademark infringement claim”).</td>
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| 5th           | Presumption applies | Abraham v. Alpha Chi Omega, 708 F.3d 614, 627 (5th Cir. 2013), cert. denied, 134 S. Ct. 88, 187 L. Ed. 2d 254 (U.S. 2013) (applying presumption).  
Reservoir, Inc. v. Truesdell, No. 4:12-2756, 2014 WL 808026, at *10 (S.D. Tex. Feb. 28, 2014) (noting that courts have found proof of confusion sufficient to show irreparable injury). |
| 6th           | No presumption | Audi AG v. D’Amato, 469 F.3d 534, 550 (6th Cir. 2006) (plaintiff must demonstrate irreparable harm; holding that it had).  
Pond Guy, Inc. v. Aquascape Designs, Inc., No. 13-13229, 2014 WL 2863871, at *13 (E.D. Mich. June 24, 2014) (acknowledging eBay, but noting that the current status quo was that a showing of a likelihood of confusion or possible risk to a plaintiff’s reputation is sufficient to create a presumption of irreparable harm in the preliminary injunction analysis in the context of trademark infringement in the Sixth Circuit). |
| 8th           | Presumption applies—maybe | Cmty. of Christ Copyright Corp. v. Devon Park Restoration Branch of Jesus Christ’s Church, 634 F.3d 1005, 1012 (8th Cir. 2011) (stating, without any discussion of eBay, that “in trademark law, injury is presumed once a likelihood of confusion has been established”) (citing pre-eBay cases).  
Novus Franchising, Inc. v. Dawson, 725 F.3d 885, 894–95 (8th Cir. 2013) (questioning whether the presumption applies post-eBay).  
<table>
<thead>
<tr>
<th>Circuit</th>
<th>Pre-Ebay Presumption</th>
<th>Post-Ebay Example</th>
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<tbody>
<tr>
<td>9th</td>
<td>No presumption</td>
<td><em>KTM NORTH AMERICA, INC. v. Cycle Hutt, Inc.</em>, No. 13-5033-JLV, 2013 WL 1932797, at *1 &amp; *1 n.2 (D.S.D. May 8, 2013) (“Even though the United States Court of Appeals for the Eighth Circuit has yet to acknowledge eBay’s holding with respect to the preliminary injunction factors, other district courts in this circuit have recognized the change. . . . This presumption is no longer valid.”).</td>
</tr>
<tr>
<td>10th</td>
<td>Undecided</td>
<td><em>Lorillard Tobacco Co. v. Engida</em>, 213 F. App’x 654, 657 (10th Cir. 2007) (unpublished decision) (“We need not consider how eBay may apply in this context, however, because in any event Lorillard has not shown that any harm Lorillard would suffer in the absence of an injunction outweighed the potential harm to I and G if an injunction were granted.”).</td>
</tr>
<tr>
<td>11th</td>
<td>Undecided</td>
<td><em>N. Am. Med. Corp. v. Axiom Worldwide, Inc.</em>, 522 F.3d 1211, 1228 (11th Cir. 2008) (“a strong case can be made that eBay’s holding necessarily extends to” trademark cases, but remanding for district court to consider irreparable harm).</td>
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<td>12th</td>
<td>Undecided</td>
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- *adidas AG v. adidascrazylight2.com*, No. 13-21230-CIV, 2013 WL 1651731, at *7 (S.D. Fla. Apr. 16, 2013) (“The operation of Defendants’ websites displaying Plaintiffs’ Marks and the sale of Defendants’ inferior goods to consumers is likely to cause irreparable damage to Plaintiffs’ respective reputations if they continue because Plaintiffs will not have the ability to control the quality of what appears to be their products in the marketplace.”).


**Keywords:** litigation, intellectual property, injunction, irreparable harm, proof, *eBay*, trademark

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Patent Trolls: Can You Sue Them for Suing or Threatening to Sue You?
By Bradley P. Nelson

Much of the recent discussion about dealing with abusive litigation and licensing campaigns by so-called patent trolls and other non-practicing entities (NPEs) has focused on one of two things: (1) legislative attempts in Congress and the states to pass new laws, or amend the Patent Act, to make life more difficult for trolls; and (2) court decisions such as the Supreme Court’s recent opinions in Octane Fitness and Highmark, which significantly relaxed the standard for awarding attorney fees under 35 U.S.C. § 285 against anyone, including trolls, accused of filing meritless cases or engaging in abusive litigation tactics. Often overlooked is a third category—whether a party subjected to a suit or licensing campaign by a patent troll may have a basis for going on the offensive, by asserting claims or counterclaims seeking damages or other relief. That third option is the subject of this article.

Companies facing threatened or actual lawsuits by patent trolls are often in a difficult position, one that many patent trolls intentionally create and exploit. As part of their strategy, trolls typically try to leverage the high cost of patent litigation into profits for themselves by (1) asserting patents against persons who have a relatively low stake in the accused infringing activity and, thus, less incentive to fight; and (2) settling with as many targets as possible for amounts that are modest or small relative to the extremely high cost of most patent litigation. Companies on the receiving end of this strategy often feel compelled to pay what they see as unreasonable settlement demands, even if they believe they do not infringe or have reason to question the validity of the asserted patent.

One key to success for patent trolls is their advantage in who has what to lose. As the plaintiff or licensee, trolls have mostly upside potential in the recovery of license fees or damages. Targets of that strategy have mostly the downside—the potential of having to pay license fees or damages and substantial attorney fees to boot if they choose to fight. Legislation and court decisions aimed at shifting fees to the prevailing party level this playing field a little, by giving trolls some potential downside and potentially lessening the downside for the targets. But with fee shifting as the only option, targets still have no real upside, and the field can remain tilted in favor of the trolls.

Victims of abusive patent assertion tactics may have another option—to go on the offensive and seek damages against the party engaged in the abuse. By asserting a viable claim or counterclaim, the target of a patent assertion campaign can level the playing field a bit more, by giving the troll more potential downside and the target a potential upside. As explained below, such claims must normally clear a fairly high hurdle—requiring proof of “bad faith.” But the possibility is something companies and their lawyers should evaluate and consider when faced with a suit or threat of suit from a patent assertion entity.
The Requirement of Showing Bad Faith

The right to file suit for patent infringement in the federal courts is generally protected under the First Amendment as part of the constitutional right to petition the government for redress of grievances. Globetrotter Software, Inc. v. Elan Computer Grp., Inc., 362 F.3d 1367, 1375–77 (Fed. Cir. 2004). The Supreme Court first recognized that the First Amendment right to petition government extends to the right to file suit in federal court in the anti-trust and labor contexts. See E. R.R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127 (1961); United Mine Workers v. Pennington, 381 U.S. 657 (1965). This so-called Noerr-Pennington doctrine, however, does not protect “sham” litigation, i.e., litigation that is both objectively baseless and subjectively brought for an ulterior motive, such as to interfere with the business relationships of a competitor. Prof’l Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc., 508 U.S. 49, 60–61 (1993).

The Federal Circuit has applied the Noerr-Pennington doctrine to patent suits, holding that federal patent law preempts any state law cause of action that would impose liability for a patent holder’s “good faith conduct” in asserting its patent rights. Globetrotter Software, 362 F.3d at 1374; Zenith Elec. Corp. v. Exzec, Inc., 182 F.3d 1340, 1353–54 (Fed. Cir. 1999). The Federal Circuit affirmed, however, that the doctrine does not bar claims where the patent holder’s assertion activity amounts to “bad faith.” Based on Noerr-Pennington, the court held that to establish the requisite “bad faith,” a claimant must allege and prove that the assertion of patent rights was objectively and subjectively baseless, in that the patent was either “obviously invalid or plainly not infringed,” and that the patentee knew or should have known that to be the case. Globetrotter Software, 362 F.3d at 1374–75. Further, the court held that the Noerr-Pennington doctrine extends to protect pre-litigation conduct, such as sending letters accusing a person of infringement and threatening suit. Id. at 1376. Thus, any state law claim or counterclaim asserted against a patent troll for abusive litigation or pre-litigation activities must be accompanied by pleading allegations of both objective and subjective bad faith sufficient to overcome the immunity recognized in Globetrotter Software and other cases.

Potential Causes of Action

Unfair and deceptive trade practices. One promising cause of action for attacking abusive tactics by patent trolls is offered by laws prohibiting unfair competition or unfair or deceptive trade practices. The Federal Circuit held in Mirafi, Inc. v. Murphy, 928 F.2d 410 (Fed. Cir. 1991), that “bad faith infringement litigation [such as knowingly asserting an invalid patent] . . . could violate North Carolina’s Unfair Competition Statute.” That North Carolina statute closely mirrored Section 5(a) of the Federal Trade Commission Act, which prohibits “[u]nfair methods of competition . . . and unfair or deceptive acts or practices in or affecting commerce.” 15 U.S.C. § 45(a)(1). The court held that bad-faith patent litigation, where a patentee initiates litigation on a patent he or she knows to be
invalid or not infringed, could constitute an unfair act or practice in violation of the statute.


