

Wrongs Without Remedies in Intellectual Property Litigation – eBay to Apple

In *eBay v MercExchange, LLC* (547 US 388 (2006)) the Supreme Court held that the traditional equitable factors apply to injunctions in patent cases. This was a sea change in the law involving injunctive relief in patent, copyright and trademark cases. The prior longstanding rule, endorsed by the Federal Circuit, was that injunctions would routinely issue in IP cases upon only a finding of infringement, without any consideration of equitable factors that typically control the law of injunctive relief, including a showing of irreparable harm in the absence of the sought-after injunction. Irreparable harm was simply presumed. Although *eBay* involved patents, the reasoning of the Supreme Court seemed applicable to both copyright and trademark cases. Indeed it has come to pass that Appellate Courts, when confronted with the issue in the non-patent context, will apply *eBay*ⁱ. In trademark cases, it should be easy to show irreparable harm due to the fact that in most cases of trademark infringement, the plaintiff's reputation is at stake and it would be a rare case that a Court would not consider the benefits of injunctive relief to both the public (in not being confused as to the source of goods and services) and the trademark owner (whose goodwill and reputation are on the line) to not outweigh any harm to the infringer. In copyright cases, the law provides for statutory damages and it is generally much easier to establish a royalty rate for a license-based damages calculation. Patent cases present the greatest challenge for plaintiffs.

It seems inevitable that all plaintiffs in patent, trademark, and copyright cases will have to confront the reality that a mere finding of liability on the part of a defendant is not a guarantee of injunctive relief. As illustrated in a high-profile “smartphone war” patent infringement case involving Apple and Motorola decided by Judge Richard Posner of the Seventh Circuitⁱⁱ, there is even the prospect that in cases where damages are not provable, a prevailing plaintiff can walk away with nothing by a pyrrhic victory.

In *Apple* Judge Posner held that: (1) neither Apple nor Motorola had presented sufficient evidence on damages to survive motions for summary judgment, (2) neither party was entitled to injunctive relief, (3) neither party was able to properly establish a reasonable royalty rate for a compulsory license, and (4) any further proceedings were moot, as the victor would receive no tangible benefit, given the Court's holdings on damages. Somewhat shockingly, Judge Posner dismissed the entire lawsuit *with prejudice* so that, absent an appeal (which can be expected), the case was over before it even got to the liability phase. In short, here is a case where the Court first found that neither party could obtain a remedy even if it could prove that its patents were infringed by the other side, so it then simply declined to hear the case – no trial, no winner, no loser, case dismissed - for good. This is without a doubt an unprecedented result in the jurisprudence of intellectual property infringement. In interviews following this ruling, Judge Posner was quoted as saying “It's not clear that we need patents in most industries” and “You just have

this proliferation of patents, it's a problem". Clearly, Posner had an underlying motive in ruling as he did.

Whether other courts will follow the lead of Judge Posner is yet to be seen, however, Courts must nonetheless now deal with how to compensate a patentee for ongoing infringement when injunctive relief is not granted (in *Apple* because neither party succeeded in establishing a basis for which the Court could order an ongoing royalty, they forever lost their chance to do so and, in effect, the ruling allows the parties to continue selling the "infringing" products).

Between *eBay* and *Apple*, Courts grappled with what to do about ongoing, post-judgment infringement - an issue left open by *eBay*. A trend seems to be emerging towards the use of a royalty based on a pre-verdict hypothetical negotiation between the parties, increased as a result of the changed bargaining position of the parties post-verdict. As one Court put it, the failure to recognize the parties' changed legal status post-verdict "would create an incentive for every defendant to fight...to the bitter end because....there is essentially no downside to losing"ⁱⁱⁱ .

One consequence of this development, is the changed calculus for the business model of so-called "non practicing entities" (NPE). Once known as "patent trolls", these NPEs are now the same very large technology companies that used to complain about the "trolls". Essentially, the business of a NPE is to purchase patents from others for the sole purpose of extracting royalties from alleged infringers by threatening to sue, or actually suing, them^{iv}. Whereas the threat of an automatic injunction would in the past have been enough incentive for a target to settle, in the post-*eBay/Apple* world it would seem that the chances of a NPE getting either damages or an injunction are quite slim.

In *Apple* Judge Posner was not convinced that Apple suffered any loss of sales due to hypothetical infringement of the patents at issue. Like many, if not most, software patents in existence, the inventions claimed were very minor features of a cell phone. Judge Posner did not believe excluding the use of such minor features (in the manner directed by the patent claims) could bring any marketplace advantage to the patentee. This was amplified by the fact that the "designs around" for these patents were quite inexpensive and easily accomplished. Thus, a NPE, who by definition does not have products embodying its patents, could hardly be heard to complain of any harm, much less irreparable harm, beyond a reasonable royalty. With the specter of "willful infringement" and the resultant trebling of any damages awarded, if every defendant chooses to fight to the bitter end, the economics of "patent trolling" would certainly change to the point where it would probably no longer be a lucrative financial proposition. The industry that has developed around such NPEs may be threatened. Many, including Judge Posner no doubt, would see this as a very good thing.

This is certainly a "stay tuned for more" story. In addition to the inevitable appeals that will follow *Apple*, there are commentators who believe that federal courts lack the power in law or equity to award prospective compensation for post-judgment

patent or copyright infringement^v. This may be an issue that the Supreme Court will ultimately decide to take up.

ⁱ *Perfect 10 Inc. v. Google Inc.*, No. 10-56316 (9th Cir., Aug. 3, 2011). *North American Medical Corporation, et al. v. Axiom Worldwide, et al.*, No. 07-11574 (11th Cir., April 7, 2008).

ⁱⁱ *Apple, Inc. v. Motorola, Inc.*, No. 1:11-cv-08540, 2012 WL 2376664 (N.D. Ill. June 22, 2012).

ⁱⁱⁱ *Creative Internet Advertising Corp v. Yahoo! Inc.* (674 F Supp 2d 847 (ED Tex 2009)).

^{iv} "Patent "Troll" Tactics Spread", Wall Street Journal, July 9, 2012, page B1.

^v *See generally*, H Tomas Gomez-Arostegui, "Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases", 1661 Fordham Law Review Vol. 78.

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