

UNITED STATES: INTELLECTUAL PROPERTY

US courts increase use of compulsory patent licences



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Until recently, a patent owner in the United States who successfully proved infringement of its patent could count on the fact that, in addition to receiving monetary damages, it would be granted a permanent injunction barring further infringement. The long-standing rule that permanent injunctions are automatic in all patent cases was reversed in 2006, when the Supreme Court held in *eBay, Inc. vs. MercExchange, LLC* that injunctions could be granted only after evaluating traditional equitable factors. Two recent decisions of the US Court of Appeals for the Federal Circuit indicate that the eBay case has, indeed, made a substantial difference to the way in which courts will evaluate whether a permanent injunction is warranted. Indeed, both cases approve what amounts to the compulsory continuing licensing of patents at a reasonable royalty rate in place of an injunction. This is a result that would have been unimaginable under US law only a few years ago.

In *Innogenetics, N.V. vs. Abbott Laboratories*, the granting of a permanent injunction against an infringing defendant was found to be an abuse of discretion where a jury's damages award included a continuing royalty payment. The Federal Circuit held that a plaintiff under such circumstances "cannot be heard to complain that it will be irreparably harmed by future sales."

Innogenetics had sued Abbott for infringing its patent on a method for genotyping the hepatitis C virus. A jury found infringement and awarded US\$7 million in damages, and

the district court entered a permanent injunction against Abbott. On appeal, the Federal Circuit vacated the injunction. The court noted that the jury was instructed that a reasonable royalty could include a continuing royalty payment as well as an up-front payment. The award consisted of US\$5.8 million as a market entry fee and US\$1.2 million as a royalty payment exactly as proposed by Innogenetics' expert. The Federal Circuit concluded: "[t]he reasonable royalties awarded to Innogenetics include an upfront entry fee that contemplates or is based upon future sales by Abbott in a long term market. When a patentee requests

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and receives such compensation, it cannot be heard to complain that it will be irreparably harmed by future sales. Moreover, this factor greatly outweighs the other eBay factors in this case. As a result, the district court's grant of an injunction prohibiting future sales of Abbott's genotyping assay kits was an abuse of discretion and must be vacated."

In *Paice LLC vs. Toyota Motor Corp.*, the Federal Circuit approved a trial court's power to impose a royalty in place of an injunction against future infringement. Paice had sued Toyota for infringement of its patents on the drive train of a hybrid (petrol/electric) motor vehicle. The trial court issued an order allowing Toyota to continue its infringement on payment of US\$25 per vehicle. Paice appealed and argued that the trial court did not have the statutory authority under US patent laws to order what amounted to a compulsory patent licence. The Federal Circuit disagreed and reasoned that the trial court's order was not a "compulsory licence" since such a licence "implies that

anyone who meets certain criteria has congressional authority to use that which is licensed." In contrast, "the ongoing-royalty order at issue here is limited to one particular set of defendants; there is no implied authority in the court's order for any other auto manufacturer to follow in Toyota's footsteps and use the patented invention with the court's *imprimatur*."

The Federal Circuit also rejected Paice's argument that the royalty order interfered with its ability to grant an exclusive licence. The court held that "concerns regarding exclusivity do not outweigh other equitable factors." However, the Federal Circuit did find fault in

the trial court's failure to articulate the basis for its conclusion that a US\$25-per-vehicle royalty was appropriate, and remanded the case to the trial court to re-evaluate this issue and articulate its reasoning.

These two recent decisions are a clear indication that the eBay decision has altered the way in which US courts grant relief for patent infringement. Injunctions are no longer automatic, and compulsory royalties which permit continued infringement are possible.

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