These state laws, and the elements necessary to state a claim under them, vary from one state to the next. Many, like the Federal Trade Commission Act and the North Carolina statute, broadly proscribe “unfair or deceptive acts or practices” in commerce. N.C. Gen. Stat. § 75-1.1(a) (2013). The California statute prohibits “any unlawful, unfair or fraudulent business act or practice and unfair, deceptive, untrue or misleading advertising.” Cal. Bus. & Prof. Code § 17200 (2013). Other state laws are limited to the protection of consumers or require some consumer nexus. Still others apply more narrowly to unfair competition. Thus, the viability of a claim under a particular state law will depend in the first instance on the elements required under that state’s statute. If those elements are met and there is sufficient evidence to prove that the troll acted in bad faith, the claim should be allowed to proceed, and not preempted by federal patent law.

A recent example of one such suit is the State of Vermont’s suit against patent troll MPHJ Technology Investments, LLC. Vermont sued MPHJ in 2013, under Vermont’s Consumer Protection Act, 9 Vt. Stat. Ann. § 2453 (2013), which mirrors the Federal Trade Commission Act and prohibits “[u]nfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce.” The State alleged that MPHJ’s patent assertion campaign, directed at hundreds or thousands of Vermont businesses, amounted to unfair and deceptive acts and practices under the statute. Vermont’s complaint alleges that MPHJ, acting through 40 shell subsidiaries and its attorneys, sent a series of letters to Vermont businesses threatening suit if the businesses did not agree to pay for a license. The suit alleges that the letter campaign constituted an unfair and deceptive trade practice because, among other things, the letters threatened suit when the defendants were neither prepared nor likely to bring litigation (and never had); the letters falsely implied that their counsel had performed an adequate pre-suit investigation to determine likely infringement; the campaign targeted small businesses that were unlikely to have the
resources to fight patent litigation or pay counsel; the letters made unreasonable demands for information and shifted the burden onto businesses to prove they were not infringing; MPHJ used shell corporations to hide the true owners of the patents; and the letters contained numerous deceptive statements.

MPHJ removed the suit to federal court, but the U.S. District Court for the District of Vermont remanded the case to state court after finding that there was no federal question or diversity jurisdiction. *Vermont v. MPHJ Tech. Invs., LLC*, No. 2:13-cv-00170-wks (D. Vt. Apr. 14, 2014), ECF No. 61. The district court held that the State’s claims for unfair and deceptive practices were based solely on state law and that while MPHJ may have a defense that the good-faith assertion of patent rights is protected by federal patent law and the First Amendment, the existence of a federal defense does not confer removal jurisdiction on federal courts.

**State statutory anti-troll causes of action.** Several states have adopted laws providing for private causes of action against trolls or others for sending bad-faith or abusive patent assertion letters. Vermont passed the first such law in 2013, *Bad Faith Assertion of Patent Infringements*, 9 Vt. Stat. Ann. §§ 4195–4199 (2013). The Vermont statute includes a list of factors to determine what constitutes bad-faith patent assertion, including sending assertion letters that fail to identify the patent at issue, the owner, or exactly how the target’s product infringes the patent; demanding an unreasonably fast response or unreasonably large license fees; and making false or deceptive statements. Wisconsin and Oregon have enacted similar statutes, both providing private causes of action for what the laws determine to be bad-faith or abusive patent assertion letters. 2014 Or. Laws 1540; 2014 Wis. Sess. Laws 498.

On August 28, 2014, Illinois passed an amendment to its Consumer Fraud and Deceptive Business Practices Act banning patent assertion letters that (1) falsely threaten litigation; (2) make assertions that lack a reasonable basis in fact because the asserting party does not have the right to license the patent, or the patent has expired or been held invalid; or (3) fails to include sufficient information regarding the patent owner or the specific features of the accused product alleged to be covered by the claims in the patent. *See* 815 Illinois Comp. Stat. 505/2RRR. The law provides for a private cause of action and enforcement by the Illinois attorney general.

**Tortious interference.** Tortious interference claims could be asserted against patent trolls where their conduct is directed at actual or potential customers or business partners and has interfered with those relationships. A typical example is where a troll sends infringement letters to customers, claiming that a product they are using infringes the troll’s patent. Such claims could be sustained if they meet the state law elements and the troll acted in bad faith by asserting objectively and subjectively baseless claims. In *Zenith*
Electronics Corp. v. Exxec, Inc., 182 F.3d at 1347, 1355 (Fed. Cir. 1999), for example, the Federal Circuit upheld a state law tortious interference claim based on allegations that the patent holder made statements to the target’s customers to the effect that the target infringed the patent holder’s patent and could not design around the patent, knowing that such statements were false. See also OpenLCR.Com, Inc. v. Rates Tech., Inc., 112 F. Supp. 2d 1223 (D. Colo. 2000) (threatening and instituting patent litigation in bad faith supports state law claim for tortious interference with contractual relationships and prospective business advantage).

**Business disparagement.** Business disparagement or trade disparagement claims may also be available where the troll’s licensing letters or public statements are disseminated to third parties, falsely accuse the alleged infringer, and damage its reputation or relationships or both. Again, the plaintiff would need to show bad faith and meet the elements of the particular state law governing the claims. See, e.g., Zenith Elec. Corp., 182 F.3d at 1347, 1355 (upholding Lanham Act and state unfair competition claims against patent holder for trade libel and product disparagement for allegedly false allegations of infringement made to customers).

**Unjust enrichment.** Unjust enrichment is another fairly broad cause of action available in many states and could be asserted against abusive trolls, depending on the circumstances. In Illinois, for example, the cause of action requires proof that “the defendant has unjustly retained a benefit to the plaintiff’s detriment, and that defendant’s retention of the benefit violates the fundamental principles of justice, equity, and good conscience.” Gagnon v. Schickel, 2012 Ill. App. Ct. 120645 ¶ 25, 983 N.E.2d 1044, 1052 (2012). In addition, to avoid federal preemption, a plaintiff would need to plead and prove that the troll acted in bad faith.

**Civil conspiracy.** Many states also allow causes of action for civil conspiracy. Again using Illinois as an example, the elements of a claim for civil conspiracy are (1) a combination of two or more persons, (2) for the purpose of accomplishing by some concerted action either an unlawful purpose or a lawful purpose by unlawful means, (3) in the furtherance of which one of the conspirators committed an overt tortious or unlawful act. Fritz v. Johnston, 209 Ill. 2d 302, 317, 807 N.E.2d 461 (2004). Depending on the circumstances, this may be a viable cause of action in a suit challenging abusive troll tactics. In addition to the above elements, proof of bad faith would be required to avoid federal preemption.

**Racketeer Influenced and Corrupt Organizations (RICO) Act.** RICO claims have also been asserted based on abusive patent troll tactics, but those claims have proved difficult to sustain. Unlike many broad state law claims, the elements of a RICO claim
are narrowly defined by statute and include required elements like specific predicate acts of mail or wire fraud, extortion, or other specified criminal activity; proof of a RICO “enterprise”; and proof of a pattern of RICO activity. In *Innovatio IP Ventures, LLC Patent Litig.*, 921 F. Supp. 2d 903 (N.D. Ill. 2013), three major manufacturers of WLAN products, Cisco Systems, Motorola Solutions, and Netgear, filed a 55-count complaint against patent troll Innovatio, alleging that Innovatio’s patent assertion campaign was a sham, was conducted in bad faith, and constituted a pattern of extortion and mail and wire fraud in violation of RICO and various state laws. The court granted Innovatio’s motion to dismiss all of the RICO and state law claims for the plaintiffs’ failure to adequately plead that Innovatio’s patent assertion actions, aimed at some 8,000 end users of Wi-Fi technology, were conducted in bad faith or a sham. While RICO claims may be viable in the right case, the *Innovatio* case illustrates the difficulty of sustaining such claims based on even somewhat egregious patent troll tactics. *See also FindTheBest.com v. Lumen View Tech. LLC*, No. 13 Civ. 6521 (DLC), 2014 WL 2050610 (S.D.N.Y. May 19, 2014) (dismissing RICO claims against patent troll for failure to allege predicate acts of mail and wire fraud, extortion, or conspiracy).

**Antitrust claims.** Alleged infringers frequently file antitrust claims or counterclaims against patentees under the federal antitrust laws. While these are typically limited to claims against competitors, at least one case, *OpenLCR.COM, Inc. v. Rates Technology, Inc.*, 112 F. Supp. 2d 1223 (D. Colo. 2000), sustained antitrust claims against an NPE for attempted monopolization arising out of the NPE’s alleged bad-faith assertion of its patent rights. A class action suit filed in the Eastern District of Louisiana also asserted state and federal antitrust claims against patent troll MPHJ and one of its subsidiaries for engaging in the same kind of patent assertion campaign as the one at issue in the Vermont suit. *See Eng’g & Inspection Serv., LLC v. Intpar, LLC & MPHJ Tech. Inv., LLC*, No. 13-0801(E.D. La. June 25, 2013). That suit was dismissed for lack of personal jurisdiction; therefore, the court did not reach the issue of whether the complaint stated a valid cause of action. *Id.*, ECF No. 61 (Oct. 9, 2013).

**Conclusions**
The strength of any potential case will depend on a multitude of factors, the most important being the evidence of bad faith, as well as which federal or state laws may apply. A colorable claim of subjective bad faith—employing the definition from *Professional Real Estate Investors* quoted above—may be provided by a troll’s pattern of asserting claims without ever allowing them to reach the point of an outcome. A claim of objective bad faith must be based on an examination of whether the troll’s infringement claim is plainly wrong or the patent is obviously invalid. Allegations of bad-faith troll activity sufficient to meet these requirements could be based on a wide array of facts. Factors that have been identified in different cases or state statutes as providing a basis for overcoming the immunity include the following:
• a prior court determination that the troll acted in bad faith with respect to the patent at issue;
• a prior court or U.S. Patent and Trademark Office determination that the patent at issue is invalid;
• evidence that the asserted patent was obviously invalid or plainly not infringed and that the troll knew or should have known that to be the case;
• assertion of the patent without an adequate pre-suit investigation of infringement, which might be indicated by assertion activities directed at a large number of defendants where the accused infringement is not based on the same devices;
• threats to sue on the patent where the troll has never followed through and has no intent to actually sue;
• assertion letters containing false or misleading statements;
• assertion letters claiming without adequate basis that the target cannot design around the patent;
• assertion entities set up in a manner to hide true ownership of the patent;
• a pattern of terminating litigation before any determinations of infringement or invalidity are made.

These and other factors may provide a basis for turning the tables and leveling the playing field, by opening the door to a possibly viable cause of action for damages against anyone engaged in abusive or bad-faith patent assertion activities.

**Keywords:** litigation, intellectual property, patent troll, bad faith, state statues, unfair trade

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Statutory Damages under Lanham Act Section 35(c) Related to the Use of Counterfeit Marks

By Sharmian L. White

Section 35 of the Lanham Act, 15 U.S.C. § 1117, provides monetary remedies for trademark infringement, unfair competition, and willful trademark dilution. Subsection 1117(a) allows for the recovery of a defendant’s profits, any damages sustained by the plaintiff, costs of the action, and, “in exceptional cases,” the plaintiff’s attorney fees. Subsection 1117(b) applies with respect to violations that involve the intentional use of a known counterfeit mark, and it requires the court to treble the profits or damages referenced in subsection 1117(a) and to award reasonable attorney fees “unless the court finds extenuating circumstances.”

A “counterfeit mark” is defined at 15 U.S.C. § 1116(d)(1)(B)(i) as, in relevant part,

a counterfeit of a mark that is registered on the principal register in the United States Patent and Trademark Office for such goods or services sold, offered for sale, or distributed and that is in use, whether or not the person against whom relief is sought knew such mark was so registered.

While recovery under subsections 1117(a) and (b) is focused on a plaintiff’s “actual damages,” subsection 1117(c) provides an alternative to proving actual damages with respect to violations that involve the use of a counterfeit mark. Subsection 1117(c) allows a plaintiff to seek statutory damages instead of actual damages. The option to recover statutory damages was provided in light of Congress’s recognition that counterfeiters’ records are frequently “nonexistent, inadequate, or deceptively kept[,] . . . making proving actual damages in these cases extremely difficult if not impossible.” S. Rep. No. 104-177, at 10 (1995). The ability to elect statutory damages can provide a powerful incentive for a trademark holder to pursue infringement litigation that might otherwise not be undertaken because of the inability to obtain information to support recovery.

A plaintiff may elect to recover statutory damages “at any time before final judgment is rendered by the trial court.” 15 U.S.C. § 1117(c). Under the statute, statutory damages for counterfeiting are to amount to not less than $1,000 or more than $200,000 per counterfeit mark, per type of goods or services sold, offered for sale, or distributed, “as the court considers just.” If the court finds that the use of the counterfeit mark was willful, then the damages ceiling is raised to $2,000,000 per counterfeit mark per type of goods or services sold, offered for sale, or distributed.

Section 29 of the Lanham Act, 15 U.S.C. § 1111, provides that

a registrant of a mark registered in the Patent Office, may give notice that his mark is registered by displaying with the mark the words “Registered in U. S. Patent and Trademark Office” or “Reg. U.S. Pat. & Tm. Off.” or the letter R enclosed within a circle, thus ®; and in any suit for infringement under this Act by such a registrant failing to give such notice of registration, no profits and no damages shall be recovered under the provisions of this Act unless the defendant had actual notice of the registration.

(Emphasis added.)

Those courts that have considered whether this provision has an impact on a plaintiff’s ability to recover statutory damages when actual notice of registration of the marks has not been given to the defendant have concluded that it does not. In Playboy Enterprises v. Universal Tel-A-Talk, No. CIV. A. 96-6961, 1999 U.S. Dist. LEXIS 6124 (E.D. Pa. Apr. 26, 1999), the U.S. District Court for the Eastern District of Pennsylvania noted that a “counterfeit mark” is defined such that it is counterfeit “whether or not the person against whom relief is sought knew such mark was so registered.” 15 U.S.C. § 1116(d)(B)(i). Therefore, the court reasoned that to read the remedy of subsection 1117(c) into the notice requirements of 15 U.S.C. § 1111 “would render 1116(d)(1)(B)(i) superfluous and would be contrary to proper statutory construction.” The court concluded that “Congress intended to recognize that counterfeiting, while a subsection of infringement, represents a greater evil than ordinary infringement, and thus allowed an alternative route to damages and a lesser degree of required notice.” 1999 U.S. Dist. LEXIS 6124, at *6. The U.S. District Court for the Eastern District of Virginia, Alexandria Division, agreed with that analysis in Diane von Furstenberg Studio v. Snyder, No. 1:06cv1356-JCC, 2007 U.S. Dist. LEXIS 45941 (E.D. Va. June 25, 2007).

This issue is important because effectively combating counterfeiting may not allow for advance notice of registration to be given to the counterfeiter. Consider the scenario of a regularly occurring major event, where it is known that counterfeiters will appear to peddle their illegal wares but it is not known who those counterfeiters will be. A trademark holder seeking to obtain an ex parte seizure order to seize counterfeit merchandise from unnamed individuals anticipated to set up shop at the event will not have an opportunity to provide advance notice of registration before serving them with a copy of a summons, complaint, and seizure order, and seizing counterfeit merchandise. Yet, the trademark owner should be able to seek compensation for the unauthorized advertisement and sale of goods or services using its marks. Because counterfeiting involves the use of a substantially identical mark to that of a registered mark, it is not very likely that the activity is the result of mistake or inadvertence such that lack of notice of registration works an inequity against the counterfeiter. Counterfeiters are typically well aware that the marks they use are owned by someone else and that they are not authorized to use them; the
success of their operations generally depends on trading off of the reputation and goodwill established by the mark owner.

**How Do Courts Determine Appropriate Statutory Damage Awards?**

The Lanham Act provides courts with no guidance as to how they should arrive at an appropriate figure within the wide ranges for awards provided in the statute, other than that the award may be determined “as the court considers just.” How does a judge decide whether to award $1,000 per mark per type of goods advertised or sold, rather than $2,000,000 per mark, per type of goods? In the absence of guidance, many courts consider the factors that courts have considered in determining appropriate statutory damages awards for copyright infringement under the Copyright Act, 17 U.S.C. § 504(c), namely:

1. expenses saved and profits reaped by the defendant;
2. revenue lost by the plaintiff;
3. the value of the trademark;
4. the deterrent effect on others besides the defendant;
5. whether the defendant’s conduct was innocent or willful;
6. whether the defendant cooperated in providing records from which to assess the value of the infringing product; and
7. the potential for discouraging the defendant.

However, applying these factors can prove challenging in that it is not clear how the factors should be weighed or how a consideration of some factors should translate into any particular monetary figure. Moreover, in many instances, information necessary to apply some of the factors is missing. After all, one of the main reasons a plaintiff may elect statutory damages is that information about expenses saved and profits reaped by the defendant is not available.

Subsection 1117(c) authorizes higher awards for willful infringement using counterfeit marks, yet the statute does not define “willful.” The case law indicates that willfulness in this context involves knowledge that one is using a counterfeit mark. “Willful blindness” or reckless disregard for a trademark holder’s interest can also satisfy the willfulness requirement and justify a higher award under subsection 1117(c). See, e.g., Phillip Morris USA v. Liu, 489 F. Supp. 2d. 1119, 1123 (C.D. Cal. 2007). Willfulness may be inferred by many circumstances, such as a defendant’s continued marketing of counterfeit marked merchandise despite receiving a cease-and-desist letter or a sophisticated operation and familiarity with the industry such that the defendant must have known the merchandise at issue to bear counterfeit marks. Courts also have held that willfulness may be inferred when a defendant defaults in litigation in which the plaintiff pled willfulness. See, e.g., Phillip Morris USA, Inc. v. Castworld Prods., Inc., 219 F.R.D. 494, 500 (C.D. Cal. 2003) (holding that defendant willfully infringed plaintiff’s trademark on plaintiff’s allegations of willful infringement and defendant’s failure to participate in any way in the litigation); Tiffany, Inc. v. Luban, 282 F. Supp. 2d 123, 124 (S.D.N.Y. 2003) (“By virtue of the default, the [defaulting party’s] infringement is deemed willful.”).
Statutory damages are intended to compensate and to deter future violations, so the nature and extent of a defendant’s activities tend to have weight in most statutory damages award determinations. While there is a higher damages range for willfulness, as a practical matter, it is not unusual for courts to come to a “baseline” per mark value and then to enhance it by trebling it or trebling and then doubling it upon a finding of willfulness and in the interest of deterrence. See, e.g., Lifted Research Group v. Behdad, No. 08-390 (CKK), 2010 U.S. Dist. LEXIS 64670 (D.D.C. June 30, 2010) (trebling and then doubling a “baseline award” for willfulness and in the interest of deterrence in determining statutory damages). Subsection 1117(c) allows for all manner of award configurations and rationales, as long as the result is within the applicable range.

As a general matter, courts appear most likely to award at the top of the applicable range when there is evidence of a large and sophisticated counterfeiting operation that has infringed marks that are nationally well known or that are associated with “luxury brands.” However, that is not to say that entities with less-recognized marks are routinely awarded low statutory damages. As may be expected in light of damages ranges so broad, the lack of statutory guidance regarding how to determine awards, and the ability of a court to devise an award it considers just, statutory damages may differ greatly with respect to different cases with facts that seem similar.

Because subsection 1117(c) ultimately allows the court to award what it “considers just,” a plaintiff should garner as much relevant information as possible to help a judge feel comfortable that a proposed award would be fair. Even though statutory damages were intended to help plaintiffs who may not have information about defendants’ sales and profits, courts tend to rely heavily on such information in considering statutory damages when it is available, and plaintiffs need to justify their proposals with any available facts, credible theories or methodologies, analogous case law, or a combination of these when information about a defendant’s activities is not available.

Are Attorney Fees Available When a Plaintiff Elects Statutory Damages?

Subsection 1117(c) does not mention attorney fees at all, unlike subsections 1117(a) and (b). Subsection 1117(a)(3) provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” Those who recover treble damages under 1117(b) have an automatic right to recover attorney fees “unless the court finds extenuating circumstances.” But what about a plaintiff who recovers statutory damages under subsection 1117(c)? Most courts now find that the election of statutory damages does not automatically preclude the recovery of attorney fees, but the road to the current state of affairs has been a bit rocky.

In K and N Engineering, Inc. v. Bulat, 510 F. 3d 1079 (9th Cir. 2007), the Ninth Circuit held that attorney fees under subsection 1117(b) are not available when a plaintiff elects to recover statutory damages under subsection 1117(c), finding that “section 1117(b)’s attorney’s fees provision applies only in cases with actual damages under section 1117(a).” Id. at 1082. However, the Ninth Circuit expressly declined to reach the issue of whether an election to
receive statutory damages under subsection 1117(c) precludes an award of attorney fees for “exceptional cases” under subsection 1117(a). Id. at 1082 n.5.

In Louis Vuitton Malletier S.A. v. Ly, 676 F. 3d 83, 109 (2d Cir. 2012), the Second Circuit addressed that issue and found that an award of attorney fees may accompany an award of statutory damages pursuant to subsection 1117(c). In essence, the court decided that the statutory damages provisions were intended to supplant only that part of subsection 1117(a) that provides the method for ascertaining the amount of damages for a plaintiff electing statutory damages, and not the last sentence of subsection 1117(a), which allows for the recovery of attorney fees in “exceptional cases.” In addition to interpreting the text of the statute, the Second Circuit reviewed the legislative history associated with the passage of the Anticounterfeiting Consumer Protection Act, which was passed in 1996 and amended section 1117 to add subsection (c). The court found that Congress sought to ensure that plaintiffs would be able to receive more than de minimis compensation for injuries caused by counterfeiting if they were unable to prove actual damages and that the act was therefore designed to provide an alternative to the type of recovery provided in subsection 1117(a), not to all of the remedies provided for in that subsection. The court noted that “[t]he Act was meant to expand the range of remedies available to a trademark plaintiff, not restrict them.” 676 F.3d at 110.

Post-K & N and pre-Louis Vuitton opinions by district courts in the Ninth Circuit varied on the issue of whether a plaintiff electing statutory damages could recover attorney fees, with some allowing attorney fees and some not. In one 2008 opinion, a district court noted the varying opinions and sidestepped the issue, asserting the ability to award attorney fees as a matter of equity as a part of the statutory damages award under subsection 1117(c). Chanel v Tshimanga, No. C-07-3592 EMC, 2008 U.S. Dist. LEXIS 118783, at *45 (N.D. Cal. July 15, 2008) (noting that the court “need not address the legal issue of whether attorney’s fees are available pursuant to § 1117(a) when a prevailing plaintiff elects statutory damages under § 1117(c)” and that attorney fees “could be appropriately awarded as part of an award of statutory damages”). Some recent opinions have expressly fallen in line with the Second Circuit’s in Louis Vuitton. See, e.g., Chloe SAS v. Sawabeh Info. Servs. Co., No. CV 11-04147 GAF, 2014 U.S. Dist. LEXIS 60188, at *30–31 (C.D. Cal. Mar. 18, 2014) (noting consistency of Louis Vuitton decision with K & N decision and awarding plaintiffs recovering statutory damages under subsection 1117(c) and attorney fees under subsection 1117(a) as well).

There is also a recent opinion on the issue from within the Seventh Circuit. The U.S. District Court for the Northern District of Indiana agreed with the Second Circuit and awarded the plaintiff attorney fees in addition to statutory damages in Coach v. Treasure Box, Inc., No. 3:11CV468-PPS, 2014 U.S. Dist. LEXIS 28713 (N.D. Ind. Mar. 6, 2014).

So what makes for an “exceptional case” under subsection 1117(a)? For years, most courts have interpreted an “exceptional case” as one in which the defendant acted maliciously, deliberately, willfully, or in bad faith. See, e.g., Louis Vuitton, 676 F.3d at 109 (a prerequisite to finding a case to be sufficiently “exceptional” to warrant an award of attorney fees is that the infringement was
willful or in bad faith); *Lindy Pen Co., Inc. v. Bic Pen Corp.*, 982 F.2d 1400, 1409 (9th Cir. 1993) (“[A] trademark case is exceptional . . . when the infringement is malicious, fraudulent, deliberate or willful.”); *AARP v. Sycre*, No. 13-0608 (CKK), 2014 U.S. Dist. LEXIS 6001, at *18 (D.D.C. Jan. 17, 2014) (noting that the court has defined “exceptional cases” as those “involving willful or bad-faith conduct.”). Some courts are now pointedly reassessing the issue of when a case is “exceptional” in light of the Supreme Court’s recent opinion in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). In that case, the Supreme Court interpreted section 285 of the Patent Act, 35 U.S.C. § 285—a fee-shifting provision that contains language the Court noted is “identical” to that in 15 U.S.C. § 1117(a)—and held that an “exceptional case” for purposes of the Patent Act is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position or the unreasonable manner in which the case was litigated.” 134 S. Ct. at 1756. The Supreme Court stated that “[d]istrict courts may determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.”

A few courts have since discussed the applicability of the *Octane Fitness* holding to trademark infringement cases, with quite differing conclusions regarding the impact of the decision. *See, e.g.*, *Apple, Inc. v. Samsung Elecs. Co., Ltd.*, 2014 U.S. Dist. LEXIS 117494, at *53 n.1 (N.D. Cal. Aug. 20, 2014) (opining that the Ninth Circuit’s way of determining what constitutes an “exceptional case” under the Lanham Act continues to apply after *Octane Fitness*); *Romag Fasteners, Inc. v. Fossil, Inc.*, 2014 U.S. Dist. LEXIS 113061, at *15 (D. Conn. Aug. 14, 2014) (declining to apply *Octane Fitness* to award attorney fees with respect to trademark infringement claims in a case that involved both patent and trademark infringement, despite finding the case was “exceptional” under the “more lenient” Patent Act standard announced in *Octane Fitness*); *BMW of N. Am. v. Cuhadar*, 2014 U.S. Dist. LEXIS 112365, at *11 (M.D. Fla. 2014), adopted by 2014 U.S. Dist. LEXIS 112369 (M.D. Fla. July 10, 2014) (finding that the *Octane Fitness* standard differs from the willful/fraudulent standard and denying plaintiffs’ request for attorney fees despite finding of willful infringement when case did not “stand out from others sufficient to find it to be ‘uncommon’ and thus exceptional”).

**Conclusion**

Subsection 1117(c) of title 15 of the United States Code may provide a much-needed avenue for trademark holders to receive compensation for the unauthorized use of their registered marks, given that the nature of counterfeiting activity may undermine a plaintiff’s ability to discover a counterfeiter’s sales and profits and determine actual damages. While not all circuits have opined on the issue, within those that have, most courts now allow recovery of attorney fees under subsection 1117(a) along with statutory damages under subsection 1117(c). There is also some precedent for the award of attorney fees as a matter of equity under subsection 1117(c) alone.

**Keywords:** litigation, intellectual property, counterfeit, Lanham Act, statutory damages, trademark

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Are Attorney Fees Now Easier for Patent Owners to Recover Absent Willful Infringement?
By Mark M. Supko

Through two decisions issued on April 29, 2014, the Supreme Court of the United States substantially changed the legal landscape for successful patent litigants seeking to recover their attorney fees from the losing party. In *Octane Fitness v. ICON Health & Fitness*, 134 S. Ct. 1749 (2014), the Supreme Court overturned a prior decision of the U.S. Court of Appeals for the Federal Circuit interpreting section 285 of the Patent Statute to authorize an award of attorney fees in only very narrow circumstances, adopting instead a broad “totality of the circumstances” test for determining whether a case qualifies as “exceptional” and thus warrants an award of attorney fees to the prevailing party. The Court also rejected the Federal Circuit’s application of the “clear and convincing” evidentiary standard to “exceptional case” determinations in patent cases, holding that such a showing need only be made by a preponderance of the evidence. Similarly, in *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S. Ct. 1744 (2014), the Supreme Court held that a district court’s determinations under section 285 will be reviewed on appeal under an “abuse of discretion” standard, reflecting the discretionary nature of the new test articulated in *Octane Fitness*.

These two decisions, issued in the midst of a seemingly unprecedented degree of public attention on various perceived shortcomings of the U.S. patent system, have been widely hailed as a new and potentially powerful tool for curbing litigation abuses by so-called patent trolls (also known as “patent assertion entities” or “non-practicing entities”), many of whom are viewed as unfairly taking advantage of the high cost of patent litigation to force defendants to settle dubious patent infringement claims. Early indications from the relatively few decisions that have applied the new “exceptional case” framework suggest that district court judges may indeed be more willing to award attorney fees to defendants that are the target of ill-founded infringement claims. The reach of these decisions, however, may not be so limited: The Supreme Court’s holding and rationale extend as well to prevailing plaintiffs, who have faced a stern challenge in recent years justifying recovery of attorney fees from defendants who may rely on ill-founded defenses to meritorious infringement claims.

**The Fee-Shifting Landscape Prior to *Octane Fitness* and *Highmark***
A fundamental tenet of the American judicial system is that, by default, each party in a civil case is required to pay its own attorney fees. This so-called American Rule is rooted in notions of fairness and equal access to the courts, particularly for those who might be deterred from enforcing their legal rights if the risk of loss included an obligation to pay the opposing party’s fees. Nevertheless, there are numerous fee-shifting provisions in both federal and state laws that enable successful litigants to recover their attorney fees under appropriate circumstances. One such provision is section 285 of the Patent Statute, which specifies that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285.
As interpreted and applied by the Federal Circuit, however, fee awards pursuant to section 285 have been relatively rare.

Nearly a decade ago, the Federal Circuit adopted a narrow interpretation of section 285 under which a case may be deemed exceptional only “when there has been some material inappropriate conduct related to the matter in litigation, such as willful infringement, fraud or inequitable conduct in procuring the patent, misconduct during litigation, vexatious or unjustified litigation, conduct that violates Fed. R. Civ. P. 11, or like infractions.” *Brooks Furniture Mfg., Inc. v. Dutailer Int’l, Inc.*, 393 F.3d 1378, 1381 (Fed. Cir. 2005). As a practical matter, *Brooks Furniture* meant that absent some otherwise sanctionable conduct on the part of the defendant, a prevailing patentee could satisfy the “exceptional case” standard only if it was able to prove willful infringement. And the Federal Circuit made proving willful infringement, never an easy task, extraordinarily difficult with its seminal *Seagate* decision, which established a new and substantially more stringent two-part standard for willful infringement. *In re Seagate*, 497 F.3d 1360 (Fed. Cir. 2007).

Under *Seagate*, a patentee seeking to prove willful infringement must first show, by clear and convincing evidence, that the infringer acted “despite an objectively high likelihood that its actions constituted infringement of a valid patent.” *In re Seagate*, 497 F.3d at 1371. If this threshold objective standard is satisfied, the patentee then must show that the “objectively-defined risk . . . was either known or so obvious that it should have been known to the accused infringer.” *Id.* The Federal Circuit thus substantially heightened the willful infringement standard as compared with the “due care” standard it had fashioned nearly 25 years earlier. See *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389–90 (Fed. Cir. 1983) (holding that “[w]here . . . a potential infringer has actual notice of another’s patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing”). Indeed, under the *Seagate* standard, an infringer can often avoid a willfulness finding simply by presenting credible non-infringement or invalidity defenses at trial, even if such defenses were completely unknown to the infringer at the time it decided to undertake the infringing activity. See, e.g., *DePuy Spine, Inc. v. Medtronic Sofamor Danek, Inc.*, 567 F.3d 1314, 1337 (Fed. Cir. 2009). Thus, as a practical matter, fee awards to prevailing patent owners seem to have become exceedingly rare.

**A Flexible, Discretionary Standard Focused on the Totality of the Circumstances**

In *Octane Fitness*, the Supreme Court rejected the fee-shifting standard espoused by the Federal Circuit in *Brooks Furniture*, characterizing it as “unduly rigid,” “impermissibly encumber[ing] the statutory grant of discretion to district courts,” and “superimpos[ing] an inflexible framework onto statutory text that is inherently flexible.” *Octane Fitness*, 134 S. Ct. at 1755–56. Focusing on the “patently clear” language of section 285, the Court explained that the statute “imposes one and only one constraint on district courts’ discretion to award attorney’s fees in patent litigation: ‘The power is reserved for ‘exceptional’ cases.’” *Id.* at 1755–56. Then, applying an “ordinary meaning” analysis, the Court held that an “exceptional case” within the meaning of section 285 “is simply one that stands out from others with respect to the substantive strength of a party’s...
litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” *Id.* at 1756. The Supreme Court thus empowered district court judges to make fee-shifting determinations through a “case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.*

In addition to rejecting the Federal Circuit’s analytical framework for exceptional case determinations, the Supreme Court rejected the stringent “clear and convincing” evidentiary standard that the Federal Circuit required for parties seeking to recover their attorney fees in patent cases. Observing that the Court had not interpreted comparable fee-shifting statutes to require proof by clear and convincing evidence, the Court noted that “nothing in § 285 justifies such a high standard of proof.” *Id.* at 1758. Consistent with its approach to the substantive standard, the Court noted that “[s]ection 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less a high one.” *Id.* Thus, parties seeking to support a fee award will be subject only to the “preponderance of the evidence” standard generally applicable in civil cases.

In an effort to provide at least some guidance to the district courts in exercising their discretion, the Court pointed to its prior decision in *Fogerty v. Fantasy*, which addressed fee shifting in the “comparable context” of the Copyright Act. *Octane Fitness*, 134 S. Ct. at 1785 (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)). In *Fogerty*, the Supreme Court observed that “‘[t]here is no precise rule or formula for making these determinations,’ but instead equitable discretion should be exercised ‘in light of the considerations we have identified.’” *Fogerty*, 510 U.S. at 534. In *Octane Fitness*, the Court then pointed to a nonexclusive list of factors articulated in *Fogerty* that are also applicable to patent cases, including “frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.” 134 S. Ct. at 1756 n.6 (quoting *Fogerty*, 510 U.S. at 534 n.19). Contrasting its relaxed discretionary standard to the Federal Circuit’s now overruled approach, the Court noted that “a district court may award fees in the rare case in which a party’s unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so ‘exceptional’ as to justify an award of fees.” *Id.* at 1757.

**Fee Awards Likely to Remain Rare**

To date, there have been relatively few published decisions applying the less-stringent exceptional case standard articulated in *Octane Fitness*. Nearly all of those decisions have involved efforts by defendants to recover their fees after successfully defending against an infringement claim that was ill founded, inadequately investigated, or both. Indeed, *Octane Fitness* has been hailed as a potentially powerful weapon in the ongoing battle against bogus patent assertions by so-called patent trolls. Yet, there is nothing in the *Octane Fitness* decision that limits its applicability to defendants. To the contrary, the Supreme Court clearly intended its broad interpretation of section 285 to apply in all instances in which a prevailing party, whether plaintiff or defendant, seeks to establish a case as “exceptional” and recover its attorney fees. Consequently, whereas a patent owner could only reasonably expect to recover its fees under the
Brooks Furniture standard by first proving willful infringement, such a restriction on the scope of section 285 can no longer be justified. That means there should be circumstances that justify the imposition of a fee award against a non-willful infringer. Just what those circumstances might be—and how far district court judges may be willing to push the application of section 285 in favor of a prevailing patent owner—remains to be seen, but two recent decisions may offer some clues.

In Cognex v. Microscan Systems, No. 13-CV-2027, 2014 U.S. Dist. LEXIS 91203 (S.D.N.Y. June 30, 2014), one of a very small number of published decisions applying Octane Fitness in the context of a plaintiff’s fee motion, Cognex moved for recovery of its attorney fees pursuant to section 285 after securing a jury verdict of willful infringement following a trial in the Southern District of New York. Applying the Octane Fitness standard, the district court granted Cognex’s motion in part, despite having determined that Microscan’s willful infringement was not sufficiently egregious to justify an award of enhanced damages under 35 U.S.C. § 284. Applying the Supreme Court’s guidance as to what constitutes an “exceptional” case, the district court cited both the substantive strength of Microscan’s litigating positions and the unreasonable manner in which the case was litigated in support of its conclusion that the case was indeed exceptional and that Cognex should therefore recover a portion of its attorney fees. More particularly, the district court noted that “the defenses that were offered at trial were particularly weak and lacked support in the evidence presented to the jury and to the Court,” and further noted that the “defendants have engaged in unreasonable litigation tactics that have wasted the Court’s time and have required plaintiffs to expend significant resources.” Id. at *10–11. In an interesting comment, the district court noted that it was the weakness of Microscan’s defenses that previously led to the conclusion that the objective prong of the willfulness standard was satisfied. It is therefore unclear whether the district court would have found the case “exceptional” in the absence of evidence supporting a willful infringement finding, notwithstanding the Supreme Court’s rejection of willful infringement as a de facto prerequisite to a plaintiff’s ability to recover its attorney fees under the Brooks Furniture standard.

Further insight can be gleaned from Lee v. Mike’s Novelties, No. 2:10-CV-02225, slip op. (C.D. Cal. July 14, 2014), ECF No. 266, a case tried in the Central District of California before Octane Fitness issued. There, the plaintiff secured a jury verdict of willful infringement at trial, after which the district court, applying the Brooks Furniture standard, awarded both enhanced damages and attorney fees based on the willful infringement finding and litigation misconduct by the defendant. On appeal, still before Octane Fitness, the Federal Circuit affirmed the jury’s infringement finding but reversed both the willful infringement finding and the consequent award of enhanced damages. As to the attorney fee award, the appellate court remanded to the district court to determine whether the defendant’s litigation misconduct, standing alone, justified the fee award. On remand, the district court found that the litigation misconduct was not “sufficiently severe or pervasive” to make the case “exceptional” under section 285, and the court therefore denied the plaintiff’s fee motion. Slip op. at 1. When Octane Fitness and Highmark issued a few months later, the plaintiff moved for reconsideration of its fee motion in view of the change in the law. Taking due note of the Supreme Court’s broadened standard, the
district court determined that the facts still did not justify a fee award. In support of that
determination, the court found the plaintiff’s arguments concerning the weakness of the
defendant’s substantive position unpersuasive, emphasizing the Federal Circuit’s earlier finding
(i.e., in reversing the willful infringement verdict) that it was reasonable for the defendant to
have contested the plaintiff’s infringement allegation. Likewise, in response to the plaintiff’s
argument that the defendant had filed numerous “meritless dispositive motions,” the district
court found that the defendant’s litigation misconduct was only “modest.” Id. at 4–6.
Accordingly, the district court determined that even under the Octane Fitness standard, there was
an insufficient basis for finding the case “exceptional.”

The District Court for the District of Arizona reached a different conclusion under somewhat
similar circumstances in Integrated Technology v. Rudolph Technologies, No. CV-06-2182, slip
op. (D. Ariz. Aug. 8, 2014), finding the case to be exceptional and granting an award of attorney
fees to the prevailing plaintiff even though a prior willfulness verdict had been reversed on
appeal. There, the court recited a litany of facts independent of the vacated willfulness verdict
that supported finding the case exceptional, including that the defendant hid its infringement for
years, provided false discovery responses, filed summary judgment papers even though it knew
its product infringed, and played semantic games both during and after trial regarding the
functionality and demand for its accused product. Id. at 2. Indeed, the court commented that
either the weakness of the defendant’s substantive positions or the unreasonable manner in
which the case was litigated made the case “stand out from others,” and thus supported an award
of attorney fees. Id.

Although the sample size is far too small to draw any definitive conclusions, these three recent
district court decisions suggest that, notwithstanding the somewhat sweeping language in Octane
Fitness and Highmark regarding the breadth of a district court’s discretion under section 285, it
may still be the relatively rare case in which a judge determines that a case is sufficiently
“exceptional” to warrant imposition of an attorney fee award against a non-willful infringer.
Nevertheless, it does appear that at least some district court judges, faced with sufficiently
unmeritorious positions or unreasonable conduct by a defendant, will be willing to award a
prevailing plaintiff its attorney fees even in the absence of a willfulness finding, an outcome that
seemed almost impossible before the recent Supreme Court decisions.

Conclusion
Through its decisions in Octane Fitness and Highmark, the Supreme Court confirmed that
district court judges have broad discretionary authority to award attorney fees to the prevailing
party in patent cases, rejecting the stringent Brooks Furniture standard that had held sway for
nearly a decade. While the Supreme Court’s rulings will surely be cited in fee petitions by
prevailing plaintiffs for years to come, early indications are that fee awards will remain relatively
rare, particularly in the absence of facts sufficient to establish willful infringement. Such a result
would not be all that surprising, nor indeed necessarily undesirable, given the deep roots that the
American Rule has in our civil justice system.
Nevertheless, it cannot be denied that the Supreme Court has significantly expanded the circumstances under which a district court judge is authorized to impose a fee award in favor of a prevailing plaintiff, specifically including cases in which willful infringement is not found. For instance, the defenses presented by an infringer at trial may be sufficiently reasonable to avoid a willful infringement finding under the *Seagate* standard, yet still be so weak substantively that a district court judge would find the case “exceptional” and impose a fee award against the infringer. The very nature of the test adopted by the Supreme Court in *Octane Fitness* eschews any bright line rules regarding when a case will be deemed “exceptional”; therefore, it remains to be seen to what extent district court judges will treat this more expansive interpretation of section 285 as a tool to be used in favor of prevailing plaintiffs and defendants alike, rather than merely treating it as a deterrent to the perceived evils of patent trolls.

**Keywords:** litigation, intellectual property, fee shifting, willful infringement, attorney fees, exceptional case, *Octane Fitness*

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Consumer Surveys and Other Market-Based Methodologies in Patent Damages
By Shankar Iyer

Once validity and infringement of the patent in suit is assumed, the central inquiry in calculating economic damages is one of cause and effect. Indeed, patent damages analysis is not much more than a hunt for a principled causal relationship. To wit, it is this causal relationship that the damages expert is asked to summon in the counterfactual world that is *Georgia Pacific*. Courts recognize that this is easier said than done: “Determining a fair and reasonable royalty is often . . . a difficult chore, seeming often to involve more the talents of a conjurer than those of a judge.” *ResQNet.com v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010).

The chore becomes harder in the case of technologies that have many interworking components. The more complex a product or service, the more heightened the scrutiny of the evidentiary link between the patented invention and consumer demand. While it is tempting to attribute such scrutiny to the nature of twenty-first-century technology, note this lucid caution from the publication year of Mark Twain’s *Adventures of Huckleberry Finn*:

> The patentee . . . must . . . give evidence tending to separate or apportion the defendant’s profits and the patentee’s damages between the patented feature and the unpatented features, and . . . the profits and damages are to be calculated on the whole machine, for the reason that the entire value of the whole machine, as a marketable article, is properly and legally attributable to the patented feature.


Many an evidentiary link between the patented technology and consumer demand has foundered on the rocky shoals of insufficient data, non-causality, or just plain bad methodology. Numerous attempts at quantifying damages have involved “speculative and unreliable evidence divorced from proof of economic harm linked to the claimed invention,” *ResQNet.com v. Lansa*, 594 F.3d 860 (Fed. Cir. 2010), or unsound methodologies untethered to the patented invention’s “footprint in the marketplace,” *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011).

The inexact art of identifying comparable licenses is also under attack. In *ResQNet*, the court found improper the use of previous licenses because such use was not predicated on “factual findings that account[ed] for the technological and economic differences” between the economic value of the licenses and that of the patented invention. In the midst of this turmoil one can hear an unmistakable clarion call for more market-based evidence. (The reader is invited to refer to a rich body of literature that reads the tea leaves from extant case law and offers both proscriptions and guidance. See, e.g., Brian J. Love, “Patentee Overcompensation and the Entire Market Value Rule,” 60 *Stan. L. Rev.* 263, 293 (2007); Eric E. Bensen & Danielle M. White, “Using Apportionment to Rein in the Georgia-Pacific Factors,” 9 *Colum. Sci. & Tech. L. Rev.* 1, 21.
What Is Market-Based Evidence?

But what exactly is market-based evidence? Below, I briefly discuss certain methodologies from economics and marketing science that are being tried out in recent patent litigation or are likely to be tried in future litigation. Some of these methodologies are analytically rigorous, are rooted in business practice outside the litigation context, and carry peer-reviewed academic heft. Carefully applied, these methodologies lend themselves to the sorts of damages analyses that courts are increasingly demanding from experts.

A defining characteristic of these methodologies is that they are data-driven. In one class of methodologies (“survey-based methodologies”), these data are gathered from individual respondents’ statements or choices in response to stimuli provided by the researcher. Accordingly, survey-based methods are based on preference indicators in hypothetical scenarios. Rank, rating, or choice intentions are examples of preference indicators. Survey-based methods can directly elicit preferences for new alternatives. The other class of methodologies (“revealed preference methodologies”) is based on actual market behavior (such as buying a particular brand of cereal or smartphone). Here, the preference indicator is actual choice, and for that reason, the researcher cannot directly predict responses to new alternatives. Survey-based and revealed preference methodologies can complement each other and tend to operate with a similar set of statistical and mathematical techniques.

Survey-Based Methodologies

A straightforward example of a survey-based methodology is a direct elicitation survey. In a direct elicitation survey, the researcher may pose a question or a brief scenario to the survey respondent and ask the respondent to choose a single choice from a set of multiple choices or ask a series of “Yes/No/Don’t Know” questions. The survey may ask a respondent to rank a set of features from most important to least important. The survey may contain a section where the respondent is invited to answer unaided questions (“What features of your laptop do you use most frequently?”) through a series of probes (“Are there any other features that you are interested in exploring?”). The virtue of direct elicitation surveys is simplicity: They are direct and easy to administer, generally do not involve heavy-duty statistical analysis of survey data, and are reasonably inexpensive. Therefore, they are an attractive way to present hypothetical scenarios to respondents and query the extent to which there is demand for a patented feature.

However, simple direct elicitation methods, especially when carelessly implemented, are subject to biases. For example, if the survey is not carefully designed, the researcher may improperly elevate the relevance or importance of a particular feature by focusing the respondent on that feature. Another challenge for direct elicitation surveys is to approximate the purchase content: To the extent a direct elicitation survey strays too far from the “moment of truth” of the purchase decision, it is subject to attacks of reliability and validity.
A more involved survey could elicit the relative importance of product features. In such a survey, the expert first conducts a careful review of primary and secondary features based on product characteristics that are identified as demand drivers in market research involving the accused products. Potential sources for such market research include the manufacturers’ own surveys and product websites; expert reviews, specifications, and buying guides featured on popular websites (in consumer electronics, for example, this might include Consumer Reports, CNET, Digital Trends, Gizmag, PCMag, the Verge, etc.); and side-by-side product comparisons from vendors’ websites. This is followed by a constant sum importance survey, where the respondent is asked to allocate points to various product features. The constant sum (“dividing the fixed pie”) nature of the survey forces respondents to think in terms of relative importance. This is an improvement over a naïve direct elicitation importance survey where consumers are presented with only the patented feature and asked about its importance. A properly executed constant sum importance survey also has the advantage of presenting a much more complete product (or service) context for the respondent.

Other techniques, such as maximum difference scaling, are also available to the researcher to infer scaled ranks (whereby features are not only ranked, but one can also determine how much better a feature ranked fourth, for example, is than a feature ranked fourteenth). This kind of survey works best when the total number of features is of manageable size. It can be especially powerful if there are existing indicia of value for non-patented features, which can then be numerically compared with the features covered by the patent in suit.


Conjoint analysis was systematically developed starting in the early 1970s in the field of marketing and is generally recognized by academics and industry practitioners as the most widely studied and applied method of quantifying consumer preference. It has been shown to provide valid and reliable measures of consumer preferences as well as forecasts of consumer behavior. See John R. Hauser & Vithala Rao, “Conjoint Analysis, Related Modeling, and Applications,” in Advances in Marketing Research: Progress and Prospects 141–168 (Jerry Wind & Paul Green eds., 2004) (providing an overview of conjoint analysis). Conjoint analysis has been used to measure consumer preferences for features of complex products such as smartphones, automobiles, and GPS devices in numerous peer-reviewed academic studies. See, e.g., Peter J. Lenk, Wayne S. DeSarbo, Paul E. Green & Martin R. Young, “Hierarchical Bayes Conjoint Analysis: Recovery of Partworth Heterogeneity from Reduced Experimental Designs,” 15 Marketing Sci., No. 2, 173–191 (1996).
The central idea behind conjoint analysis is that consumers’ preferences for a product can be decomposed into the features of the product. Therefore, by asking consumers to choose between different hypothetical products—that vary in one or more features—the researcher is able to quantify the “contribution” of an individual feature to the overall product. Depending on the research question being asked, the researcher can use one or more types of conjoint analysis. For example, in *Apple v. Samsung I*, John Hauser of the Massachusetts Institute of Technology used a state-of-the-art type of conjoint analysis known as choice-based conjoint (CBC) analysis.

The first step in a CBC analysis is to introduce survey respondents to the features that will be tested in the survey. To avoid focus bias, the researcher usually selects a number of “distraction” features: These are features unrelated to the patent in suit but nevertheless important in making the choice task realistic for a respondent. To increase the immediacy of the survey, the researcher selects a realistic set of features to include in the survey. This involves systematic prior research and pretesting.

Each respondent in a CBC survey performs multiple “choice tasks.” In each choice task, respondents are shown hypothetical products, also known as “profiles.” For example, in a survey of laptop computers, a respondent may be asked to choose among multiple different profiles (usually three or four), each representing a different laptop. The laptop profiles are constructed by varying the features of that laptop. Thus, laptop A may have a battery life of 10 hours while laptop B has a battery life of 15 hours. The respondent always sees the same high-level features (“battery life,” in this example) in each of the choice tasks. That is, the respondent always sees four different profiles, each having battery life as well as other high-level features. What varies in the different laptop profiles is the “amount” of battery life—10 hours, 15 hours, and so on.

CBC requires respondents to make trade-offs in choosing a particular laptop profile: One profile may have superior battery life but may lack another feature of interest—weight, for example. The key analytical insight of CBC is that stated choices made by respondents at the product level allow the researcher to infer the relative contribution of features by statistically analyzing the rich set of trade-off data implied by respondents’ choices. Accordingly, in this illustrative example, CBC is able to quantify the economic benefit of going from 10 hours of battery life to 15 hours of battery life. Of course, in a specific application, the survey expert has to carefully tie the benefits of the patented invention to the product (or service) feature that is presented to the survey respondent. Moreover, the purported benefit has to be net of available non-infringing alternatives. While carefully constructed conjoint analysis has withstood scrutiny in recent cases, it will no doubt be subject to continued challenges in other cases. (The reader may benefit from perusing Judge Koh’s highly detailed and nuanced *Daubert* analysis in *Apple v. Samsung Electronics LTD*, No. 12-0630, 2014 WL 794328 (N.D. Cal. Feb. 25, 2014).)

**Revealed Preference Methodologies**

An alternative (or a complement) to survey-based methodologies is to rely on revealed preference data to identify what product features drive consumer demand and by how much. As noted above, revealed preference data are data based on actual product choices that have been...
made by consumers. For example, consumer Sue bought the 5.5-inch smartphone with a 32-gigabyte memory at $199 under a two-year contract, consumer Jim bought an unlocked 5.5-inch smartphone with 64-gigabyte memory at $649, and so on. Conceptually, these methodologies work by exploiting the variation in product features to tease out a relationship (not necessarily causal!) between a particular product feature and economic value (for example, a difference in purchase price). If the data gods are munificent, the expert is able to make a statement such as the following: Inclusion of the patented feature increases the market price by $17, all else being equal. The great advantage of revealed preference methodologies is that they are based on battle-hardened (in academia, industry, and litigation) techniques and, done properly, are likely to be looked upon kindly by courts.

But the data gods are not always munificent and the courts are not always kind. Stragent v. Intel, 11-421, 2014 WL 1389304 (E.D. Tex. Mar. 6, 2014), is a recent case in point. In Stragent, the plaintiff’s expert used the well-established method of multivariate hedonic regression to estimate the value of the accused feature’s contribution to product price. Unfortunately for the expert, a set of 19 relevant features was either collectively present or not present in the relevant Intel processors; no more granular data were apparently available. The expert then proceeded to assign equal weight to each of the 19 features to “apportion” the 42 percent effect of the set of 19 features on the average selling price. Circuit Judge Dyk, sitting by designation, deemed this approach to be arbitrary and not tied to the facts; the expert was unable to summon data where the patented feature was not always part of the same bundle of other features.

Another state-of-the-art methodology—and one that is used pervasively by data scientists in industry and academia— involves so-called sentiment analysis of online product reviews. This methodology relies on actual consumer sentiments expressed in online product reviews to identify product features that are important to consumers and measure the impact of improving these identified features on the demand for the accused products. In broad terms, online product reviews can be grouped into two categories: consumer reviews, generated by actual purchasers and users of the product (such as consumer reviews on Amazon.com), and professional reviews (such as a review on Consumer Reports’ website). The data in these reviews stem from actual user experience.

Researchers working at the intersection of consumer behavior and computer science have developed techniques for text mining and sentiment analysis that usually involve three steps: data collection, text mining and sentiment analysis, and demand estimation. See, e.g., Nikolay Archak, Anindya Ghose & Panagiotis G. Ipeirotis, “Deriving the Pricing Power of Product Features by Mining Consumer Reviews,” 57 Management Sci., No. 8, 1485–1509 (2011). First, the researcher identifies the specific Internet sources that have relevant product reviews of the accused products and uses automated web-scraping algorithms to extract relevant data. Then the researcher uses the online product reviews to generate a list of product features mentioned in the reviews. These features can be ranked by importance based on information obtained from reviews (for example, based on how frequently they are mentioned by consumers). The analysis of consumer reviews also identifies consumer sentiments about the features. The sentiments are
then converted into ratings and used to measure whether and how sentiments about a certain feature differ across different product types and over time. Finally, the researcher uses sales information for the relevant products, together with the results of the second step, to estimate how improving product features affects consumer demand. This is usually achieved through a demand-side regression with the sales of the accused products as the dependent variable and consumers’ sentiments on identified features as the independent variables.

The attractiveness of text mining and sentiment analysis is obvious in patent damages contexts where online reviews are plentifully available: The data being analyzed are actual online product reviews and are not subject to the cut and thrust of discovery; the methodology is at the frontier of data science; applications in business are mushrooming; and, unlike survey-based methodologies, sentiment analysis analyzes data from many thousands of online product reviews. However, application of this methodology is likely to work best when the expert is able to tie the relevant variation in revealed preference data to the benefits of the patented invention. This may require additional analysis including a complementary survey.

Conclusion
The call for market-based, empirical evidence of consumer demand has raised the level of rigor in the analysis of patent damages. Both survey-based evidence and revealed preference methodologies are likely to be increasingly proffered by plaintiffs and defendants. In short, the damages expert will not be what he or she used to be. We will see more use being made of marketing experts and economists as complements and perhaps eventually as substitutes for “traditional” damages experts. These may be the best of times and the worst of times to be involved in patent damages.

Keywords: litigation, intellectual property, patent, damages, market-based evidence, surveys, experts

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NEWS & DEVELOPMENTS

Seventh Circuit Rein In “Transformative” Fair Use Standard

On September 15, 2014, the Seventh Circuit unanimously ruled in *Kienitz v. Sconnie Nation LLC* that an alleged infringer’s use of a copyrighted photograph on a t-shirt constituted fair use. No. 13-3004, 2014 WL 4494835 (7th Cir. Sept. 15, 2014). The Seventh Circuit rejected the Second Circuit’s expansive view of copyright fair use in *Cariou v. Prince*, 714 F.3d 694, 706 (2d Cir. 2013), “that ‘transformative use’ is enough to bring a modified copy within the scope of § 107.” Instead, the court emphasized the statutory factors contained in § 107, “because asking exclusively whether something is ‘transformative’ not only replaces the list in § 107 but also could override 17 U.S.C. § 106(2), which protects derivative works.” *Id.* The court was skeptical of the *Cariou* decision because it did not adequately explain “how every ‘transformative use’ can be ‘fair use’ without extinguishing the author’s rights under § 106(2).”

In 2013, photographer Michael Kienitz sued Sconnie Nation for copyright infringement after it used an altered version of the plaintiff’s photograph of Madison, Wisconsin, mayor Paul Soglin on a t-shirt. Mr. Keintz had taken the picture of Soglin at his inauguration in 2011, which Soglin then used as his official photograph on the city’s website.

Soglin, who had attended the first Mifflin Street Block Party when it began as a political activism event in 1969, stirred controversy when he announced plans to shut down the event he had a hand in creating. Sconnie Nation took the mayor’s official photograph, posterized it, stripped it of its color and background, added garish neon and superimposed the phrase “Sorry For Partying” in a sarcastic rebuke to the mayor’s apparent change in position. The “Sorry For Partying” shirts sold by Sconnie Nation turned a small profit.
The Western District of Wisconsin granted summary judgment in favor of Sconnie Nation, holding that the defendant made fair use of the photograph. The Seventh Circuit affirmed, but on a different rationale than the district court.

The court focused on the four fair use factors, emphasizing the importance of the fourth factor, market effect. Most notably, the court questioned Cariou’s singular reliance on “transformative use” when interpreting and applying the fair use doctrine as it eliminates a copyright holder’s statutory right to prohibit derivative works under § 106(2). As in prior cases, the court asked whether the contested use was a complement (allowed) or a substitute (prohibited) for the original work. Thus, the court ruled a t-shirt was not a substitute for a photograph. More importantly, Kienitz had failed to argue how Sconnie Nation’s actions would injure his business ventures going into the future.

Although there have been criticisms of Cariou’s expansive application of the “transformative” standard in fair use analysis, Kienitz is the first Circuit-level critique and represents a significant circuit split.

—Jessica Nam, American University Washington College of Law

Third Circuit Rejects Presumption of Irreparable Harm in Lanham Act Cases

The Third Circuit ruled in Ferring Pharmaceuticals v. Watson Pharmaceuticals on August 26 that “a party seeking a preliminary injunction in a Lanham Act case is not entitled to a presumption of irreparable harm but rather is required to demonstrate that she is likely to suffer irreparable harm if an injunction is not granted.” (Slip op. at 21.)

The Third Circuit observed that while it had never recognized such a presumption in false advertising cases, the presumption had long been applied in trademark infringement cases. However, the presumption is no longer tenable in light of the Supreme Court’s rejection of categorical rules that would replace the traditional four-factor test for injunctions in eBay, Inc. v. MercExchange, 547 U.S. 403 (2006), and requirement in Winter v. NRDC, 555 U.S. 7 (2008) that a party seeking a preliminary injunction must demonstrate a probability, not possibility, of irreparable harm.

Although eBay had arisen in the patent context, the court found its reasoning equally applicable to Lanham Act cases, joining the Ninth Circuit in so finding. See Herb Reed Enters. v. Fl. Entm’t Mgmt., 736 F.3d 1239 (9th Cir. 2013). A petition for a writ of certiorari is pending in Herb Reed Enterprises. INTA has an amicus brief in support of a grant of cert.
Keywords: intellectual property litigation, Third Circuit, irreparable harm, Lanham Act

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